

## Tippin: Luxury office will find a market

In 2006, Michael Tippin, CEO of landmark property developer Tippin Corporation, purchased the century-old Exchange Palace on Budapest's Szabadság tér and announced plans to redevelop the massive 500,000 sqm building, converting about two-thirds of it into five-star offices. Now, with grand ambitions falling by the wayside almost daily, *CIJ* caught up with Tippin to see how – and if – the project is progressing

**The last time we spoke, you had just purchased the Exchange Palace and were planning luxury offices. What's going on with that?**

That's still the case. We've hired a firm from New York, Beyer Blinder Belle Architects & Planners. They are probably one of the most famous architectural firms in the world with regards to heritage reconstruction, having done many famous landmarks in New York, such as Grand Central Terminal and the Chrysler Building, and the United States Capitol in Washington D.C. For the last year or so we've been planning the redevelopment. Our plan for reuse remains luxury office space...and entertainment retail. Restaurants, cafés, bars – all the things that will bring people and life to the square again, because that's what's lacking.

**When do you see the project starting?**

MTV [Magyar Televízió] is scheduled to leave at the end of July, so we will be ready August 1 to start our soft strip and our cleanup and assessment, and I think construction will probably start in January 2010. Right now we're in the planning phase; we're going to be making our permit application in a few months, and hopefully we'll have a permit in our hands by the time MTV leaves.

**Is there a market for luxury office space in Budapest?**

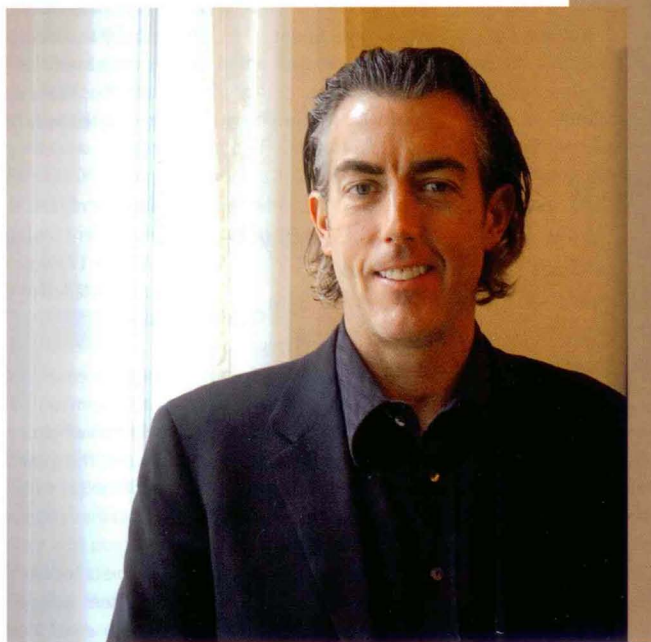
There are endless examples of [bank and corporate] headquarters, not to mention government [ministries] occupying some of the greatest architectural landmarks of the city. I think Budapest is truly a landmark city and...the ideal scenario [for tenants] is to get modern amenities and facilities inside a historic structure. That's the best.

**And you think they'd be willing to pay premium rents for that?**

I think so. What do people want? They want light, they want air, they want some nostalgic connection with the past, they want to be stimulated by design. You're spending eight hours a day, five days a week in your office. Budapest is one of those cities where, if you're not going to come and enjoy the art and the architecture, then why come here? Why be here? If you want to have a modern, cold, faceless environment, then there are a lot of other cities you can go to in North America. But to go to a historic European capital and sit in a glass office building with dropped acoustic tiles ceilings and carpet and 2.8 m ceilings...I mean, why be here? Our experience has been, as landlords of landmark buildings, that the tenants that make the decision to come into our landmark buildings, they never regret it and they rarely leave.

**What kind of rents are you hoping to achieve?**

Our historic buildings have always outperformed the best buildings in any given market, as they should. If you consider the comparison between a modernized, fully-restored Exchange Palace and Bank Center, I don't think anyone would disagree that Exchange Palace should command a higher rent. Whatever Bank Center is getting, we're going to probably be [asking for] 10 to 30 percent higher.



**You don't think tenants will be looking to cut costs, especially if the next few years are as hard as predicted?**

I'm sure that will be the case, but we're in the business for the long-term. If we find that rents are lower than what we think they should be, then we'll write shorter-term leases and we'll get paid on the renewal. But I think that regardless of whether the rent is €20, €25 or €30, our project will be successful, and in the long-term it doesn't really matter what the rent is at the beginning. It matters what the average rent is over the next 20 years.

**When do you expect to finish the project?**

If we start in 2010, we should be finished in 2012, maybe even sooner.

**How will the project be financed? It can't be easy to find investors for such a project, especially in the current economic climate.**

57 Fortunately, we don't need investors. We self-finance our projects. We have a fund in the US, which we use to capitalize our Central and Eastern European projects.

We're fortunate [to be in] a different position than many of the developers here, in that we're very well capitalized. The project will be capital intensive, but hopefully it's going to be less expensive because of reduced construction costs. The most sensitive factor to the financial success of our projects is always the construction and the restoration costs, and I think they're going to go down considerably over the next few years.