

Landmark 'will return to people'

Toronto native Michael Tippin went into real estate immediately after leaving university in 1988, working first as an appraiser then as an investment manager for several investment companies with portfolios across Canada and the United States. In 1996 he formed the Tippin Corporation to buy and restore architectural landmarks in Toronto. These included the historic Flatiron Buildings in both Toronto and Atlanta. With an increasing interest in landmarks in Budapest, Tippin sold most of his Toronto portfolio in 2006, just as the real estate market was peaking. In January of that year, his corporation acquired the former stock exchange building - recently rechristened "Exchange Palace" - on Szabadság square, currently the home of Hungarian Television, with plans for a thorough restoration to its former glory. He spoke with Jacob Doyle.

Q: How did you come to Budapest?

A: There's always a connection somewhere. In my case, it was a close business partner in Toronto who lives in Tel Aviv, Israel. He had been investing in Budapest for many years and knew of my personal interest in landmark architecture. He called me one day and said: "You need to come and meet me in Budapest; you need to see this city." So I said sure, that sounds great. So we met in Budapest in October, 2004. I came as a tourist, first mistaking Budapest for Bucharest. There happened to be a direct flight on the Hungarian airline, Malév, from Toronto to Budapest those days. In 2005, Malév awarded me a platinum card and informed me that I had the second highest mileage of anyone flying their airline that year, the first being their CEO. This resulted from my 22-plus transcontinental and countless intercontinental trips, all on Malév. Boarding the plane and hearing Hungarian spoken got me in the spirit of being here. Now I realize that I was definitely in love with Hungary and not the airline, which is good because Malév has since cancelled its direct flight.

Q: What are your plans for the Exchange Palace?

A: We will do our best to return it to what it was, a house of commerce and a national landmark and - this may sound a little cliché to a country that has a socialist past - to restore it to being a house of the people. The first time I saw the building I was told by my Israeli business associate that I could compete to buy it. He walked me to Szabadság square and asked me, "would you like to own this?" I thought at first that the building must be a library or a university building or a museum. As I learned more about its history, that it had housed a stock exchange, I realized it needed to be something as grand as this again. It needed to be redeveloped and reused as it was originally intended as a house of commerce and a stock exchange, which was a house of the people; it's a public building. So our intention is obviously to restore it as a commercial building for premium office space and for such innovative retail as an organic food market and a yoga studio. I really want to see the building join the park

in front of it. I want to bring life to what in my opinion is one of the most beautiful squares in Europe. It's a little enclave inside of a busy, noisy city. You can walk from Oktogon to Szabadság square in 10 minutes and be in a whole different world. One of my favorite squares in Paris, where I lived for some time, is Place des Vosges. A travel magazine rated it last year as one of the 10 best squares in Europe. I am sure that in five years Szabadság square will be on that list.

Q: In what ways do you see a freshly restored Exchange Palace adding value to Szabadság square?

A: It will because it's well-known, it's big, it's important. I think that this project will be one of the largest privately financed historic rehabilitation projects in Budapest, maybe the largest. The building is about 50,000 square meters.

Q: In addition to buying Exchange Palace, you bought the neighboring Lipot underground parking garage, a so-far expensive and underused facility. Were you criticized for buying it?

A: I guess you'll have to ask me in five years to find out whether I got a good deal. You have to look at it long term. Lipot garage was very expensive to build in a very difficult location. They had, for example, to dismantle the Soviet monument piece by piece and reassemble it with the help of experts and with the permission of Moscow to be exactly as it was. This delayed the project by six months. So Lipot Garage was expensive, but I think in the long run it will prove to be a wise investment because the value impact of having parking versus not having parking for Exchange Palace is, I think, almost immeasurable.

Q: What plans do you have to limit the carbon footprint of Exchange Palace itself?

A: We have hired an architectural firm in New York that is not only world renowned for its work with historical restorations, such as the Empire State Building and Grand Central Station, they also are experts at executing sustainable design on historic buildings. So it is our intention to make Exchange Palace as environmentally friendly as we can. We have the opportunity to do this because we're undertaking a total gut and reconstruction.

Q: Despite this total gut and reconstruction, you plan to restore the building to its original design and structure?

A: Absolutely. We're building onto the original structure. And we will preserve as many of the original architectural features as we have found or will find. The sad part is that much of the architectural features were damaged or destroyed. A firm we hired to do an inventory of the entire building discovered the extent of the damage. Their comment was that the damage done by the Germans and Soviets pales in comparison to that done in the last half-century. Fortunately, we have it all documented: what it was and will be.

Q: Have you begun discussions with prospective tenants?

A: No, it's too early. I think we have to show them the concept, the product, before we can expect them to decide. I already know who many of our clients are going to be. Many of them are on the



Canadian investor Michael Tippin ... divides time between Budapest and Toronto

square already. Bank Centre may wind up empty. Who would rent space in Bank Centre if they can rent monumental modernized space - in a Hungarian palace?

Q: How might the Exchange Palace project be affected by the global financial crisis?

A: I think the project will take longer, but it will cost less. It could take longer because I think there will be a recession in 2009 in Hungary, if it's not happening already. Prospective tenants may hesitate in making decisions to lease new office space for five to 10 years at a time. There will be fewer tenants, fewer multinational companies coming to Budapest in the near term. But we're patient. I think we're entering a period of deflation that will result in lower building construction costs, which is the most important factor to the economics of this project. Fortunately we're in a unique position compared to most developers. Firstly, we sold most of our portfolio in 2006 so we are liquid. Secondly, we don't have much debt because we didn't need it. Thirdly, we aren't reliant on the bank to fund our projects. It's always nice to use a bank because their money is cheap. But if there's not a bank, then that must mean that

Fortunately we're in a unique position

Q: The word is that you recently purchased the international airport in Tbilisi, Georgia. If this is true, what was your motivation?

A: We bought the assets of the former Georgian Airlines and with that came a lot of land inside

the international airport at Tbilisi, complete with hangars and aviation buildings. This deal came to me by the same partner who brought me Exchange Palace. The premise upon which I invested in Georgia is similar to the premise upon which I invested in Hungary. I felt that people in CEE were and are getting richer every day, little by little. People in North America for the last 10 years have been getting poorer every day as the result of debt. I felt that Georgia was strategically important. Georgia has no natural resources to speak of. What little land it has, however, is very strategically located running between the Caspian Sea and the Black Sea. It's the only way you can get from the Caspian to Europe without going through Russia. That's why a pair of pipelines have been laid across Georgia and down into Turkey, then up into Europe. A lot of people were skeptical of my Georgian acquisition in 2007. You can imagine what they thought on August 7, 2008 when the bombs dropped. But the results are in and the consequence of a fairly insignificant five-day conflict with Russia, which had minor costs to Georgia of around \$100 million to \$200 million, is that Georgia has received commitments of some \$4.5 billion worth of foreign aid. So my rationale that "Georgia matters" was right by \$4.5 billion. Since August 7, there have been 45 high-level diplomats that have landed at Tbilisi International Airport. We're in the process of buying more land there. It just got cheaper, thanks to the war. I believe that one of the key objectives of the Obama administration will be to repair relations with Russia. This will force Georgia to repair relations with Russia. Russians love Georgia and they will return to it. In 1991, 3 million people travelled through Tbilisi International airport, the majority were Russian. In 2008, probably less than 800,000 air passengers will travel through Tbilisi, largely because of the Russian embargo. As soon as relations are repaired, however, Russians will start to return: to ski, to visit the sea and to invest. The Russians love Georgia just as much as Stalin did. ■

He walked me to Szabadság square and asked me, "would you like to own this?"

other things are cheap. Construction costs will go down because there are not as many developers building. In the end, I think we will be positively affected by this economic crisis. The other opportunity that I think will open up is the chance to buy more buildings in Budapest over the next few years.