WHITEPAPER

State of the Landscaping Industry: 2022

Executive summary

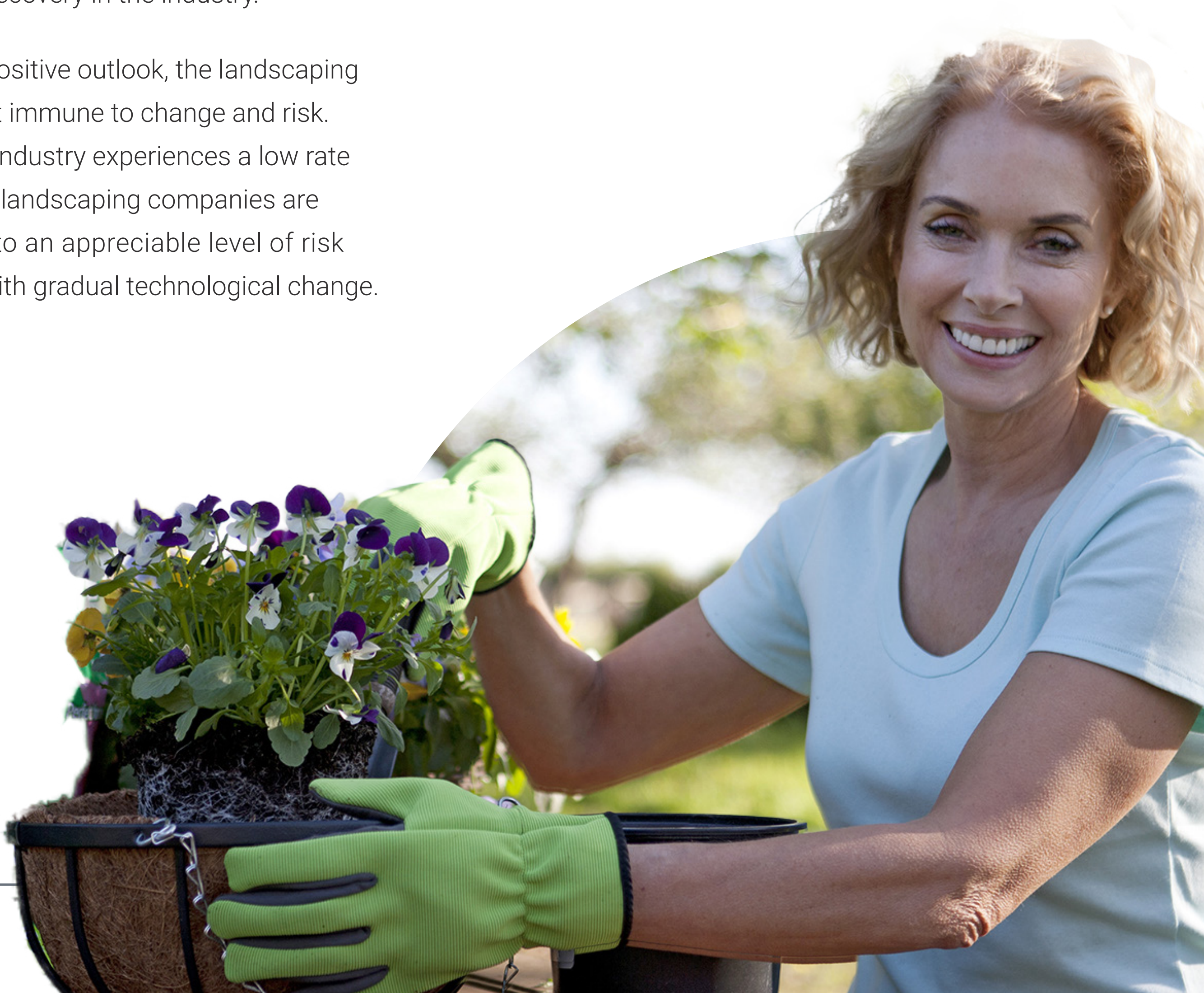
The performance of the landscaping industry has fluctuated in recent years, but various factors are expected to drive a stable level of growth in the five years to 2026. This is a positive development for landscaping companies, as the industry was hit especially hard by the effects of the COVID-19 pandemic.

The demand for landscaping services from commercial and government entities plummeted due to office closures, contributing to a decline in industry revenue at a rate of 0.8% in 2020.[1] However, the steady return of normal economic activity caused by office reopenings was expected to help drive recovery in the industry.

Despite this positive outlook, the landscaping industry is not immune to change and risk. Although the industry experiences a low rate of innovation, landscaping companies are still exposed to an appreciable level of risk associated with gradual technological change.

Total revenue was expected to increase by a rate of 5.3% to $114.6 billion in 2021.[2]

More than that, landscaping firms are highly exposed to environmental, labor and COVID regulations that could impact their operations in the coming five years.



The landscaping industry today

Despite a decline in total revenue in 2020, the industry experienced a high level of growth in the five years prior to 2021. Revenue increased at an annualized rate of 5.1% during that period, leading to $114.6 billion in total revenue.[3] This figure was aided by a strong recovery in 2021, during which industry revenue saw a 5.3% annualized growth rate.[4]

The key external market forces that are shaping and changing the current state of the industry include:

Residential construction:
The industry performs well when there is a high level of growth in the residential property market, including new apartments and single- or multi-family homes. After a down year for residential construction in 2020, it was expected to rebound in 2021, contributing to 42.7% of industry growth.[5]

Nonresidential construction:
Landscaping firms benefit substantially from the construction of private nonresidential facilities in need of general landscaping services, including resorts, schools and retail centers. The value of construction in this sector was expected to decline in 2021.

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Households with $100,000+ incomes:
Those with higher incomes have more resources to spend on discretionary goods like landscaping services, and they're generally a more reliable source of income even during periods of economic downturn. The number of houses in that category was expected to increase in 2021, helping to stabilize the demand for landscaping services.

Per capita disposable income:
Disposable income is one of the primary drivers of demand for landscaping services. When households have more money to spend on nonessential products and services, home improvement becomes a higher priority. As the economy recovers from the pandemic-related downturn, there was expected to be higher per capita disposable income in 2021.

Government spending:
Public bodies are another significant source of revenue for landscaping companies. Governments are responsible for professional upkeep of public areas like parks and schools, so landscaping firms benefit when budgets include maintenance spending. There was expected to be higher levels of government spending in 2021.

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Projections for the landscaping industry

Similar to other industries, the landscaping industry is expected to continue to recover from the pandemic-related economic downturn of 2020 and 2021. Demand will be driven by a number of factors. Among the most prominent include:

Aging populations:
The Baby Boom generation continues to age, leave the job market and seek end-of-life care. That also means many of them are no longer able to handle their own lawncare responsibilities. As the proportion of elderly Americans continues to grow, the demand for landscaping services increases.

Business reopenings:
As lockdowns lift and restrictions on businesses come to an end, commercial offices once again require regular landscaping upkeep and maintenance. While in-person business activity likely decreased permanently, the resurgence of some commercial properties will increase the demand for landscaping services.

Strong residential housing market:
Many prospective homebuyers were forced to put their house-hunting on hold during the pandemic, causing the housing market to become unusually busy when lockdowns were lifted in 2021. A booming housing market creates a much greater demand for landscaping services both as homeowners try to sell their properties and new owners seek to improve them.

Housing market activity varies considerably by state, and it's important to know which states are experiencing the biggest booms. Here are the top 5 states with the hottest housing markets, according to Bankrate:[6]

Utah.

New Hampshire.

Washington.

Arizona.

Montana.

Due to the combination of these factors, industry revenue is projected to increase at a rate of 2.4% every year until 2026, jumping to $129.2 billion in total revenue.[7]

Risks facing the landscaping industry

Unlike many other industries, landscaping is largely insulated from broader societal change like technological development. Despite apparent opportunities for the integration of new technologies, most landscaping firms are operating under the same technological conditions as other companies, and there are few outward signs this will change in the coming five years.

Technological change

The rate of technological innovation in the industry remains relatively low, though technological developments do occur periodically. This is partly due to the physical nature of the day-to-day work itself. Common tools and equipment are sometimes improved and adjusted to make manual tasks more efficient and safer, but fundamental developments are rare.

One of those rare developments could be on the horizon, however. Tech companies are rapidly investing and implementing driverless vehicles across a large number of industries, including trucking, ride-sharing services and healthcare. Despite the continuing development of autonomous lawnmowers, a mass rollout of driverless lawn mowers in the near future seems unlikely, though it's possible at some point in time.[8]

Concentration of technology

Notably, there is a high rate of technological concentration in the landscaping industry, meaning larger firms tend to adopt a disproportionately high number of new tools while smaller firms innovate at a drastically slower pace. Large companies have benefited substantially from the use of computer technologies to automate, streamline and simplify manual tasks, while smaller firms still tend to rely on the same basic tools that have traditionally defined the industry.

That does not mean change does not happen, however. Changes in building patterns in urban areas are having an indirect effect on landscaping. Building owners, homebuyers and contractors are increasingly prioritizing health and sustainability in building designs, creating outdoor areas using synthetic materials and native vegetation that require less upkeep.

Although these changes have not yet had a trickle-down effect on landscaping, a decrease in the demand for landscaping services will likely impact urban-based firms in the coming years.

Environmental regulations

As the public grows more concerned about the harmful effects of climate change, environmental authorities are passing increasingly tighter regulations that could have an effect on landscaping companies. In particular, the use of many common pesticides, fertilizers and herbicides that use phosphorus or nitrates due to the harmful effect these chemicals have when runoff pollutes bodies of freshwater.

Some state and municipal authorities across the country have introduced bans on the use of gas-powered equipment like leaf blowers and weed whackers to help curtail greenhouse gas emissions.[9] A large proportion of landscaping companies rely on gas-powered tools, so those affected by this ban would be forced to invest in a large supply of new equipment that may not be as efficient or reliable.

Labor regulations

Immigration laws are a hot-button issue in the current political climate, which could have a serious effect on the landscaping industry. A disproportionately high number of landscaping firms rely on immigrant labor, so any changes to immigration law could severely affect the labor supply and ultimately impact both new firms entering the market and existing ones already doing business.

Changing minimum-wage laws is another area that will likely impact the industry. Landscaping companies depend on minimum-wage labor for many field positions. As pressure continues to mount for state and city governments to increase the minimum wage to $15/hr, landscaping companies could find themselves having to pay higher wages to employees. Depending on how they manage those changes, landscaping companies could be forced to eliminate some positions, raise prices on customers or locate new streams of revenue.

Similar to many other industries, landscaping will continue to be affected by restrictions and protocols related to the COVID-19 pandemic. Employees that show symptoms will be required to self-isolate, and masks and other protective equipment will be required on many job sites. Many businesses will likely also implement their own regulations, particularly around more vulnerable employees.

Private equity investment

There is a growing trend toward private equity investment in the landscaping industry. For companies that are able to attract and secure private investment, this opens a steady stream of cash flow that could underpin business success for years to come. Private investment could also spur companies to invest in more efficient equipment and technology, helping to streamline normal operations and increase profit margins. This will likely raise the level of competition within the industry, forcing other landscaping companies to either secure their own deals or invest in similar technologies.

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Conclusion

After a highly destabilizing year in 2020, the landscaping industry is expected to settle into a steady level of growth over the coming five years. Still, the combination of technological change, environmental/labor regulations and the lingering effects of the pandemic are all likely to present serious challenges to the owners of landscaping firms.

Partnering with the right insurance providers is essential to navigating those changes and safeguarding future growth.

Reach out to our team at **nipgroup.com** to get started.

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