

How Will Wall Street's Financial Troubles Affect the Construction Industry?

Ullico's CEO Mark Singleton Says Expect Tough Times in Near Future, But Better Days Ahead

Organized Labor caught up with union construction pension expert Mark Singleton, CEO of Ullico (Union Labor Life Insurance Co.), to get his thoughts on the country's current financial crisis, the \$700 billion bailout and its impact on the commercial construction industry.

What is the current financial crisis on Wall Street going to mean for the union construction industry?

Nationwide, we are certainly seeing a lack of debt financing capability for all sectors of the commercial real estate market. We're even seeing it in our own business, the J for Jobs program, which deals with very high quality union marquee type projects, where there has always historically been lots of credit and liquidity.

Even in strong union construction locations like San Francisco, Chicago and Los Angeles, projects aren't being done right now because of the lack of debt financing. Many projects in the early stages of development or still on the drawing boards are certainly feeling that effect right now and may suffer, stall or have to be deferred until the market cracks.

How long have you been seeing this trend?

We started seeing it in the early part of this year. A lot of our competitor lenders started freezing up or backing away from deals because of the ripple effect that started with the sub-prime issues a year ago. We expect it to carry on at least another six months to potentially a year unless some of these grand plans here in Washington play out and free up lending capacity.

Is the lack of credit affecting different parts of the country differently?

It's pretty much across the board. In virtually every major metropolitan area we deal in, we are seeing borrowers come to us willing to agree to much more strict terms or higher rates just to be able to get their deals funded because many of the national lenders have either disappeared or they are frozen and they don't have access or liquidity to fund these deals. I think it probably is a little more severe in the lower end of the market, but we're seeing it in these Class A type, major high profile projects.

How is Ullico weathering this storm?

Ullico is an old fashioned lender — a balance sheet lender — who underwrites an issue alone and holds onto it until maturity. Our programs, unlike many of the national lenders, are not dependent on the collateralized market, where many national lenders package up their loans and sell them off with the banks and then cut a turn in their portfolio.

Our source of funding is entirely from union pension plans. When we make loans we hold them in our portfolios; we don't package them up and sell them. We go out and we sell what is in essence a pension investment option or opportunity. And we invest that through separate accounts in a pool of construction and permanent commercial real estate loans.

If you are a disciplined lender with cash, this is a great time to be in the market because people are willing to pay

significantly higher spreads, higher rates that were there say a year or year and a half ago.

How is Ullico currently doing on its investments?

This year we're actually performing very well and again we believe it's a testament to the old fashioned way of very sound underwriting, very sound structuring of the loans with very solid partners and an old fashioned approach to underwriting a loan with traditionally very low loan-to-value-type underwriting criteria that we hold it ourselves, we service it, and then reinvest that cash flow back into the portfolio. It's worked very well. Obviously we have seen some deterioration because of the overall economic deterioration that you see out there. So in our portfolio we have about 120 or 140 active loans right now, we've seen a modest increase in loans that are on our watch list.

Can our union members be assured that their money is being protected and it's good to be union?

Not only that, but to take it a step further, we're one of the few lenders out there issuing new loans and funding new projects. We've issued new commitments for over a billion dollars this year for new projects, we're funding some of the most high profile projects in the country, including some of the big ones on the West coast. I believe there's eight construction loans currently in California, including One Rincon Hill, 300 Spear St., 555 Mission and 10th & Market. We have quite a few big large high profile projects and we are still out there lending, creating, funding new union jobs. Whereas the rest of the market is reeling and kind of hunkering down.

What advantages do union members have with a company like Ullico in this market?

We call it the quadruple win value proposition. First, we have consistently provided an above benchmark return for the pension investors. This year in particular, virtually every sector in the investment world is negative. J for Jobs is on an annualized pace of around 6 to 6.5% as we speak.

Second, we are funding and creating new union jobs. And in today's market, it's even more important that we are out there lending for union jobs.

Third, we are providing a very valuable source of capital and source of funding, liquidity to solid union employers. We only deal with developers and contractors who do jobs literally 100% union. They believe in the value proposition that union construction brings to the table and we are much like the labor movement's providing better trained workers and better overall quality from that standpoint.

Fourth, we make a nice profit for our share holders, and guess who our share holders are? We're owned by the labor movement. So this is a pretty neat, pretty good cycle.

What is the short term prognosis for the construction market?

Short term, hold on to your hats. It's going to be very volatile over the next six to nine months.

We expect to see players continue to disappear from the market and we expect to see new players to come in because there are fortunes to be made right now when some of this cash, some of this investment that's sitting idle right now comes back into the market. You have probably heard of the different funds that are gearing up to come in and take advantage of impaired banks or impaired lenders or impaired investors that don't have the liquidity to complete jobs or need to sell assets you know because they are stuck on other things. So we think that will come in relatively soon. That will be the sign of a bottom, you will know then that the worse may be over.

How about the long-term outlook?

Long term, we expect the market to bounce back pretty nicely. We are a national lender, we obviously believe strongly in the US economy and in the labor movement. We believe that there will continue to be over the long term a very strong demand for union construction, which means there's a great opportunity for union pension plans to participate in that by investing in J. We think there's going to be a tremendous amount of opportunity to put the cash flow that J creates and new deposits that we can bring into J for pension plans; we can put it to work at very sound loans at very good rates and spreads. We're very bullish on J over the next year-plus.