

RIPPLE EFFECTS OF IMMIGRATION

Why Labor Shortages and
Wage Reform Loom

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Immigration Policy 2026 Preview:

Capstone believes the Trump administration’s policy of accelerating deportations will pose an underappreciated threat to US homebuilders, one-quarter of whose labor supply is immigrants. We expect the courts to block the administration’s proposed \$100,000 price tag for H-1B visas, and that prevailing wage reform will spark higher labor costs, another underappreciated headwind, this time for foreign IT outsourcers.

THE BOTTOM LINE



Outlook at a Glance

- ▶ **MARKET** UNDERAPPRECIATES THE GROWING RISK TO HOMEBUILDERS’ LABOR FORCE AS THE TRUMP ADMINISTRATION EXPANDS MASS DEPORTATION EFFORTS VIA INTERIOR ENFORCEMENT SURGES
- ▶ **PREVAILING WAGE REFORM** WILL DRIVE AN UNDERAPPRECIATED LABOR COST HEADWIND FOR FOREIGN IT OUTSOURCERS
- ▶ **TRUMP** ADMINISTRATION WILL CONTINUE H-1B REFORM AGENDA AS LEGAL CHALLENGES TO THE \$100,000 FILING FEE PLAY OUT

Market Underappreciates the Growing Risk to Homebuilders' Labor Force as the Trump Administration Expands Mass Deportation Efforts via Interior Enforcement Surges

Winners	---
Losers	US homebuilders, including D.R. Horton Inc. (DHI), Lennar Corp. (LEN), PulteGroup Inc. (PHM)

President Trump and border czar Tom Homan have ardently endorsed this strategy. In recent press hits, Homan has stated that the administration will prioritize future enforcement across both red and blue states in “sanctuary cities” and “cities where crime is an issue.” While initial surges targeted blue states (New York City, Los Angeles, and Chicago), recent surges have begun to include red states (Memphis, TN; Charlotte, NC; and New Orleans).

Crucially, the Trump administration is armed with significant new funding to support this mission. The One Big Beautiful Bill Act (OBBBA), passed via reconciliation and signed by the President on July 4, 2025, provides \$170.7 billion in additional funding for agencies’ core appropriated budgets, to be spent over 4.25 years for immigration enforcement. This includes \$74.9 billion for ICE (the primary agency responsible for interior enforcement), a 276% annualized increase from ICE’s FY2025 budget. Funding will mostly target agent hiring and increasing detention capacity.

Moreover, the recent growth of the 287(g) program, which can empower state and local law enforcement agencies with immigration enforcement functions, will further boost manpower targeting undocumented immigrants. Of the 1,198 memorandums of agreement involving 287(g) between ICE and state and local law enforcement agencies, 89% were signed in 2025.

INCREASED INTERIOR IMMIGRATION ENFORCEMENT IN 2026

Capstone expects the Trump administration to significantly expand its mass deportation agenda in 2026. This includes mobilizing forces from Immigration and Customs Enforcement (ICE), Customs and Border Patrol (CBP), and other federal agencies to cities where it has already conducted major enforcement operations. It also likely includes initiating operations in more cities in the South and Sun Belt to support the administration’s stated goal of achieving 1 million deportations annually—a goal Capstone continues to believe is unrealistic.

ESCALATING IMPACT OF INTERIOR IMMIGRATION ENFORCEMENT ON HOMEBUILDERS

Capstone believes the market underappreciates the risk that rising immigration enforcement poses for major US homebuilders, including D.R. Horton Inc., Lennar Corp., and PulteGroup Inc. The Home Builders Institute (HBI) and National Association of Homebuilders (NAHB) estimate that immigrants comprise 25.5% of the US construction labor force, and much greater portions of the workers in trades essential for home building, namely 61% of plasterers and stucco masons, 61% of drywall and ceiling tile installers, and 52% of roofers.

In 2025, the Trump administration's immigration enforcement policies had already begun to impact the homebuilder labor force. The Associated General Contractors of America (AGC) H1 2025 Workforce Survey indicates that 92% of contractors struggled to fill open positions, and 35% of building construction contractors were affected by immigration enforcement actions.

What is most underappreciated is that this data reflect issues prior to the influx of OBBBA funding for immigration enforcement. Indeed, we expect growing labor challenges for homebuilders as ICE and CBP hire more agents and scale operational forces in H1 2026.

ADDITIONAL IMMIGRATION ENFORCEMENT POLICY CONSIDERATIONS IN 2026

Capstone believes additional policy and legal developments will have mixed impacts on the Trump administration's immigration enforcement agenda and homebuilders' labor supply.

- 1. Immigration or Visa Reform:** While homebuilder and construction industry groups are

advocating for policies to support the immigrant workforce, Capstone believes major changes will not materialize in 2026. We do expect the Trump administration to release additional H-2B visas (temporary non-agricultural workers) for FY26, as the Biden administration did in FY25. However, we do not expect Congress to pass comprehensive immigration reform or targeted visa relief (e.g., increasing the H-2B cap or creating a new visa category for homebuilders and other construction workers).

- 2. Limited Immigration Court Capacity:** Most undocumented immigrants apprehended in the US interior may only be deported if they receive a removal order from an immigration judge (IJ) through a proceeding in immigration court, an administrative court in the Department of Justice's Executive Office for Immigration Review (EOIR). Insufficient IJ staffing continues to be a bottleneck that is frustrating deportation efforts across the US, and the OBBBA-imposed hiring cap of 800 total IJs precludes a hiring surge as a solution.
- 3. Legal Challenges to Enforcement Tactics:** The Trump administration has faced numerous successful legal challenges against some of its most aggressive immigration enforcement tactics, including its expansion of the use of expedited removal and mandatory detentions. While the legal challenges in isolation would not fully halt the administration's mass deportation agenda, they combine to create modest barriers throughout the immigrant apprehension, detention, legal, and removal processes.

The Trump Administration Will Press Ahead With Its H-1B Reform Agenda as Legal Challenges to the \$100,000 Filing Fee Play Out

Winners	Apple Inc. (AAPL), Qualcomm Inc. (QCOM), Cisco Systems Inc. (CSCO), and other technology firms that already compensate at Level II-IV wages
Losers	---

While immigration hardliners in the administration continue to advance an agenda that includes a proposed blanket ban on new H-1B issuances, Trump has signaled a more pragmatic stance aligned with technologists and other pro-business stakeholders in his coalition. Capstone expects that these internal divisions will lead to inconsistent rulemaking and enforcement of skilled immigration. That said, the risk is low of materially more extreme restrictions beyond the September 2025 H-1B proclamation, and we think the litigation risks to the order are underappreciated (see *Two Trump H-1B Visa Orders Unlikely to Survive Litigation*; Cognizant, Infosys, Tata Consultancy, and PE Portcos To Avoid Worst-Case Scenario, October 7, 2025).

the court has already been fully briefed on the matter and is likely to issue a ruling on the merits in early 2026, ahead of the FY27 lottery cycle. We expect the judge to enjoin the fee requirement, given the strength of plaintiffs’ arguments that the rule exceeds the Department of Homeland Security’s (DHS) statutory authority and is “arbitrary and capricious” under the Administrative Procedure Act (APA).

Similarly, we expect the weighted-selection rule to trigger litigation once a final rule is published in the Federal Register. We believe that rulemaking is vulnerable to challenge under the authorizing statute, which directs that H-1B visas be allocated “in the order in which petitions are filed for such visas,” a provision US Citizenship and Immigration Services (USCIS) has historically implemented through a randomized lottery.

We expect legal challenges to the \$100,000 mandatory filing fee requirement—the headline policy change in the September proclamation—to play out primarily in 2026. In the Chambers/AAU case,



Prevailing Wage Reform Is Likely to Drive an Underappreciated Labor Cost Headwind for Foreign IT Outsourcers

Winners	---
Losers	Healthcare staffing and recruitment firms, IT outsourcers such as Cognizant Technology Solutions Corp. (CTSH), Infosys Ltd. (INFY), Tata Consultancy Services Ltd. (532540 on the Bombay stock exchange).

on where DOL anchors the updated wage levels within the occupational wage distribution.

We continue to believe that the Trump administration’s plans to reform prevailing wage requirements under the H-1B program are underappreciated. We expect the Department of Labor (DOL) to initiate a notice of proposed rulemaking (NPRM) in the first half of 2026. Assuming the administration follows a standard notice-and-comment process, we expect the courts will uphold the rulemaking, given that the Immigration and Nationality Act (INA) explicitly delegates authority over prevailing wage levels to the DOL.

If implemented, the new requirements could pose material headwinds to a broad cross-section of H-1B-dependent sectors, including healthcare staffing, IT outsourcing, and higher education institutions. The prior prevailing wage rulemaking under the first Trump administration—though later struck down on procedural grounds—raised wages across H-1B occupations by ~26.2%. The magnitude of the impact of a new rule will depend

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