



Investment Committee

Agenda Item 5a

June 16, 2025

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

Program: Sustainable Investments

Item Type: Action

Executive Summary

Pursuant to direction received from the Investment Committee, CalPERS staff have prepared for the Board's consideration and potential approval a scope of work, timeline, and cost estimate to initiate a competitive Request for Proposal (RFP) process to secure one or more consultants or academic institutions to carry out a market study on the financial impact of mandating (1) Prevailing Wages and (2) Labor Peace Agreements on real estate and infrastructure investments, including implications for portfolio construction, ability to deploy capital, and strategy execution.

The purpose of the market study would be to investigate how mandating Prevailing Wage requirements and Labor Peace Agreements would affect the financial performance of real estate and infrastructure investments. The study would address the financial impact of these labor practices, analyzing their influence on project costs, timelines, risk, and ultimately, investment returns. The results of the study would assist the CalPERS Board with determining whether it is prudent to mandate one or both of these labor practices into the Responsible Contractor Policy.

Strategic Plan

The agenda item intends to align with CalPERS Strategic Plan goal to strengthen the long-term sustainability of the pension fund and cultivate risk-intelligent decisions.

Investment Beliefs

This agenda item aligns with the following Investments Beliefs:

Investment Belief 3 – Investment decision may reflect wider stakeholder views, provided they are consistent with CalPERS' fiduciary duty to members and beneficiaries.

Investment Belief 4 – Long-term value creation requires effective management of three forms of capital: financial, physical, and human.

Background

CalPERS staff recently completed an extensive review of the Responsible Contractor Policy (RCP), including a diligence and engagement process to determine if there were areas of the RCP that should be updated. CalPERS staff presented the first read in March 2024, the second read in June 2024, and the third read in March 2025. The Investment Committee approved the cumulative policy revisions recommended by staff and directed that staff bring back a scoping document outlining a proposal to conduct a market study to address further revisions to the Policy that would mandate Prevailing Wage and Labor Peace Agreements and their impact on investment returns, and the costs associated with carrying out the study.

Analysis

Per the Investment Committee's direction, the Investment Office has prepared the following scope of work for the study. If directed by the Board, CalPERS would begin a RFP process to seek one or more consultants or academic institutions to carry out a market study on the financial impact of mandating (1) Prevailing Wages and (2) Labor Peace Agreements on real estate and infrastructure investments, including implications for portfolio construction, ability to deploy capital, and strategy execution. The findings could provide critical insights to help inform CalPERS Board of the impacts of these labor practices. The timeline for this project is expected to be 18 - 24 months.

Budget and Fiscal Impacts

As noted above, CalPERS would competitively bid this scope of work via an RFP. Fees to be negotiated, but likely to exceed \$1 million.

CalPERS staff would explore the use of an external project manager to help facilitate the RFP process.

Benefits and Risks

The benefit of carrying out this market study is to enhance the Committee's understanding of the financial impact of prevailing wage requirements and labor peace agreements on real estate and infrastructure assets, including implications for portfolio construction, ability to deploy capital, and strategic execution. The risks are that the costs of the study could be substantial and that the results of the study may not prove conclusive.

Attachments

Attachment 1 – Market Study Scope: Financial Impact of Prevailing Wage and Labor Peace Agreements for Real Estate and Infrastructure Investments-PPT

Attachment 2 – Proposed Market Study Scope: Financial Impact of Prevailing Wage and Labor Peace Agreements for Real Estate and Infrastructure Investments

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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

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

CalPERS is seeking one or more consultants or academic institutions to carry out (with or without the use of subcontractors) a market study on the financial impact of mandating (1) Prevailing Wages and (2) Labor Peace Agreements on real estate and infrastructure investments, including implications for portfolio construction, ability to deploy capital, and strategy execution. The findings will provide critical insights to help inform CalPERS of the impacts of these labor practices.

The study will include quantitative and qualitative analysis of the financial impacts of these labor practices on project costs, timelines, risks, and investment returns. Additionally, the study will evaluate regional variations, and stakeholder perceptions. Consultants/Academic Institutions must demonstrate expertise in economic modeling, labor policy analysis, and real estate/infrastructure investment strategies.

Services will include, but are not limited to, the following scope of work:

Proposed Market Study - Services to Be Provided

1. Executive Summary

- **Study Focus:** This market study will analyze how mandating (1) Prevailing Wage requirements and (2) Labor Peace Agreements (LPAs) would impact the investment risk-adjusted returns for real estate and infrastructure investments, including implications for portfolio construction, ability to deploy capital, and strategy execution.
- **Key Issues:** The study will address the financial impact of these labor practices, analyzing their impact and influence on project costs, timelines, risk, and ultimately, risk-adjusted investment returns.
- **Objectives:** The primary goals are to provide quantitative and qualitative data to help the CalPERS Board make informed decisions on complex issues related to labor practices.

2. Introduction and Background

2.1 Issue Statement

- Prevailing Wage laws and LPAs are intended to protect worker standards and promote labor stability.
- There is uncertainty around the impact of mandating Prevailing Wages and the

practicality of LPAs on project costs, efficiency, and the financial viability of real estate and infrastructure projects.

- This study aims to provide empirical evidence to understand the intended and unintended impacts.

2.2 Study Objectives

- Quantify the impact of Prevailing Wage requirements on project costs, efficiency, 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).
- 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.

3. Definition of Key Terms

3.1 Prevailing Wage

- **Definition:** The consultant will define Prevailing Wages as part of the study.

3.2 Labor Peace Agreement (LPA)

- **Definition:** The consultant will define Labor Peace Agreements as part of the study.

3.3 Investment Returns

- **Definition:** Measures the profitability and efficiency of an investment.
- **Real Estate:**
 - Internal Rate of Return (IRR)
 - Distributions to Paid-In Capital (DPI)
 - Return on Investment (ROI)
 - Capitalization Rate (Cap Rate)

- Cash Flow
- Payback Periods

- **Infrastructure:**
 - Internal Rate of Return (IRR)
 - Return on Investment (ROI)
 - Discounted Cash Flow (DCF) analysis
 - Benefit-Cost Ratio
 - Return on Invested Capital (ROIC)

4. Research Questions

This study will assess the effects of mandating Prevailing Wages and LPAs on real estate and infrastructure projects, including implications for portfolio construction, ability to deploy capital, and strategy execution, and its impact on performance using the following key questions:

4.1 Cost Benefit Analysis

- How do Prevailing Wage requirements affect direct labor costs compared to market-rate wages?
- Are LPAs beneficial or do they influence overall project costs without benefit?
 - Consider potential cost savings from reduced delays versus any administrative costs associated with negotiating and implementing an LPA.
 - Consider the advantages and disadvantages of using LPAs?
- How might mandating Prevailing Wages and LPAs on real estate and infrastructure projects impact administrative costs and compliance monitoring for investors and managers?
- What would be the implications for CalPERS and its investment partners for portfolio construction, ability to deploy capital, and strategy execution by mandating Prevailing Wages and LPAs on real estate and infrastructure projects?

4.2 Timeline Impacts

- Do Prevailing Wage requirements affect project completion times?

- Consider potential impacts including incremental execution challenges on labor productivity, contractor selection, and project management.
- How do LPAs affect project schedules and the likelihood of delays? Are they preferred by/widely accepted by unions?
 - Example: Do LPAs lead to more predictable project timelines for large, complex projects?

4.3 Risk Management

- How does mandating Prevailing Wages and LPAs affect the perceived risk/volatility of real estate and infrastructure investments?
- Do LPAs mitigate risks associated with labor disputes, project disruptions, in a way that would reduce litigation risk and reduce costs?

4.4 Financial and Risk-Adjusted Investment Returns

- What is the quantitative impact of Prevailing Wage mandates on key return metrics (IRR, DPI, costs and others)?
- What is the quantitative impact of LPAs on key return metrics?
- How do project characteristics (size, complexity, sector, location) moderate these impacts?

4.5 Market Perception

- In what sectors/industries are Prevailing Wages and Labor Peace Agreement practices most prevalent?
- How do investors, and developers perceive the financial impact of Prevailing Wage laws and LPAs?
- Are there regional differences in these perceptions and in the prevalence of LPAs?
- How would mandating Prevailing Wages and LPAs potentially impact the pipeline of investments and portfolio construction?
- How would mandating Prevailing Wages and LPA potentially impact JV/transaction partners' willingness to partner with CalPERS?

- Are Prevailing Wage and Labor Peace Agreement practices supported by CalPERS member unions for construction projects?

5. Scope of Work

5.1 Potential Project Types

- **Real Estate:**
 - Residential (single-family, multi-family)
 - Commercial (office, tech office, retail)
 - Industrial (warehousing, manufacturing)
 - Retail
 - Other
- **Infrastructure:**
 - Transportation (roads, bridges, public transit)
 - Energy (power plants, renewable energy)
 - Water (water treatment, pipelines)
 - Digital (broadband, towers, fiber)
 - Other

5.2 Potential Geographic Scope

- **Focus:** The focus will be domestic United States.

5.3 Potential 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)

5.4 Potential Methodology

- Mixed-method approach
 - **Quantitative analysis:** Subject to data availability (e.g., sufficiently large dataset of projects and related attributes, including Prevailing Wages and LPA data), 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.

5.5 Potential Control Variables

- Project size and complexity
- Project location and regional cost variations
- Market conditions (economic cycles, interest rates)
- Regulatory environment and permitting processes
- Financing structures
- Contracting methods

6. Deliverables

6.1 Market Study Report – Prevailing Wage and LPAs

- 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 risk-adjusted investment return impacts
- Qualitative findings from case studies and interviews
- Regional comparisons and analysis of moderating factors

- Conclusions

6.2 Presentation of Findings

- Develop and present findings to the CalPERS Board of Administration

6.3 Potential Additional Deliverables

- White papers or articles for industry publications
- Interactive data visualizations

7. Timeline and Resources

- Provide a detailed project timeline, including phases for:
 - Literature review
 - Data collection
 - Data analysis
 - Report writing
 - Dissemination of findings
- Identify required resources:
 - Research team (economists, construction experts, data analysts)
 - Subcontractor(s)
 - Data acquisition costs
 - Software and analytical tools

8. Project Cost

Fees to be negotiated.