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## Real Estate Roundup

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### Funds for Tenant Improvements Harder to Come By

The same week Lehman Brothers tripped the wire that triggered a colossal panic in the financial markets, **Peter Merrigan** was walking his own tightrope. Lehman Brothers melted down in mid-September of last year and the failure so stunned Wall Street that the credit markets froze up almost immediately. Banks began hoarding money, and obtaining loans was nearly impossible.

Anyone who needed money to finance deals-especially real estate transactions- was out of luck.

Far from Wall Street in Boston, Merrigan was trying to figure out how he was going to finance some \$1.8 million in tenant improvements at 20 Harvard Mills in Wakefield, a 232,000-square-foot office building. Without the cooperation of his lender, **Bank of America Corp.** – which informed him there would be no money to pay for the interior work for three tenant offices- Merrigan was on the line for 60,000 square feet of lease improvements.

Last month, after nine months of negotiations between himself, investors and his lender, Merrigan got himself out of a pickle. He was able to secure the financing needed to complete the tenant offices and walked away unscathed. Had he not cobbled together a solution, Merrigan faced losing tenants in one of the worst lending markets in years and in a building that was already 20 percent vacant.

Merrigan, whose Boston company **Taurus Investment Holdings LLC** owns more than 10 million square feet of real estate worldwide, was feeling the effects of Lehman's collapse and was caught in the dead center of the credit crunch. The crunch has sidelined deals and made real estate owners such as Merrigan squirm.

Generally, tenant improvements are funded as part of a lease agreement. But after a thorough review of the loan documents and to Merrigan's chagrin, it was determined that the documents did not stipulate that Bank of America was required to fund the tenant improvements, said Merrigan.

**Michael Pappas**, a vice president at Bank of America, did not return a call for comment.

It was clear Merrigan needed to come up with cash to pay for tenant improvements, which average about \$30 per square foot, or he might have faced losing the leases.



Merrigan called about 10 investors and asked them to put more money into the building and increase the amounts of equity each had in the deal. Merrigan and two other principals also kicked in more cash, and they tapped into a line of credit available to the company from **Anglo-Irish Bank Corp.**

“They’re not bad people or anything, it’s just they were under pressure,” he said of Bank of America. “They were having mandates from their central credit departments to deliver.”

Merrigan’s situation didn’t end as badly as it could have because he had access to equity to hold on to the tenants. Many landlords will not be as fortunate, as Merrigan ultimately paid for the tenant improvements out of his own and his investors’ pockets.

“At the end of the day we ended up putting all the money (in),” he said. “It was a fair amount in a difficult environment.”

Unlike commercial property owners who bought billions of dollars of real estate at the peak by using loads of cheap, short-term debt, Merrigan bought the 232,000-square-foot Wakefield building in 1999.

Lucky for him he didn’t have commercial debt expiring as many owners do in the coming years. He simply had a funding issue.

“The way we solved a problem is we wrote a check,” Merrigan said. “There was really no other alternative.”