

Market Study Scope: Financial Impact of Prevailing Wages and Labor Peace Agreements for Real Estate and Infrastructure Investments

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Overview

Purpose

- **This item presents a proposed scope of work for a market study to review the financial impact of Prevailing Wages and Labor Peace Agreements on Real Estate and Infrastructure Investments in order to inform the Board on the potential impacts on investments from these labor practices**
- **The request to prepare a scope of work for the market study was made by the Board during the March 2025 Investment Committee**
- **CalPERS staff is seeking a decision from the Board as to whether staff should formally proceed with a Request for Proposal (RFP) process to secure one or more consultants or academic institutions to carry out this market study. The cost of such study is estimated to be over \$1 million, and the timeline is expected to be 18 - 24 months.**

Market Study Objectives

- **Quantify the impact of Prevailing Wage requirements on project costs and timelines**
- **Evaluate the influence of LPAs on practicality, project stability, risk, and schedule predictability**
- **Determine the overall effect of these labor practices on risk-adjusted investment returns (e.g., IRR, DPI) and the ability to make investments**
- **Analyze how project characteristics (size, scope/complexity, location, sector), macroeconomic conditions including the cost of capital, microeconomic conditions including the tightness of the local labor market, and other regional variations influence these impacts**

Market Study Scope of Work- Methodology

This study's scope of work would assess mandating Prevailing Wages and LPAs on real estate and infrastructure projects using the following methodology:

Methodology

Mixed-method approach

- **Quantitative analysis:** Subject to data availability, use of econometric methods (e.g., multivariate cross-sectional regression) to estimate the marginal impact of Prevailing Wages and LPAs on project cost, schedule, and financial performance.
- **Qualitative analysis:** Case studies, interviews, and content analysis to provide context and explain quantitative findings. Interviewees could be Real Asset managers, senior management of relevant infrastructure and real estate companies, academic scholars, and labor unions.

Market Study Research Questions

This study would assess mandating Prevailing Wages and LPAs on real estate and infrastructure projects and its impact on performance using questions on the following topics:

- **Cost Benefit Analysis**
- **Timeline Impacts**
- **Risk Management**
- **Financial and Risk-Adjusted Investment Returns**
- **Market Perception**

Market Study Scope of Work- Data Source

This study's scope of work would assess mandating Prevailing Wages and LPAs on real estate and infrastructure projects using the following data sources:

Secondary Data:

- Call for academic research and literature reviews
- Industry reports and publications
- Government data (Bureau of Labor Statistics, Census Bureau, Department of Transportation)
- Construction cost databases
- Case studies of specific public works projects

Primary Data:

- Surveys of developers, investors, contractors, and external managers
- Interviews with credible industry/sector experts, investors, external managers, labor, union, and trade associations, and project managers
- Potentially, detailed project-level data (with confidentiality safeguards)

Market Study Scope of Work- Deliverables

This study's scope of work would assess mandating Prevailing Wages and LPAs on real estate and infrastructure projects using the following methodology:

Market Study Report

- Executive summary
- Detailed literature review
- Analysis of Prevailing Wage impacts on costs and timelines
- Analysis of LPA impacts on costs, timelines, and risk
- Quantitative analysis of financial and investment return impacts
- Qualitative findings from case studies and interviews
- Regional comparisons and analysis of moderating factors
- Conclusions

Presentation of Findings

- Develop and present findings to the Investment Committee

Potential Additional Deliverables

- White papers or articles for industry publications
- Data visualizations