The role of amenities in strategic asset selection

The future of any city depends on the demand for density. Cities benefit from densification due to agglomeration effects – such as industry clusters, reduced transportation costs and the desire for close proximity among people. Urban centers also serve as hubs for consuming digital and physical services and goods, leading to higher salaries for workers and, at the same time, increasing rents. Agglomeration centers experience superior economic growth compared with nonurban areas, benefiting from the rapid spread of knowledge and the accumulation of human capital over time. To sustain this growth, cities must provide a diverse range of amenities, both public and private, to cater to workers, firms and residents. Failure to meet this demand could erode the urban rent premium and hinder productivity gains. This article examines how the availability of amenities influences residential rents, uncovering patterns that help to understand the complex dynamics of city life and identify conditions for maintaining sustainable rent levels.

Residential pricing and the amenities magnet score

Rosen’s (1974) hedonic pricing method suggests that the value of any property is determined by the sum of its characteristics. While conventional research focuses on measuring three main directly observable factors – property characteristics, socioeconomic information and locational details – PATRIZIA’s research track record has confirmed the existence of a fourth factor: the amenities magnet score. It measures the quantity- and quality-adjusted set of amenities a household has access to from a given location relative to a specific benchmark area, ranged between 0 and 100 (100 = highest supply vs. 0 = lowest supply). The more important an amenity is in the daily consumption of tenants, the more likely it is to create a rental premium. Research results indicate that tenants’ location decisions prioritize the availability of amenities as the fourth most influential factor, directly after certain property characteristics (number of rooms, living area) and socioeconomic information. Therefore, the amenities magnet score acts as an instrument that is neither captured by property characteristics, nor by socioeconomic information or locational details, but certainly affects residential rents.

Amenities and the urban rent premium

The amenities magnet score can be isolated into seven basic-living-need groups: working, commuting, supplying, enjoying, living, educating and caring. The basic idea for this partition is to investigate which type of amenity group is demanded the most and has the strongest impact on residential rents. Exploring the three biggest German cities (Berlin, Hamburg, Munich) and the capitals of the United Kingdom (London) and Spain (Madrid), research results show that residents appreciate the proximity and availability of amenities from the working and the supplying groups the most, closely followed by enjoying amenities. Figure 1 shows that areas supplying tenants with the perfect-mix amenities tend to have rents up to 10 percent higher than the city average. In contrast, areas with the perfect level of amenities from the groups educating and caring generate a lower rent premium of 4.7 percent and 3.4 percent, respectively.

Germany’s capital: Berlin’s vibrant community hubs

Tenants are aware of the amenities for which they are willing to pay a premium. As cities are the reflection of the individuality of their residents, it is worth looking at the results of specific basic-living-need on rents at the city level. In Berlin, the availability of living amenities – such as bars, supermarkets and playgrounds – plays a critical role in shaping rental prices. Figure 2 tracks the influence of living amenities on the willingness to pay for residential space. The horizontal axis of the chart represents the amenities magnet score living, which ranks properties based on their exposure to living amenities. The vertical axis shows the rental premium or discount compared with the city average in percentage. The graph reveals a clear trend: as the quantity and quality of living amenities increase, so does the rental price. This is particularly pronounced in the top quartile. Notably, above an amenities magnet score of 75, rents start to command a premium, peaking at almost 10 percent above the city’s average.
average rent. Interestingly, this peak premium is not found in the best locations in Berlin with respect to the living amenities but in areas with an amenities magnet score of around 90. This raises a concern about the congestion of amenities: Does proximity to amenities such as playgrounds and bars enhance property value? Noise appears to be a crucial factor in this context, as well. For instance, a family might prefer to live near a playground for convenience but also wants to avoid the accompanying noise.

**Figure 2: Berlin – Rental premium and discount for amenities magnet score living**

![Graph showing the relationship between rent deviation and amenities magnet score.]

The research of Berlin illustrates that the supply of living amenities significantly shapes rental prices. But too many amenities lessen the value-creation potential of a location. This means that tenants value a balanced mix of amenities for satisfying their living needs.

**Implications for real estate investments**

Our research findings reveal a significant link between the supply and quality of amenities and residential rents. In Berlin, there is a noticeable impact on rental values, reflecting a nuanced relationship between amenities and rents. For real estate investors and managers, these results underscore the importance of investing in locations with a balanced supply of specific amenities. Such properties are likely to attract tenants who value convenience and lifestyle and are willing to pay a premium. It especially underlines the importance of reaching the optimal number of amenities to avoid an amenity congestion, which would lead rents to be below full potential.

We believe urbanization in European cities will continue in the future. This process will demand urban areas to supply households and firms with services and amenities. Our research confirmed that tenants carefully consider the quality and quantity of amenities in their location decision. But each city embodies the unique characteristics, values and lifestyles of its inhabitants. For this reason, understanding the demand for and (future) supply of amenities, as well as the unique amenity-rent dynamics, is crucial for developing investment strategies that aim for income growth and avoid locations with “amenity congestion.”

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With nearly 1,000 professionals and 28 offices globally, PATRIZIA has been active as a real assets investment manager since 1984. The firm manages around €58 billion ($63 billion) of real estate and infrastructure assets for more than 500 institutional clients.

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