



## EXECUTIVE INSIGHTS

# Is the Blossoming Commercial Landscaping Industry Ripe for Consolidation?

The commercial landscaping maintenance and development industry has had its share of challenges in recent years. Not only does growth of the industry track the installed base of commercial properties, which already tends to grow at a modest rate, but demand for commercial construction came under pressure following the onset of the COVID-19 pandemic in early 2020.

COVID-19 also forced many existing commercial property owners to cut back on maintenance, and it exacerbated commercial landscaping's labor shortages. All of this has taken place in an industry characterized by a high degree of fragmentation and relatively low entry costs — such as in lawn maintenance, leaf removal and snow removal — which subsequently attract multiple entrants and operators.

But now, thanks to the waning impact of COVID-19 and trends such as outsourcing and sustainability combined with existing fragmentation, recovering demand and the benefits of scale, the tide has started to turn, and the commercial landscaping industry has become ripe for further consolidation.

## A raft of tailwinds

A number of factors are expected to boost the commercial landscaping industry, starting with employees returning to the office now that COVID-19-related shutdowns are no longer in place.

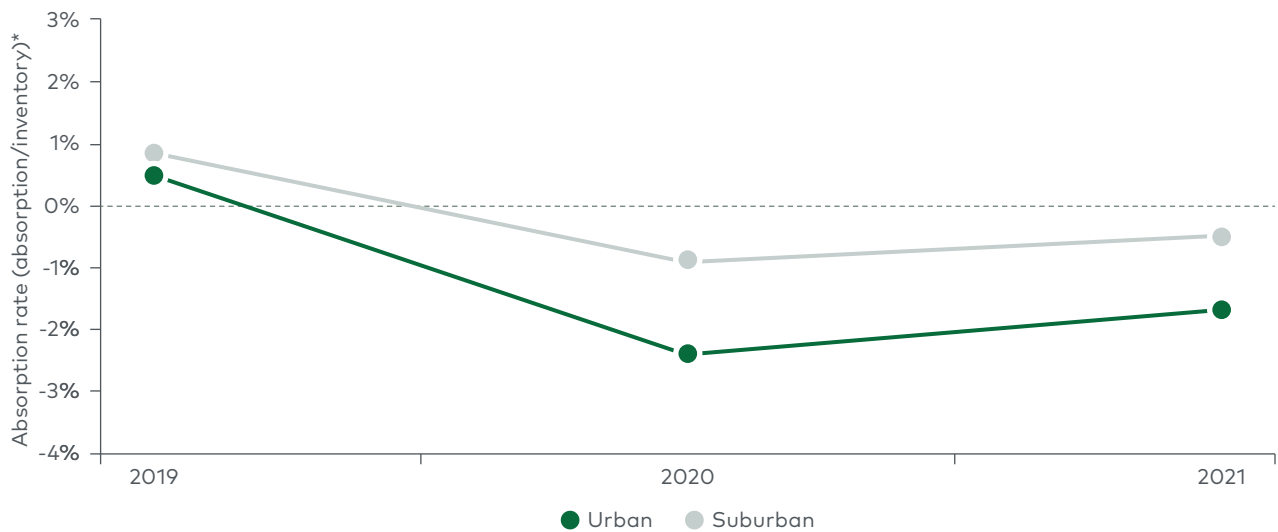
**The return to the office and a shift to suburbanization**

While the trends of work from home and hybrid work will reduce the amount of time employees spend at the office, facilities managers will still need to maintain a facility’s landscape as part of creating an environment in which those employees want to work. And some of those office locations will now be in more-suburban areas, which, along with facilitating easier commutes, featuring more space for social distancing and offering greater space flexibility overall, are more likely to have a larger amount of outdoor space requiring landscape maintenance and related services (see Figure 1).

**Greater demand for commercial construction**

According to L.E.K. Consulting research, growth in commercial construction – which supports the development side of commercial landscaping – may be flat or modest in 2021-22, but it’s expected to return to around 3% a year in 2022-25. That said, the latest forecasts have softened in the face of questions about the broader economic trajectory due to inflation and the rise in interest rates.

**Figure 1**  
Urban vs. suburban commercial office net absorption rate (2019-21)



\*Nonweighted average absorption rate of focus metropolitan statistical areas  
Source: Colliers

**Increased outsourcing by institutions and municipalities**

Outsourcing rates may also increase among municipalities and institutions due to a combination of existing labor shortages and the number of in-house landscaping professionals who are set to retire over the next few years. Notably, however, the rate at which they

outsource is already high, particularly among homeowner associations, multifamily housing and commercial customers.

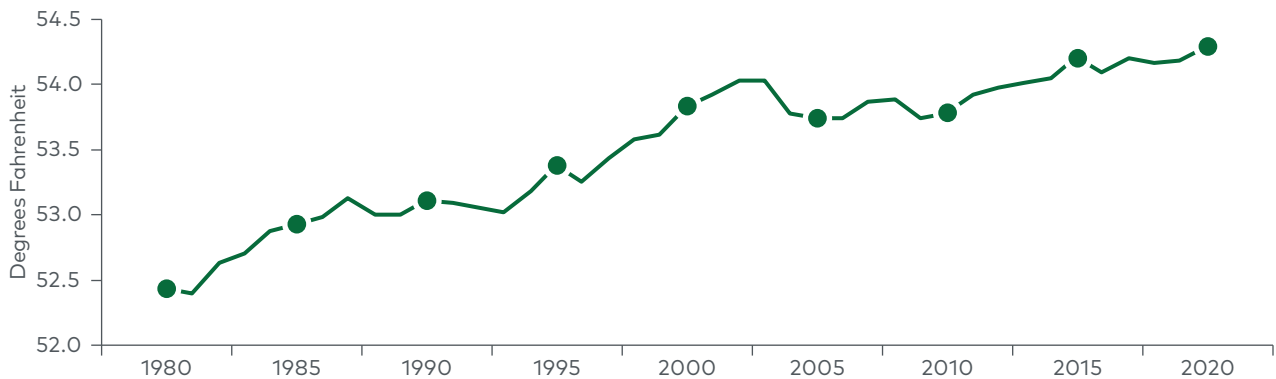
**More emphasis on sustainability and energy efficiency**

Water restrictions are likely to lead to increased spend on irrigation installation and related services — including repairs — in particular markets. The California State Water Resources Control Board, for example, has enacted regulations that require only limited runoff of potable water as well as restrictions around sprinkler use. Such regulations increase the need for higher-margin enhancement services, like planting trees and shrubs that meet sustainability criteria. And some of them, such as those related to the development of masterplan communities, add green space requirements that not only benefit landscape development but increase the installed area for landscaping maintenance. For example, Indianapolis adopted a landscaping ordinance that set minimum requirements for the types of landscaping that can be used.<sup>1</sup>

**The proliferation of urban trees**

There are an estimated 5.5 billion urban trees in the U.S.,<sup>2</sup> a number that is expected to grow at a rate of approximately 2% a year through 2060. Urban trees always require landscaping care, but especially so with climate change (see Figure 2), which makes them grow faster,<sup>3</sup> causes disease and increases the likelihood they will be damaged by extreme weather events such as storms.

**Figure 2**  
Contiguous US 10-year average temperature (1980-2020)

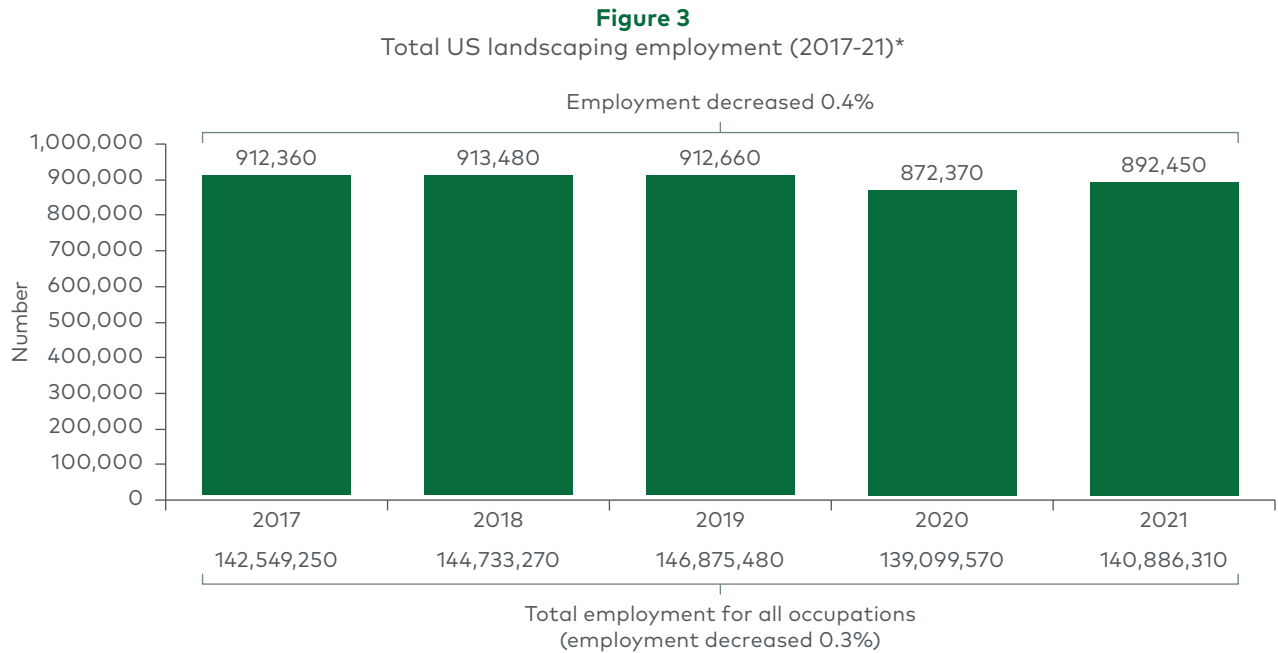


Source: Nature Communications; Berkeley Earth; L.E.K. research, interviews and analysis

In the meantime, one study found that an estimated 1.4 million urban trees may die between 2020 and 2050 as a result of invasive insects.<sup>4</sup>

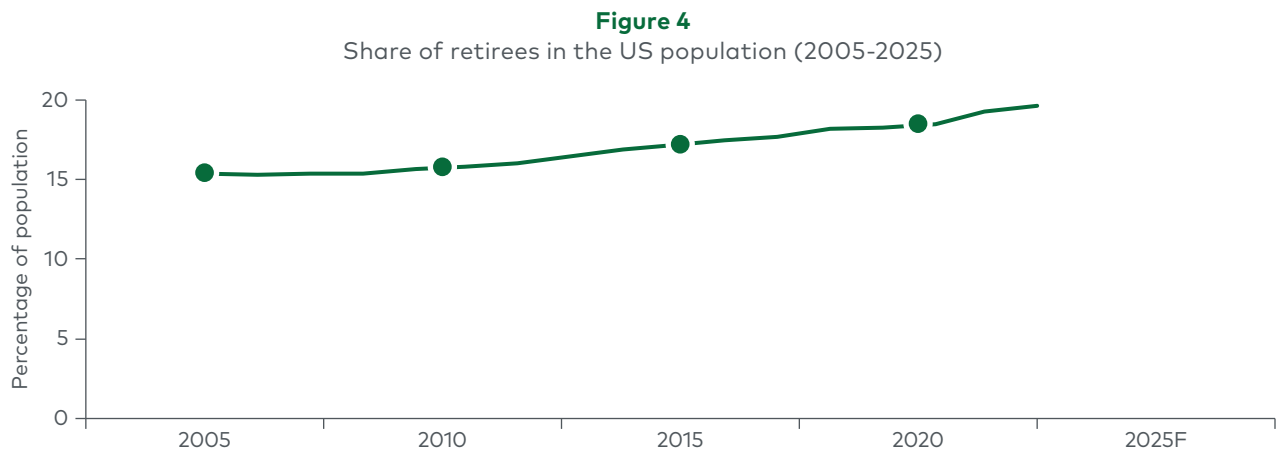
### Construction labor is stabilizing

Like many industries, landscaping has seen declining employment, and at a slightly faster rate than the U.S. average, falling 0.4% between 2017 and 2021 (see Figure 3).



\*Bureau of Labor Statistics (BLS) occupation category is titled "Landscaping and Groundskeeping Workers" (SOC Code 37-3011); BLS occupational employment and wage statistics data is based on a semiannual survey of nonfarm establishments but does not collect demographic data; while the employment figures provided likely include a portion of undocumented workers, this data is unlikely to provide a complete picture of the undocumented workforce  
Source: BLS; L.E.K. research, interviews and analysis

Some of this loss of labor is due to retirement, which more and more people are embarking on across the U.S. (see Figure 4). Plus, the average age of landscaping professionals is 41,<sup>5</sup> which means some workers are 50 and over and, as such, may retire sooner rather than later.

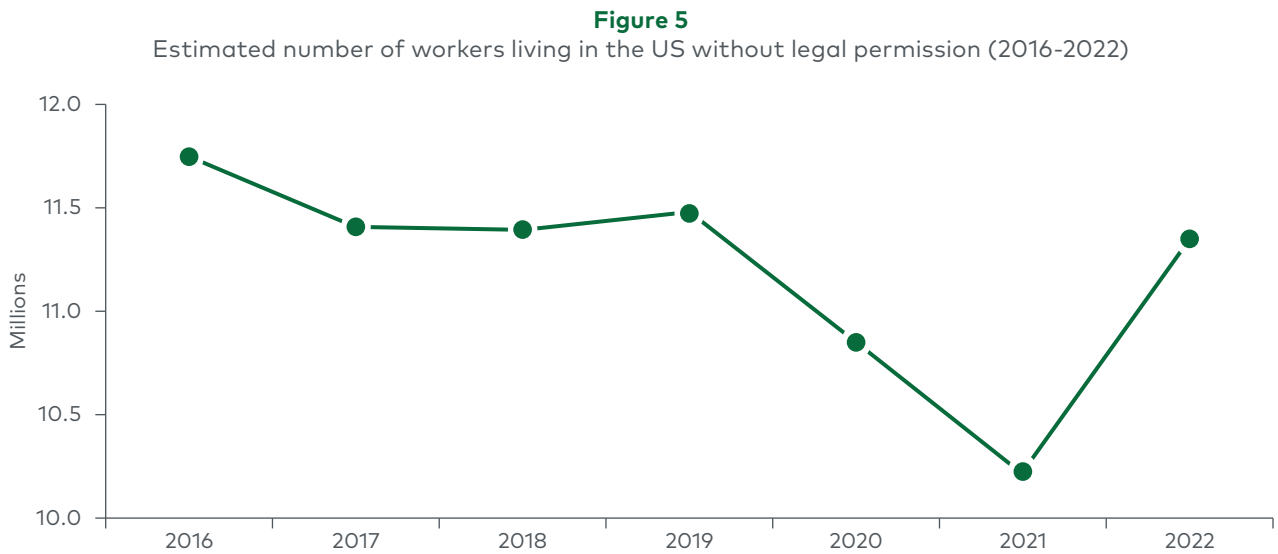


Source: U.S. Census Bureau; National Bureau of Economic Research; Kansas City Federal Reserve; Pew Research Center; L.E.K. research and analysis

Landscaping also has a high proportion of immigrants in its workforce. The overall level of immigration has declined since 2017, whereas according to one study, if the level of immigration had continued at pre-2017 levels the U.S. would have an estimated 2.4 million more workers,<sup>6</sup> equivalent to around 1% of the working population.

But labor shortages, while endemic, may not necessarily be deteriorating further. At the beginning of April 2022, the U.S. Department of Homeland Security (DHS) and the Department of Labor indicated they would make an additional 35,000 H-2B temporary visas available for the second half of fiscal year 2022.<sup>7</sup> Of the additional visas, 23,500 will be made available to returning workers from the past three years, which will benefit the more established players if those workers return to them.

Landscaping also includes a proportion of workers living in the U.S. without legal permission. While reliable estimates are hard to determine, some put the proportion of these workers in landscaping at 20%. And although the number of workers who have illegally immigrated to the U.S. fell during COVID-19, there is some evidence that it has since returned to prior levels (see Figure 5).



Source: DHS; Center for Immigration Studies

By the end of 2021, the number of Mexican immigrants – in the U.S. both legally and illegally – is believed to have returned to a pre-pandemic level of an estimated 7 million.<sup>8</sup> So, while the number of immigrants fell between 2016 and 2020, and COVID-19 pushed that number down even farther, the level of immigration has now recovered, just to a lower base.

In the meantime, the industry may be entering a new phase of managing labor costs, one with a more positive dynamic. But additional time and data will be needed to see if it can sustain recent progress.

Historically, prices tended to match increases in labor costs, whereas more recently labor costs have outpaced price growth, resulting in some margin compression. While price increases have tended to be modest, customers are sometimes unwilling to pay more for what they consider to be basic services, so increases have been achieved through service cuts instead. Meanwhile, the fragmentation of the industry and its low entry costs mean that there will always be small, local players that compete on price.

The rapid rise in labor and other input costs are at a rate similar to the U.S. average (see Figure 6). Those increases have led to margin compression for certain players, in some cases due to timing – for example, the delay between the rise in costs and the need to update contract pricing at a later date. But more recently, rising inflation has led to greater acceptance of price increases. The industry is also signaling that it can better manage costs and margins. While there is some evidence that it can, monitoring this issue will be key.

**Figure 6**  
Average hourly wage for landscaping services (2017-21)\*

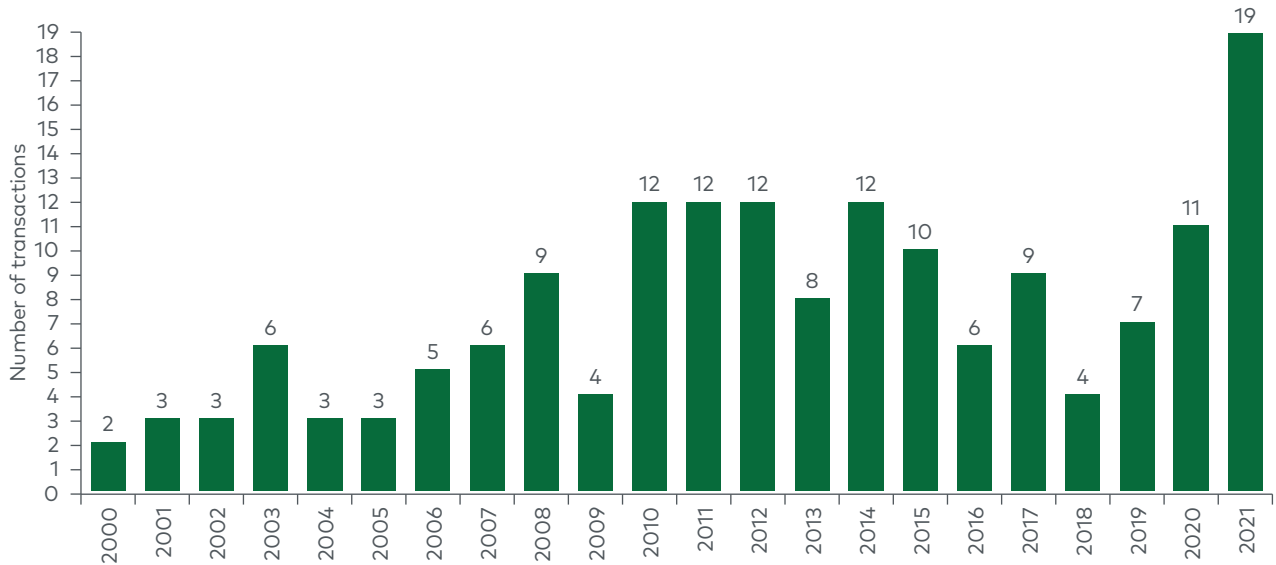


\*BLS occupation category is titled "Landscaping and Groundskeeping Workers" (SOC Code 37-3011)  
Source: BLS

### Consolidation is already underway

In this more positive environment, the number of merger and acquisition (M&A) transactions in commercial landscaping – and the pace at which they are taking place – has been increasing (see Figure 7).

**Figure 7**  
US commercial landscape maintenance M&A (2000-2021)\*



\*Includes the following industry classifications of target companies: lawn and garden services, landscape planning, and ornamental shrub and tree services  
Source: S&P Capital IQ

In the past five years, the pace of consolidation has increased steadily – a trend that is expected to continue. In fact, the level of fragmentation in the industry leaves significant opportunity for further consolidation. L.E.K. estimates that local providers, for example, currently account for 80% to 90% of the market. There is even fragmentation in more specialty services; recent analysis by L.E.K. put the percentage of professional arborists in the U.S. working at small tree care services companies with under five crews at between 70% and 80%.

### The benefits of scale

Scale brings myriad benefits to commercial landscaping, namely the capacity to better weather labor and material shortages, the ability to leverage the potential of technology, the growth of "expertise"-driven services, and finally, consolidation up the value chain, which encourages partnerships with larger installation businesses.

In the face of material shortages, larger commercial landscaping players are able to obtain the supplies and equipment needed more quickly than smaller ones can. Supported by a strong value

proposition, larger players may also be able to offer improved career paths to employees — and, potentially, higher wages.

They also have more resources to navigate the complex H-2B visa program and take better advantage of its benefits. The H-2B program can be an “all or nothing” proposition. For example, a landscaping company that requests an allocation of temporary workers will only receive that allocation if it accepts it within a specific local market. So whereas a single-branch operation has one shot to get its allocation of workers, a company with 10 branches will have multiple shots at getting at least some of its allocations for some of its branches.

Larger players are also better positioned when it comes to meeting the rise in demand for outdoor living solutions and related landscaping services, as customers are placing a greater value on speed and responsiveness. In a survey L.E.K. conducted in 2021, for example, we found that on-time delivery was the top selection criterion for installers when selecting distributors, ahead of pricing.

The management of larger commercial landscaping players is more professional than it is at smaller companies. These managers can drive efficiency by planning and scheduling crews and by redeploying resources across their geographic footprint as demand spikes in one area over others. The scale of larger players also increases efficiency, such as by creating more density within particular locations, optimizing truck routes and lowering transportation costs.

The growth of expertise-driven services also favors scale players. For example, irrigation requires technical capabilities that larger players are better able to deliver. Indeed, technology offers larger players multiple opportunities to differentiate themselves from the competition, close sales and retain customers. Examples of technology include the following:

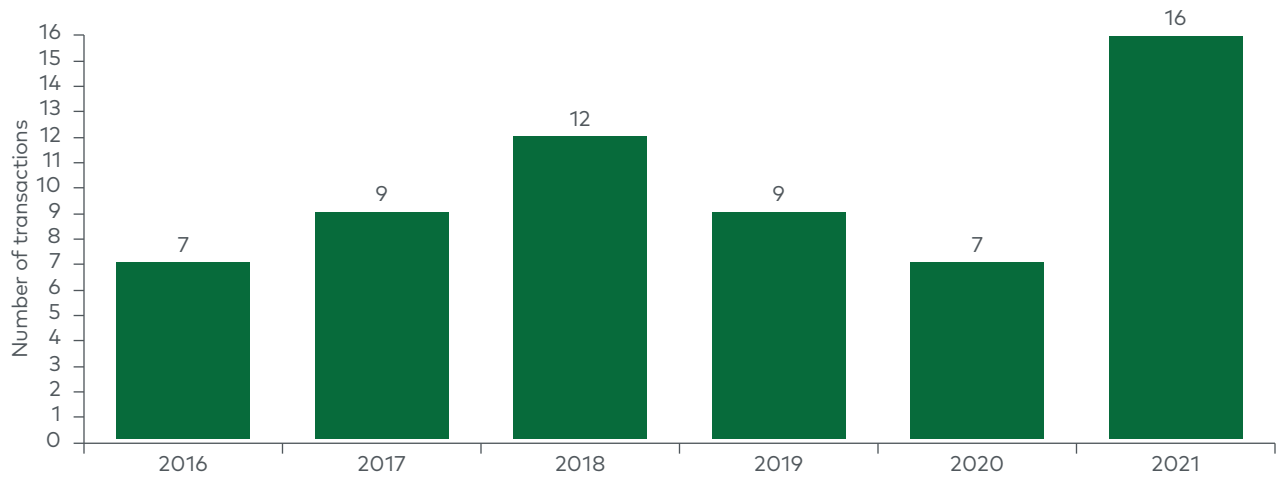
- BrightView Connect allows customers — who increasingly appreciate solutions that allow them to make requests, see live updates and aggregate data — to submit and track service requests, among other functions.<sup>9</sup> For instance, a facilities manager could walk a property and submit service requests (e.g., for a damaged tree) in real time. Technology such as this is harder for smaller players to deploy.
- Yellowstone Landscape is investing in robotic lawn mowers for hard-to-reach areas like really steep slopes.<sup>10</sup> While such technology may only be applicable to specialized (e.g., institutional) needs, it provides a point of differentiation.
- TruGreen uses Microsoft virtual bots to enhance customer service.<sup>11</sup>



- Bartlett has developed a solution for taking inventory of and managing services related to trees using GPS.<sup>12</sup>
- Davey leverages drones to inspect and map properties.<sup>13</sup>
- Juniper Landscaping also utilizes drones for the inspection and mapping of properties.<sup>14</sup> It claims that doing so helps save labor costs and allows estimators to measure the property through annotations in an easier and more efficient way.

Meanwhile, consolidation is occurring up the value chain. The pace of consolidation has also increased across hardscape and softscape distribution, led by some key players (see Figure 8).

**Figure 8**  
US commercial landscape distributor M&A (2016-21)\*



\*Includes lawn, garden and landscape distributor industry classifications of target companies  
Source: S&P Capital IQ

For instance, Heritage, a subsidiary of SRS, acquired 65 locations through five acquisitions in 2019, followed by 32 additional locations by way of six acquisitions in 2020 across landscaping/hardscape. Another example is SiteOne, which has established a national footprint through organic and inorganic expansion across the U.S. and Canada since its initial public offering in 2016.

Distribution, much like the installation and maintenance business itself, still remains relatively fragmented. But the emergence of platforms and new models can encourage more consolidation and the creation of more scaled models — and vice versa.

## How to win

Winning in the commercial landscaping industry requires capitalizing on the benefits of scale and gaining market share. The growth of landscape maintenance is primarily a function of the footprint of commercial locations, which grows slowly. Landscape development, on the other hand, can experience faster growth, but it is a smaller part of the overall commercial landscaping market and is a function of new construction.

Commercial landscaping players that achieve scale through the breadth of services they offer, the specialization of their staff and greater geographical presence than the competition become more attractive and reliable partners than local players do. At the same time, acquiring local/smaller players (typically in new markets) as opposed to growing organically, and increasing compensation for the same number of laborers, gives larger players direct access to a labor pool.

That said, players that do win in this space need to figure out how to apply their scale to better serve small, local property owners in a way that provides local, personalized service at a competitive price. On one hand, greater scale/density can enable a local provider to deliver that same service over time, while scale economics — namely density, purchase terms, use of technology for efficiency and more — have the potential to make larger players more competitive in the eyes of smaller commercial customers. And winners can find more-concentrated niches. More than 90% of tree care work for the utility end market is performed by large companies, for example.

The commercial landscaping industry has wrestled with myriad challenges in recent years, including the impact of COVID-19. But demand for its services is returning, along with favorable trends and a more robust labor market. As the benefits of scale become increasingly obvious, the consolidation of this fragmented industry is poised to continue well into the future.

For more information, please contact [industrials@lek.com](mailto:industrials@lek.com).

## Endnotes

<sup>1</sup>Planningforhazards.com, "Landscaping Ordinance." <https://planningforhazards.com/sites/planningforhazards.com/files/media/PFH-LandscapingO%2BMCC.pdf>

<sup>2</sup>Nowak, David J; Greenfield, Eric J. 2018. US Urban Forest Statistics, Values, and Projections. *Journal of Forestry*. 116(2): 164-177

<sup>3</sup>Nature.com, "Climate change accelerates growth of urban trees in metropolises worldwide." <https://www.nature.com/articles/s41598-017-14831-w>

<sup>4</sup>British Ecological Society, "Hotspots of pest-induced US urban tree death, 2020–2050." <https://besjournals.onlinelibrary.wiley.com/doi/10.1111/1365-2664.14141>

<sup>5</sup>Zipppia.com, "Landscaper demographics and statistics in the US." <https://www.zipppia.com/landscaper-jobs/demographics/>

<sup>6</sup>WSJ.com, "Add Declining Immigration to Problems Weighing on the Labor Market." <https://www.wsj.com/articles/add-declining-immigration-to-problems-weighing-on-the-labor-market-11649174837>

<sup>7</sup>DHS.gov, "DHS and DOL to Supplement the H-2B Cap with Additional Visas for Second Half of Fiscal Year 2022." <https://www.dhs.gov/news/2022/03/31/dhs-and-dol-supplement-h-2b-cap-additional-visas-second-half-fiscal-year-2022>

<sup>8</sup>Bloomberg.com, "How a U.S. Remittance Windfall Saved Small Towns in Mexico." <https://www.bloomberg.com/news/articles/2022-03-31/dollars-flowing-to-mexico-are-saving-small-towns-from-ruin>

<sup>9</sup>Brightview.com, "Introducing BrightView Connect: Communication at Your Fingertips." <https://www.brightview.com/resources/video/introducing-brightview-connect-communication-your-fingertips>

<sup>10</sup>YellowstoneLandscape.com, "Cutting Edge Landscaping Technology at Yellowstone That Saves Our Customers Time and Money." <https://www.yellowstonelandscape.com/blog/cutting-edge-landscaping-technology-yellowstone-saves-customers-time-money>

<sup>11</sup>Microsoft.com, "TruGreen's new take on technology—a catalyst for greener lawns and happier customers." <https://customers.microsoft.com/en-us/story/759484-trugreen-partner-professional-services-power-virtual-agents>

<sup>12</sup>Bartlett.com, "Bartlett Inventory Solutions." <https://www.bartlett.com/resources/bartlett-inventory-solutions-brochure.pdf>

<sup>13</sup>Davey.com, "Embracing the Skies." <https://www.davey.com/commercial-landscape-services/resources-from-the-field-plus-industry-news/embracing-the-skies/>

<sup>14</sup>DroneDeploy.com, "How Juniper Landscaping Uses Drone Data to Visually Document their Projects." <https://www.dronedeploy.com/resources/stories/juniper-landscaping/>

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