

Seattle Waterfront LID Assessment Hearing

Seattle LID Public Comment Hearing

March 11, 2020



206.287.9066 | 800.846.6989

1325 Fourth Avenue, Suite 1840, Seattle, Washington 98101

www.buellrealtime.com

email: info@buellrealtime.com



SEATTLE WATERFRONT LID ASSESSMENT HEARING
BEFORE
HEARING EXAMINER RYAN VANCIL

Taken at 700 Fifth Avenue
Seattle, Washington

DATE TAKEN: MARCH 11, 2020

TRANSCRIBED BY: CRYSTAL R. McAULIFFE, RPR, CCR 2121

1 A P P E A R A N C E S

2 HEARING EXAMINER: RYAN VANCIL

3
4 FOR THE CITY: GABRIELLE E. THOMPSON
K&L GATES
5 925 Fourth Avenue
Suite 2900
6 Seattle, Washington 98104
206.370.8097
7 gabrielle.thompson@klgates.com

8
9 FOR OBJECTORS: JACOB STILLWELL
R. GERARD LUTZ
10 MEGAN LIN
PERKINS COIE, LLP
11 10885 N.E. Fourth Street
Suite 700
12 Bellevue, Washington 98004
425.635.1400
13 Jstillwell@perkinscoie.com
Jlutz@perkinscoie.com
14 Mlin@perkinscoie.com

15
16
17
18
19
20
21
22
23
24
25

1 INDEX
2 March 11, 2020

3 Witnesses:	Page
4 BENJAMIN SCOTT	
5 Direct by Mr. Stillwell	7
6 Cross by Ms. Thompson	26
7 Redirect by Mr. Stillwell	29
8 MICHAEL ARNETTE	
9 Direct by Mr. Lutz	32
10 Cross by Ms. Thompson	74
11 BENJAMIN SCOTT - CWF-0416	
12 Direct by Mr. Stillwell	76
13 Cross by Ms. Thompson	88
14 BENJAMIN SCOTT - CWF-0412	
15 Direct by Mr. Stillwell	90
16 Cross by Ms. Thompson	98
17 Redirect by Mr. Stillwell	100
18 BENJAMIN SCOTT - CWF-0410 and CWF-0411	
19 Direct by Mr. Stillwell	101
20 Cross by Ms. Thompson	109
21 Redirect by Mr. Scott	110
22 ELTON LEE - CWF-0416	
23 Direct by Mr. Stillwell	112
24 Cross by Ms. Thompson	138
25 ELTON LEE - CWF-0412	
26 Direct by Mr. Stillwell	147
27 Cross by Ms. Thompson	161
28 Redirect by Mr. Stillwell	165
29 ELTON LEE - CWF-0410/0411	
30 Direct by Mr. Stillwell	166
31 Cross by Ms. Thompson	175

1 INDEX (Continued)

2 March 11, 2020

3 Witnesses: Page

4 PETER K. SHORETT

5 Direct by Ms. Lin 180

6

7

EXHIBIT INDEX

8

No. Admitted

9

Exhibit Nos. 40 and 41 76

10 Exhibit Nos. 42 and 43 89

Exhibit Nos. 44 and 45 101

11 Exhibit Nos. 46 and 47 111

12

13

14

15

16

17

18

19

20

21

22

23

24

25

1 SEATTLE, WASHINGTON; MARCH 11, 2020

2 -o0o-

3 THE COURT: Call to order this March 11,
4 2020, continuance of the Seattle Waterfront LID
5 Assessment Hearing. On this day, we'll continue
6 objections from a cluster of various case numbers that
7 were started (indecipherable).

8 We'll take a break, approximately,
9 10:00 a.m.; take a lunch approximately at noon; and then
10 again, approximately, at 3:00, another break.

11 Please make sure all your cell phones are
12 turned off and not used during the hearing.

13 Proceed.

14 MR. STILLWELL: Thank you very much.

15 Jacob Stillwell from Perkins Coie on behalf
16 of objectors.

17 I put together a witness and exhibit list
18 for today. I apologize, though, I -- since it sounds
19 like we've been continuing exhibit numbers rather than
20 start over and confuse everyone, I intended to just to
21 leave the exhibit number box blank and inadvertently
22 just deleted that column.

23 So I have a list of witnesses and exhibits.
24 Oh, no, I'm sorry, I did leave it blank. So I figured
25 we could just fill in the exhibit number as we go rather

1 than have you start from one and confuse everyone.

2 So I have one for the record. Copy to the
3 City.

4 MS. THOMPSON: Thank you.

5 MR. STILLWELL: And objectors would like to
6 begin by continuing with Ben Scott's testimony on the
7 Helios building in Appeal No. CWF-0441.

8 And, Ben, do we have you on Skype?

9 Hey, Ben, can you hear us?

10 Do you know if we're connected?

11 MR. EDLUND-CHO: He is. He may have stepped
12 away. He will -- he needs to start his video on his
13 end.

14 MR. STILLWELL: Okay. My apologies. I'll
15 get in touch with him now.

16 MR. EDLUND-CHO: Oh, there he is.

17 MR. SCOTT: Sorry about that.

18 MR. STILLWELL: No worries.

19 Ben, can you hear us?

20 MR. SCOTT: I can.

21 Can you hear me?

22 MR. STILLWELL: Yes. Thank you.

23 HEARING EXAMINER VANCIL: I'll remind you,
24 Mr. Scott, you are still on oath -- under oath or
25 affirmation from your earlier testimony in the hearing.

1 MR. SCOTT: Yes, sir.

2

3 BENJAMIN SCOTT, witness herein, having been
4 first duly sworn on oath,
5 was examined and testified
6 as follows:

7 DIRECT EXAMINATION

8 BY MR. STILLWELL:

9 Q. Okay. Good morning, Ben.

10 I believe where we left off last week, we were
11 discussing your report's conclusion that the
12 improvements to Pike/Pine may have detrimental impact on
13 the Helios property, and you were sort of explaining
14 that conclusion.

15 If you wouldn't mind starting that analysis
16 again for the record, that would be great.

17 Thank you.

18 A. First, improvements directly adjacent to Helios
19 consisting of sidewalk improvements, we know that the
20 term of that construction will be relatively long, and
21 we know that proximity of construction on the sidewalk
22 is going to be a hindrance and difficulty to tenants of
23 the building.

24 Given the long duration of those improvements,
25 the -- I mean, we're talking about a five-year time

1 span. And given the discussion, I think, previously
2 about the tenancy of Helios, what we can see is that
3 in-place tenants who are not likely to be there
4 throughout the duration of the construction to
5 experience the benefits of the waterfront improvements
6 on that sidewalk scape are going to be inconvenienced,
7 at the very least, in their daily lives past
8 construction, blocks for sidewalk, their access to their
9 garage, et cetera.

10 Loud... associated with construction or problems
11 for multifamily tenants who like to come home and maybe
12 have a little bit of quiet.

13 I think that given the duration of those -- the
14 construction that will be required, you're going to have
15 a turnover repeatedly during that time, and it's going
16 to, if anything, potentially hurt renting in the
17 meantime.

18 So the -- any benefits associated with those
19 improvements are going to be year -- at least five years
20 out. In the meantime, they are going to be problematic
21 for renters.

22 Q. In your professional experience, approximately
23 what's an average range of tenant turnover in a building
24 like the Helios?

25 A. A Helios tenancy is going to average one to

1 two years. I think the number of renewals is relatively
2 high in the first year, but it probably is new enough
3 that we can see in this data.

4 Typically for downtown high-rise properties, one
5 to two years. With an average, I believe, it's along
6 the lines of 19 months, it is typical.

7 Q. So then is it your conclusion that a couple of
8 tenants may cycle in and out of some dwelling units
9 during the construction phase?

10 A. I think the building is very likely to
11 completely turn over in terms of its tenancy.

12 Q. And given that the improvements wouldn't then be
13 constructed, what's your opinion about whether Helios
14 would be able to offset the assessments with, say,
15 higher rents?

16 A. Those higher rents would come in the out years.

17 In the initial years, it would take a long time
18 to recoup those rents. And --

19 Q. I'm sorry, go ahead.

20 A. I think you -- if we consider it on a discounted
21 cash flow model, the first five years, if your income
22 increases, you have to make, you know, a much higher
23 rate (indecipherable).

24 You think about, for instance, everyone's 401(k)
25 is -- losses that now take more benefits later to

1 offset. And that's the situation that you guys will
2 probably be confronting.

3 Q. In addition to the interim period of
4 construction, your report mentions that once the
5 improvements are complete, due to the high level IMI
6 currently there, there may be marginal improvements that
7 may or may not even be noticeable.

8 Could you please sort of refresh our
9 recollection on the -- what an IMI is and how it's
10 applicable to these properties; and then how the IMI
11 in -- with respect to the Helios, will be impacted by
12 the improvements?

13 A. The Irvine Minnesota Index [verbatim], it was
14 established with an effort to, essentially, apply the
15 streetscape improvements.

16 So, essentially, you're talking about how
17 friendly it is to pedestrians.

18 Given the -- talking, general, sort of,
19 improvements that are being discussed under the
20 waterfront LID, I think the IMI is a good indicator of
21 how that would be -- how one would measure it.

22 For the property -- for Helios, we're talking
23 about three to five plants of addition on the IMI.

24 The Second and Pine streetscape is already very
25 highly developed and determined to be very

1 pedestrian-friendly. You can actually see that by,
2 essentially, the number of pedestrians that are on it
3 all the time.

4 But it also has -- the streetscape is very
5 pedestrian-friendly. It has trees. It has relatively
6 wide sidewalks. It has a mix of uses. It has high
7 buildings, et cetera. These are all things that are
8 typical high IMI scores.

9 The IMI changed following the LID improvement.
10 It moves it from, essentially, a -- it moves it from a
11 Level 3 to a Level 4.

12 I'm sorry, it moves from a Level 3 -- yes,
13 Level 3 to a Level 4. So this will be, essentially,
14 between -- it goes from zero to one standard deviations
15 above the mean to 1.22 standard deviations above the
16 mean.

17 The move between that level is not associated
18 with a large increase. It's -- what you're looking for
19 is an improvement from Level 1 to Level 3. You're
20 going -- the goal is to go from below the mean to above
21 the mean.

22 So the change at Helios itself is going to be
23 sort of like a slight improvement, at best.

24 Q. Are you able to sort of discuss in a bit more
25 tangible terms what an increase like that would look

1 like, sort of from the sidewalk or from a property owner
2 or tenant's perspective?

3 A. I think the imagery that I -- in my report. I
4 think what this does -- I don't know if you have that.

5 Q. The report was provided as an exhibit when you
6 began your testimony last week. I do have extra copies
7 available.

8 A. So on the final two pages --

9 HEARING EXAMINER VANCIL: What's the exhibit
10 number, for the record?

11 MR. STILLWELL: The exhibit number for the
12 record -- I apologize I don't have that. It was the
13 final exhibit admitted.

14 MR. EDLUND-CHO: Thirty-nine.

15 MR. STILLWELL: Thirty-nine.

16 MR. SCOTT: Thank you.

17 BY MR. STILLWELL:

18 Q. And on Exhibit No. 39, are you discussing the
19 images on the final page and the second-to-the-last
20 page?

21 A. Correct.

22 So on the second-to-the-last page, listed
23 "Figure 1." That's a streetscape, essentially, between
24 Third and Second and Pine.

25 So what you see is a high level of pedestrian

1 amenities. You have wide sidewalks. You have traffic
2 calming in the form of the curb bulb that comes out
3 there. You have on-street parking, which acts as a
4 buffer. People find that comforting. You have a
5 physically separated bike lane on the left there. You
6 see a diversity of uses. So there are -- everything
7 from convenience stores to coffee shops to retail uses.

8 And then you have a relatively large number of
9 multistory buildings. No vacant properties. No obvious
10 issues with, you know, abandoned items or anything of
11 that nature.

12 You have good signage and you have street
13 truidense (phonetic) and bike tracks.

14 On the following page, you can see the imagery
15 of the after LID improvements.

16 And what you see there is a change to the
17 sidewalk -- to the crosswalks. The differentiated
18 piling that adds, essentially, one point to an IMI.

19 The extension of the curb bulb and then the
20 correction of the curb cuts adds another one point.

21 What you don't see is anything relatively
22 substantial.

23 These are relatively small changes. And the
24 differences are not likely to be noticeable in a major
25 way. We're not going to unmarked crosswalk -- from

1 unmarked crosswalks to crosswalks. We're not going from
2 relatively narrow sidewalks with no trees to wide
3 sidewalks with trees. So the enhancements here are
4 relatively minimal.

5 Q. Thank you.

6 And do you have an opinion about whether these
7 enhancements -- because, you know, clearly as the
8 pictures demonstrate, there -- there will be
9 improvements here.

10 But can you comment on whether the -- the
11 connection between these improvements and the special
12 benefit accrued by the Helios as opposed to the general
13 public?

14 A. I would say that -- if it is special to the
15 public, is probably more -- is greater than the Helios.

16 Helios -- all the tenants, they have already
17 seen the sidewalks based there. They know what they are
18 getting. And the improvements are going to be,
19 essentially -- I mean, they're -- basically to make it
20 more appealing to it. I would say the general public
21 who is walking down the street.

22 I think what -- the problem is the duration of
23 construction here.

24 Q. Are there examples of other buildings in the
25 area that are comparable whose IMI will improve to a

1 greater degree due to these street improvements?

2 A. I think there are. I had previously discussed,
3 in other contexts, the Volta property. That's a number
4 of -- a property that will have a dramatic increase in
5 the IMI, and that's on Bell Street, where the extension
6 to the Bell Street park is going to bring that
7 dramatically up.

8 Along the Virginia Street, I also note that the
9 increases along Virginia, I think, are also concomitant
10 with those improvements. And so I do think that even
11 the West Edge, across the street, is getting a superior
12 location improvement.

13 West Edge is a direct competitor of Helios
14 corners.

15 What that property has is current vacancies
16 across the street. The streetscape is very -- currently
17 not pleasant. And improvements, I think, are going to
18 disproportionately affect it in opposition to Helios.

19 Q. And did you examine the special benefit
20 assessments levied against those properties relative to
21 the Helios?

22 A. I did. In terms of the -- I guess the West Edge
23 and now -- I believe West Edge was -- did receive a
24 slightly -- a relatively similar, but lower in percent
25 benefit than the -- than Helios did.

1 Q. Thank you.

2 I'd like to turn now to the -- the waterfront
3 amenities.

4 Approximately, how far is the Helios from the
5 waterfront amenities and the pedestrian connections?

6 A. In terms of the new amenities, like, the -- for
7 instance, the Overlook Walk; this is about 700 to
8 900 feet, depending on the corner.

9 Of course, during construction that will be
10 extended because that -- the blockage of sidewalk there.

11 Q. And what -- you talked previously about how
12 proximity to amenities such as the ones being
13 constructed impact the building's value.

14 Can you comment, please, on how the Helios'
15 proximity to the overlook and the waterfront amenities
16 will impact its property value?

17 A. I hadn't -- I talked about proximal
18 disamenities.

19 The Helios, its location on the other side of
20 the market, I think already lends itself to a slight
21 disamenity from that proximity. You have spillover
22 effects that have been discussed previously.

23 Once again, this -- there's the perception of
24 crime and how people feel about that crime has an impact
25 on value; and we see that in the Troy study that I had

1 mentioned before done (indecipherable). And whether it
2 finds us in the face of perceived crime and a lack of
3 safety, proximity to those -- to amenities of that kind
4 have an actual discount on prices.

5 So that kind of proximity, due to those -- not
6 only due to spillover effects discussed by -- in
7 Crompton's studies referenced by Mr. Macaulay, but also
8 in other studies suggest that proximity in base of
9 pursuit needs security, do discount properties.

10 So any -- any of those kind of effects have do
11 with -- not only a loss of street parking, for instance,
12 but litter, noise, the general feeling of insecurity.

13 I did note that the property is -- we're talking
14 approximately a block away from a recent mass shooting
15 on the corner -- a block from this property. So I think
16 the perception among some residents is that there is
17 some difficulty here.

18 Q. And is it your testimony, then, that the
19 proximity in this case from Helios to those amenities
20 fits within that disamenity dip that you discuss?

21 A. It does. It does. And I'm sorry, for
22 interrupting.

23 That disamenity curve has been -- has gone from
24 anywhere from zero -- zero to 200 meters in some studies
25 and zero to 300 meters in other studies. 300 meters

1 would be approximately -- a little bit over 900 feet,
2 which would be (indecipherable).

3 Q. Do you recall if the Macaulay study discounted
4 for any of these factors?

5 A. My -- in my understanding, it did not.

6 Q. Did it -- did it treat proximity to those
7 amenities as simply a net benefit without discounting
8 any of those negative -- negative externalities?

9 A. It did. If -- if one visualizes the percent
10 benefit, the proximity to amenities is a net positive
11 across the board.

12 Q. I believe when we -- last week when we began,
13 you mentioned the -- the property's makeup with respect
14 to residential and retail use.

15 Could you sort of refresh the record on -- on
16 that, as their ground floor retail with this building?

17 A. There is a single tenant ground floor retail.
18 They -- a small goods retailer. That ground floor
19 retail does front Pine, and so it will be affected.

20 Above is the multifamily portion.

21 Q. In your opinion, how will the ground floor
22 retail be impacted by the next five years of
23 construction?

24 A. I think it will be difficult for that property,
25 the tenancy there. The frontage there is directly on

1 Pine, as I mentioned. So the access to the retail
2 component will be inhibited by the construction efforts.

3 Similarly, any low (indecipherable) on that
4 property will take place through the Helios garage,
5 which is an alley access. That alley is much -- is very
6 likely to be obstructed by construction
7 (indecipherable), I believe, of that nature. So I do
8 think it will be a fault.

9 Q. Do the tenants also use that garage?

10 A. They do.

11 Q. Would you say that was another disamenity for
12 both retail and residential?

13 A. Absolutely, that will be an inconvenience, an
14 entry into that alleyway which accesses the garage is
15 very likely to be obstructed.

16 Q. Can you comment on -- once the improvements on
17 Pine are -- Pike/Pine are completed, what impact will
18 they have on ground floor retail?

19 A. I think it will be an improvement. I think what
20 will happen in the meantime is you're going to observe a
21 retail tenancy that may have trouble -- may have a
22 concomitant loss of sales. May have trouble making
23 their rent.

24 A vacancy that it has to be turned over is a
25 cost to the building itself. The eventual benefits to a

1 retail tenant there are likely to be accrued. But those
2 will be, once again, in the out years and will have to
3 go through the process of vacating a space, building out
4 a space, re-tenanting. Those are not negligible costs.

5 Q. And is it similar to your discussion of what the
6 residential part of the building would have to do with
7 respect to making up rents in the out years, will retail
8 have to sort of make up sales figures as well, post
9 completion?

10 A. Absolutely. There's a knock on affect here for
11 retail as well.

12 When a tenant comes to look -- a prospective
13 tenant looks at a multifamily unit, they don't know the
14 history of its vacancy.

15 But a retail tenant comes and they look and they
16 know that -- the question is what happened to the
17 previous tenant; right?

18 If the previous tenant vacated because they
19 couldn't make their numbers, a prospective retail tenant
20 is going to be aware.

21 If you had a dark store for six months, a
22 prospective tenant under -- there's a problem, maybe,
23 with the space itself, not just the previous tenant.

24 Q. Did the Macaulay study take any of these
25 negative effects into account when discussing the

1 Helios?

2 A. I showed no evidence that -- that there are any
3 cost of changeover in tenancy that are accrued; just
4 standard for initial vacancy.

5 Q. Are there any negative impacts to retail
6 discussed in the Macaulay study at all?

7 A. Not that I'm aware of.

8 Q. Could you please comment on how improvements to
9 the waterfront and sort of pedestrian access to the
10 waterfront will impact the competitiveness of that
11 retail space at the Helios?

12 A. I think that it will -- it will be a potential
13 discount on that. It will, essentially, draw more
14 retail traffic away, potentially.

15 The Pike/Pine corridor, of course, is a corridor
16 that is being expressly discussed as connecting,
17 essentially, downtown to the Pike Place and the
18 waterfront.

19 While that may generate more retail -- or
20 pedestrian traffic in front of the Pine retail for the
21 property, it's also likely to divide some of that
22 current pedestrian traffic.

23 I think we also mentioned the -- the change
24 of -- relative lack of improvement to the streetscape
25 itself. Other properties will receive more of the

1 benefit into those streetscape improvements. And so I
2 think that by improving other properties you're -- it's
3 a pie that you're dividing. And Helios, as well, will
4 make a slight smaller piece, I think.

5 Q. For those other properties that you're saying
6 will have increased value due to the improvements, does
7 that mean that they have sort of less room to make up as
8 far as post-completion sales and surplus?

9 A. Yes. I think any -- I believe any issue that it
10 confronts a retail tenancy or a rent generator, all
11 these things have a tendency to add up.

12 And if you're trying to make up ground on an
13 asset, it's going to be problematic. When you're
14 digging out of a hole, anything that makes that hole a
15 little bit deeper, is a problem.

16 Q. So as -- as was discussed last week, there's
17 sort of confidential spreadsheets that we won't,
18 obviously, disclose any information on.

19 But did you review those from Macaulay?

20 A. I did.

21 Q. Did you identify any -- any incorrect data,
22 again, not going into specifics from that study; and, if
23 so, how did that impact the conclusions?

24 A. I didn't find that -- it appears that
25 Mr. Macaulay has used incorrect -- incorrect unit mix

1 for the apartments.

2 So the number of -- the number of studios, the
3 number of one-bedrooms, the number of two-bedrooms,
4 Mr. Macaulay appears to have used the incorrect numbers
5 for them.

6 Those numbers appear to have been -- I'm not
7 sure if those were the original. The difference between
8 "as planned" and "as built." And so the assessor
9 modified their data in 2017. Mr. Macaulay appears to
10 have been using the original unit counts.

11 This makes a dramatic difference. Mr. Macaulay
12 included -- he reduced the number of studios by 56. So
13 he had a higher number of the larger higher rent units
14 in his income calculations that made -- that, of course,
15 makes a big difference.

16 The difference that that generates just by
17 correcting his numbers is \$37,849,000 on the pre-mark --
18 on the pre-LID value.

19 Q. So you're saying by -- by inserting the
20 incorrect data into the methodology, it has artificially
21 raised the pre-LID value of the property?

22 A. Yes. That's correct. By almost \$38 million.

23 Q. In your opinion, if the correct data was used
24 from the beginning in the methodology, how would that
25 have impacted the pre-LID value?

1 A. It would have reduced it by approximately
2 \$38 million.

3 So the pre -- the pre-LID value derived in the
4 study is approximately \$299 million. If the current
5 matter were used with no other changes, the pre-LID
6 value would be \$261 million.

7 Q. And how would those conclusions impact the
8 special benefit assessments?

9 A. If I assume a change in those numbers of
10 Mr. Macaulay's spreadsheet, needs no other changes, the
11 LID numbers are reduced by approximately 30 base points.

12 I didn't (indecipherable) direct numbers, but
13 it's approximately \$600,000.

14 Q. And that would be the reduction in the
15 assessment based on a more accurate pre-LID value?

16 A. That would be a reduction of the special benefit
17 value.

18 Q. Special benefit value, okay.

19 HEARING EXAMINER VANCIL: Is any of this in
20 his report?

21 MR. STILLWELL: It is not, because his
22 report was written prior to his ability to view the --
23 the Macaulay spreadsheets.

24 HEARING EXAMINER VANCIL: Are there any
25 other -- exhibit or anything, that you will be

1 introducing that would have --

2 MR. STILLWELL: We -- we don't.

3 HEARING EXAMINER VANCIL: Essentially,
4 important information that you're asking is what's --
5 how is the special benefit to be reduced? So --

6 MR. STILLWELL: It is. And I suppose we
7 could -- we could work with Mr. Scott on producing a
8 supplemental report. I know that the logistics of what
9 information can and can't be used in the record is
10 still, I think, subject to negotiation, given the
11 confidential nature of the spreadsheets.

12 But I would be happy, during our break, to
13 discuss that, too, with maybe counsel for the City and
14 Mr. Lutz; so that we do have some sort of documentation
15 that backs this up.

16 HEARING EXAMINER VANCIL: Okay. If not --
17 it's certainly not required. You have to put your own
18 case on how you will. But if you want the Examiner
19 to -- in the context of 440 objections in writing a
20 decision and recommendation to counsel at the end of
21 that, you may want to organize that in a manner that's
22 easily accessed to understanding what you're actually
23 asking for.

24 MR. STILLWELL: Certainly. Thank you.

25 Will do.

1 BY MR. STILLWELL:

2 Q. Are there any other buildings that you haven't
3 discussed yet that your report concludes are receiving
4 greater benefits from the LID improvements that has
5 lower special benefit assessments?

6 A. I -- I do believe the West Edge was discussed.
7 Volta was discussed. Those have -- do have lower
8 assessments.

9 MR. STILLWELL: I believe that was it on my
10 end as well. Thank you.

11 I have no further questions.

12 HEARING EXAMINER VANCIL: Cross?

13 CROSS-EXAMINATION

14 BY MS. THOMPSON:

15 Q. Good morning, Mr. Scott.

16 A. Good morning.

17 Q. So on direct a few minutes ago you testified
18 that you don't believe ABS considered negative
19 externalities in assessing the special benefits in this
20 case; is that right?

21 A. That's correct. I don't believe that.

22 Q. And what leads you to draw that conclusion?

23 A. My impression of the waterfront LID and the
24 allocation of the values, when I considered the overall,
25 what I do see as -- what I see as the -- the proximity

1 is a direct -- is directly -- is directly linked to
2 the -- to a positive benefit.

3 Q. So -- so you're assuming that ABS didn't
4 consider negative externalities in its assessment?

5 A. I believe so.

6 Q. Sorry. That wasn't audible.

7 A. Oh, I believe -- yes, I believe that's the case.

8 Q. You also mentioned that you don't believe ABS
9 considered construction disruptions in its assessment of
10 the special benefits for the Helios property; is that
11 right?

12 A. They are mentioned, but I don't believe they
13 impact the valuations.

14 Q. And what is that belief based on?

15 A. Initially, it was based on the report's value --
16 the report's implicit valuation.

17 Subsequently, looking at the spreadsheets, what
18 comes clear is there's no -- there's no initial discount
19 in rents.

20 Q. And would your opinion change if ABS had, in
21 fact, considered construction delays in assessing the
22 values for Helios?

23 A. It would.

24 Q. You also mentioned the issue of retail tenancy.
25 And you testified that there was no evidence in the ABS

1 study that ABS considered tenancy issues in assessing
2 values; is that right?

3 A. I think what I said is ABS appears to have only
4 considered what I consider frictional vacancy. So
5 that's your standard sort of every couple years will you
6 turn over.

7 I think what is not considered here is the costs
8 of re-tenanting based on a proximate impact.

9 Q. And if ABS had considered the tenancy issues
10 that you have highlighted for us today, would that
11 change your opinion?

12 A. It will.

13 Q. Did you calculate a before value for the Helios
14 property?

15 A. As I mentioned -- as I mentioned before, per
16 Mr. Macaulay's, I did calculate that. But that was
17 used -- utilized in his factors.

18 Q. And did you calculate an after value to the
19 Helios property?

20 A. Yes, according to Mr. Macaulay's spreadsheet.

21 Q. But you didn't independently determine what
22 special benefit the Helios property would -- would
23 accrue as a result of the LID improvements?

24 A. I did not.

25 MS. THOMPSON: No further questions.

1 HEARING EXAMINER VANCIL: Any redirect?

2 MR. STILLWELL: Just one, Mr. Examiner.

3 REDIRECT EXAMINATION

4 BY MR. STILLWELL:

5 Q. Are the -- those factors discussed on cross, for
6 example, including negative externalities, impacts to
7 retail, are those the types of data that need to be
8 expressed in the methodology in order for professionals
9 to review appraisal methodologies?

10 Is that -- are those the types of factors that
11 are usually included in reports so that you can study
12 and assess the accuracy of the conclusions?

13 A. Yes. Typically, they would be explicitly broken
14 out. We considered these hypothetical assumptions.

15 We believe that, for instance, tenancy costs --
16 re-tenanting costs will be increased in the face of such
17 development. Typically, those would be explicitly
18 broken out.

19 Q. Is it in your professional experience that when
20 those types of things are not included in a report, it
21 means they were not utilized?

22 A. Typically.

23 Q. Typically.

24 MR. STILLWELL: Thank you.

25 Nothing further.

1 HEARING EXAMINER VANCIL: Thank you,
2 Mr. Scott.

3 MR. SCOTT: Thank you.

4 HEARING EXAMINER VANCIL: Thank you.

5 MR. LUTZ: I can do that.

6 So Mike Arnette is our next witness. He --
7 his cell phone is on the fritz, so he's in a conference
8 room near his work and asked that we contact him on
9 (206) 494-5438. And --

10 HEARING EXAMINER VANCIL: Have we tested the
11 system yet?

12 MR. LUTZ: Huh?

13 HEARING EXAMINER VANCIL: Have we tested the
14 system yet?

15 MR. LUTZ: I don't believe we have.

16 HEARING EXAMINER VANCIL: All right. So
17 we'll take a short recess to get him connected.

18 MR. LUTZ: Thank you.

19 (Recess)

20 MR. LUTZ: Do you want me to move?

21 HEARING EXAMINER VANCIL: No. You may need
22 to --

23 MR. STILLWELL: Well, we can just switch
24 seats.

25 HEARING EXAMINER VANCIL: Are you

1 questioning? Is that what your --

2 MR. LUTZ: Yeah, I was going to go ahead and
3 do that.

4 MR. STILLWELL: And before we begin
5 questioning, we have Exhibit 40, I believe. And my
6 apologies, I left the property summaries off the exhibit
7 list. But I have the one-pager for the 2+U, which is
8 Appeal No. CWF-0421.

9 HEARING EXAMINER VANCIL: Marked as
10 Exhibit 40.

11 (Exhibit No. 40 was marked.)

12 HEARING EXAMINER VANCIL: Anything else for
13 the exhibits?

14 MR. STILLWELL: Not for this witness, no.

15 HEARING EXAMINER VANCIL: I'm sorry, is this
16 exhibit coming in with the last witness or this one?

17 MR. STILLWELL: I'm sorry, this witness.

18 So we will be moving on from the Helios now
19 to the 2+U building.

20 HEARING EXAMINER VANCIL: Okay. Please
21 state your name and spell it for the record?

22 Can you hear me, Mr. Arnette?

23 MR. ARNETTE: And just -- yeah. One second.

24 Just because I can't see anybody on my
25 machine, if people can just literally tell me who's

1 speaking. And I'm assuming it's the Hearing Examiner at
2 this time --

3 HEARING EXAMINER VANCIL: Yes, Mr. Arnette,
4 this is the Hearing Examiner. Please state your name
5 and spell it for the record.

6 MR. ARNETTE: Michael Arnette.
7 M-i-c-h-a-e-l. Arnette, A-r-n-e-t-t-e.

8 HEARING EXAMINER VANCIL: And do you swear
9 or affirm that the testimony you will provide in today's
10 hearing will be the truth?

11 MR. ARNETTE: I do.

12 HEARING EXAMINER VANCIL: Thank you.

13 Your witness, Mr. Lutz.

14 MR. LUTZ: Thank you.

15

16 MICHAEL ARNETTE, witness herein, having been
17 first duly sworn on oath,
18 was examined and testified
19 as follows:

20 DIRECT EXAMINATION

21 BY MR. LUTZ:

22 Q. Mr. Arnette, we're here to discuss the 2+U
23 building.

24 Can you confirm that you're here to represent
25 the tax payer for the 2+U project?

1 A. I can confirm that I'm the legal officer for the
2 company.

3 Q. Okay. Can you talk about your professional
4 background and experience in the buying, leasing, and
5 managing of property in the Puget Sound region?

6 A. Certainly. At Colliers International for 10
7 years, I was the chief investing officer for our
8 Colliers International Fund, the property fund which
9 bought, acquired, sold, leased, managed assets in Puget
10 Sound and around the country and in Canada.

11 And at Skanska for the last five years, I've
12 been involved in buying, leasing, and managing property
13 in Seattle and in the Greater King County.

14 Q. Could you describe the -- and I'm going to say
15 parcel number 1974700175, the 2+U project?

16 A. Certainly. It is a 38-story office tower with
17 ground floor retail component. It is a -- it is a
18 improvement asset -- (indecipherable).

19 HEARING EXAMINER VANCIL: Mr. Arnette, we
20 didn't catch the last part of the last sentence that you
21 said. Could you please repeat it?

22 MR. ARNETTE: Certainly. It is the best
23 asset that's been built on the West Coast in this type
24 of category for office buildings in 2019.

25 BY MR. LUTZ:

1 Q. And can you describe -- when you say the best
2 type -- this type of asset, can you describe in a little
3 bit more detail what 2+U consists of?

4 A. Sure. We use concrete product. We use and
5 achieve all the platinum league and our architecture and
6 design separate us from any other building and our
7 location at Second and University.

8 Q. Okay. So you said it's an office building with
9 retail on the ground floor.

10 Can you describe your occupancy as October of
11 2019?

12 A. Yes. We are a hundred percent occupied as of
13 September 2019 on the -- in all of the office space.
14 Because there's no more office space to be let.

15 The retail is a programming component and we try
16 to achieve office tenancy prior to, so that we can work
17 through and try and capture certain things that our
18 tenants are looking for in a retail base as an amenity;
19 less in a creative manner, but more in an amenity
20 manner.

21 Q. And so to -- to amplify that, you're viewing the
22 retail not as much as a profit center for the building
23 as a way to keep tenants happier; is that a way to
24 translate that?

25 A. In a way. Yeah, in a way.

1 I mean, obviously we still are looking for a
2 creative component, because that's the business we're
3 in.

4 But at the end of the day, we kind of program
5 our retail occupancies and tenants around the office
6 tenants and what it is that they're trying to shoot for
7 in terms of their recruiting retention and talent
8 outsourcing. What they are looking for -- for their
9 employees.

10 Q. Okay. And is the location of 2+U an important
11 part of your planning?

12 A. Absolutely. Second and University, there
13 weren't any and there aren't any other locations like it
14 left in Seattle for development. So it was a --
15 obviously, a -- however, key for putting in such a
16 special building.

17 Q. Was proximity to Harbor Steps at all relevant?

18 A. Not really. At the end of the day, having
19 access to the waterfront and things like that is another
20 of many location drivers. Also the CBD, generally
21 speaking, but really just being in such a core area of
22 Downtown Seattle.

23 Q. So -- so the fact that there's proximity -- or
24 access to the waterfront is a "nice to have" but not a
25 super important component; is that a fair way to

1 characterize that?

2 A. Yeah, that's a fair way to characterize that.

3 Q. Can you talk about the -- the office lease
4 terms?

5 A. Sure. We have, that I mentioned, a hundred
6 percent occupancies, all of which are under 15-year
7 lease terms. There is one lease that is a little bit
8 shorter, 12 -- or had a good average. Lease term is
9 13-1/2 blended for of all the tenants. So all of them
10 are longer tenure.

11 And it having already been fully leased, the LID
12 really isn't going to help us with our leasing efforts.
13 And it's really not going to help us recapture any
14 potential value because of the LID because we have baked
15 in rental terms.

16 So, effectively, all the rental rates are baked.
17 There's no elevating any of them except for typical
18 schedules we might see, you know, a percentage increase
19 over the duration of the lease term.

20 Q. When you say "baked," there's no -- there are no
21 periodic rent adjustments to increase the rental rate to
22 a market rate, for example?

23 A. No.

24 Q. And -- and any rental increases that are
25 negotiated in these leases are on -- are on already

1 fixed terms.

2 So the lease is -- the rental rates don't change
3 for -- there's a 13 -- the 12 to 15 years of the lease?

4 A. Right. There's no way to raise their rents in
5 any type of manner as you just kind of noted.

6 So there's really no value arrived. And,
7 really, we're looking at from a perspective of lease
8 term; we're really not able to try and capture any
9 potential -- any derived until, I think, earlier is 2033
10 and, typically, 2035.

11 Q. Okay. I suppose if you have a -- are they
12 triple net leases?

13 A. Yeah.

14 Q. So the -- will the cost of the LID pass through
15 to tenants?

16 A. Well, we are a draft lessor/lessee under a
17 ground lease. So our obligation is to be responsible
18 for any and all taxes affecting the property for our
19 ground lease term.

20 That is "TBD" obviously. I mean, most of these
21 tenants didn't underwrite to pay for significant swell
22 in tax, but possibly.

23 As you manage a building, you have to manage
24 tenants. And sometimes you have to eat some of those
25 costs if there are things that weren't known or expected

1 or promised or not promised during the lease
2 negotiations.

3 Q. Well, I didn't mean -- I didn't mean to put you
4 on the spot, Michael. I just -- I was just trying to
5 get a sense of -- of where that burden was ultimately
6 going to lie.

7 So -- go ahead.

8 A. Just to clarify, the burden is ultimately ours
9 as the party responsible for the taxes under the ground
10 lease.

11 Q. Okay. And when did you receive notice of the
12 assessment?

13 A. Not fully clear, but I believe end of December
14 '19.

15 Q. Okay. And had you become aware of the final
16 benefit study earlier than that?

17 A. I was -- I was trying -- I was racking my brain,
18 thinking through the time line on a lot of these things.
19 And I think we became aware through a relationship with
20 an outside attorney who sent it us to as an FYI. But
21 I'm not sure it came before December. But I assume it
22 probably did.

23 Q. Okay. And so how much time did S2+U have to
24 prepare for its response to the appeal notice?

25 A. Now, that's another one. I think we had

1 approximately three to four weeks to prepare.

2 You're talking about the objection?

3 Q. Yes.

4 A. Yes. About three or four weeks.

5 Q. And can you talk about the logistics of getting
6 prepared to file that objection?

7 A. I think most of us were out for holiday. I
8 think when we were sent notice of the proposed
9 assessment, I think it was at the end of the year. So I
10 think a lot of people weren't even in the office to make
11 some of those decisions or really talk about those
12 decisions.

13 So I think what we really did was we tried to
14 arm ourselves with as much intel as we could find with
15 outside third parties. We looked through the objection
16 process, tried to determine price, and -- and scope.

17 But, really, we were just running. We didn't
18 have a second to kind of catch our breath and really
19 think through what we needed to do.

20 I think somebody had sent us a LID agreement
21 January 1 and asked us to return it signed January 16.

22 There was just so many decisions that needed to
23 be made; so many discussions. And none of us were here
24 to have them early January. So I think that really
25 played kind of a huge part in our reaction, because we

1 really had to scramble.

2 Q. Well, was the size of the assessment
3 significant? And can you describe how that played into
4 your thinking?

5 A. Well, yeah, I mean, the valuation of the
6 approach of asset is not clear to us. I mean, in cross
7 comps in the LID values are much well above assessed
8 value that, yeah, we are very, very concerned in all
9 respects. But really just -- some uncertainty and
10 clarity. We just didn't know where it was coming from
11 or how it was derived.

12 Q. Well, I guess that's the question.

13 So -- so when you saw -- when you saw the -- the
14 assessment, can you -- can you describe S2+U's reaction
15 and what you did to try and understand it?

16 A. Yeah, I mean, we -- we tried to -- tried -- we
17 tried to, you know, go back in, figure out how it was
18 that it was derived. And I think, you know, having, you
19 know, researched so many different tools, but really the
20 King County Assessor's data, final study, talks about
21 sales comparison, approach, income. It's talking about
22 all these things. But what we really didn't know how it
23 was calculated, cost approach. But we just don't know
24 what approach was really used for (indecipherable)
25 retail. So we haven't been able to figure it out.

1 Q. You mentioned the King County Assessor.

2 Can you talk about the variance between the --
3 the Macaulay's study's assessment of your S2+U property
4 and the assessor's -- the King County Assessor's
5 valuation?

6 A. Yeah. So I think the King County Assessor's
7 valuation is somewhere around 290 million for '19. And,
8 you know, there's a -- I think a 200 percent or so
9 difference. And the LID valuation is just so well above
10 that assessed value, you know, obviously concerning;
11 didn't understand how it was calculated again.

12 So we really had no way of figuring that out
13 unless there's a way for somebody to explain it to us.

14 Q. And did the City ever request information from
15 S2+U to support its valuation process?

16 A. No. No. It's not (indecipherable).

17 Q. Did -- did the City contact S2+U to comment on
18 the preliminary assessment?

19 A. No.

20 Q. And -- and so did anyone from the City request
21 site access to do any sort of inspection of the project?

22 A. Not to my knowledge, no.

23 Q. And nobody -- so nobody requested to see the
24 leases or the other information you were talking about
25 on marketing?

1 A. No. And if you think about the value of a
2 building effectively, our value of the building was
3 determined and kind of plugged in, in September of 2019,
4 because the value of the building is effective -- the
5 rental proceeds capture of the term of the leases.

6 So if someone -- we were to sell our asset, you
7 know, a buyer would be looking at that as part of their
8 due diligence to determine value. Because that's really
9 what they're buying, the leases.

10 Q. And how would -- how would additional costs
11 factor into the valuation of the building if you add on
12 the -- the LID taxes to your cost base?

13 A. Well, yeah, they'll treat it as, you know,
14 deducts and the costing. So they'll -- a prospective
15 buyer would look at that in terms of valuing a building,
16 and then you would effectively deduct that through the
17 amount that they would be willing to pay, because that's
18 a cost.

19 Q. And have you looked at whether you would finance
20 the -- the LID costs if you had to or if you would just
21 pay a lump sum?

22 A. We self-financed the entire construction of 2+U
23 without any outside debt or equity partners or
24 financing. So I would assume we would continue to pay
25 (indecipherable).

1 Q. Yeah, I just meant, would you take advantage of
2 the City's offer to pay -- pay in increments with
3 interest over 18 years or would you pay upfront?

4 A. Yeah, I -- I couldn't tell you that. I don't
5 know.

6 Q. Okay. So in your opinion, is this base
7 valuation of \$591,082,000 a reasonable valuation of your
8 project?

9 A. Well, tenants chose our project due to the
10 design of urban village, which is the way that retail
11 program that I discussed earlier, which is going to be
12 impacted by the LID. They didn't choose it because of
13 proximity to waterfront or future
14 development/redevelopment.

15 They also chose it because of the transit
16 connectivity. Those are the most important decision
17 tools that we effectively marketed our asset and we were
18 told by our tenants, it was the rationale for their
19 selection.

20 So do I believe that the 2+U is accurately
21 valued? No.

22 Q. Well -- and to follow up on those comments, the
23 improvements are anticipated to be delivered in 2024.

24 Do you have any sense that you got additional
25 rent in your 2019 negotiations because the -- the LID

1 improvements were coming in 2024?

2 A. I'm not sure anybody knew that this was gonna be
3 something that we would be dealing with, because
4 everything arrived by e-mail, these negotiations. So
5 no, the answer is without hesitation, no.

6 The waterfront, if anything, improvements will
7 actually cause a potential negative impact given the
8 duration of construction, which we can see as an impact
9 to retail tenancy, because customers will opt out of
10 heading downtown to -- given the proximity to the
11 waterfront.

12 Foot traffic is what really drives retail. And
13 there's gonna be a reduction. If there's lack of
14 parking and other essential drivers and also impact to
15 construction.

16 So I may have answered a different question. I
17 kind of lost track.

18 Q. No, that's okay. I mean, the real -- the
19 specific question, which is fine, was, do you have any
20 evidence that the value of the leases that you signed as
21 of September 19 had any element of rent attributable to
22 the fact that you're gonna get park improvements in
23 2024?

24 A. No. To use a hundred percent lease in some of
25 the highest rates in the city, 47 bucks triple net

1 average, years in advance of the LID, benefits being
2 done and available; so no.

3 Q. Okay. And -- and, again, there's not -- so how
4 would increased tourism -- and I think this is partly
5 the question you were trying to answer -- how would
6 increased tourism along the waterfront affect your
7 office tenants and the retail tenants?

8 A. Yeah, I don't see a lot of use. I mean, these
9 are -- these are effectively, you know, tech,
10 engineering groups that are occupying our building.
11 There's not going to be a lot of use. And it's not
12 really the driver. The driver, respectively, transit
13 connectivity going through some of the issues we had
14 with getting around our town and really just the -- the
15 design or embellish which really threw in our tech-heavy
16 tenants.

17 Q. Okay.

18 A. And I guess another point is we already have
19 some type of access to the waterfront, if you will,
20 through Harbor Steps. The LID piece is just not as, I
21 think, specifically beneficial to 2+U.

22 Q. Okay. So, in your opinion, will these LID
23 improvements being delivered in 2024 increase the fair
24 market value of the S2+U project?

25 A. No. Again, the value of the building from a

1 buyer's perspective is going to be derived from the
2 rental proceeds. The rental proceeds are fixed
3 through 15 years with one outlier.

4 And even assuming that the improvements
5 increased value of neighboring properties, that benefit
6 is so far in the future that I just don't see that,
7 Jerry.

8 And the fair market value lease again is derived
9 by buyer pool. Buyer pools are going to buy the
10 building based on the rents.

11 Q. So -- so just to be really clear, even if you
12 assume that the LID improvements would increase the
13 value of some properties because of the waterfront
14 amenity, is that potential available to you before
15 2023 -- I mean, 2033?

16 A. Can you restate that? I kind of didn't --

17 Q. Yeah, I'm sorry. Let me ask you again. I was
18 just trying to clarify.

19 You've got leases where -- where the rent is
20 fixed through 2035 with one that is through 2032.

21 So my question is if you assume that there might
22 be a general -- even a specific real estate value
23 increase to some properties around these improvements,
24 is that a benefit that you could take advantage of at
25 S2+U?

1 A. Yeah. Again, I don't see them in drivers.
2 Transit, it's -- it's amenities in the building. It's
3 the quality of the building. It's design. It's the
4 urban village. I think the urban village in gonna
5 be (indecipherable), even through the course of the
6 five-year construction period; again, I think that this
7 is an amenity that the tenants expected to be able to
8 use day one.

9 And our programming efforts and through all of
10 our lease negotiations and all facets that we do around
11 the world, we literally were talking about how we were
12 going to make it -- us through --

13 Q. We just had you cut out a second -- sorry, Mike.
14 You just cut out a second.

15 A. Sorry. Sorry.

16 No, I think the answer to that, Jerry. It's
17 your turn.

18 Q. Okay.

19 A. And I also think it's special and it's something
20 that will -- waterfront for -- it's not something
21 that the tech employees are going to get out and use.

22 It's not something that the tech employers,
23 meaning the decision-makers, are going to select a
24 building for.

25 It's really, again, about the design of the

1 building, the urban village, the amenities in the
2 building. The employees would be working in the
3 building.

4 So I think this is great, I guess. But for us,
5 as a building and an owner, you know, it doesn't really
6 help us.

7 Can you hear me?

8 Q. You are cutting out occasionally. You just were
9 cutting out -- we can hear you but there are
10 occasional --

11 A. All right. Someone is probably watching a movie
12 in some of these offices. There's, like, eight people
13 because of this Coronavirus thing and they are probably
14 jacking up my connectivity. I'm sorry.

15 Q. Okay. So one last question. And we didn't talk
16 about this before, but how -- how long do you expect an
17 asset like the S2+U building to be in place before
18 there's a significant re-development?

19 A. Oh, you know, that's -- that is a tough question
20 to answer. It is -- we think it is, again, and we've
21 been told -- and hopefully you guys can hear me -- the
22 best asset. It was built in 2019 on the West Coast, if
23 not the USA.

24 And from my perspective, a re-development is
25 something that we have actually thought about. We think

1 it's a timeless -- so I -- I don't see that as being
2 kind of on the -- on the future horizon.

3 Q. All right. I have nothing further.

4 HEARING EXAMINER VANCIL: Cross?

5 CROSS-EXAMINATION

6 BY MS. THOMPSON:

7 Q. Good morning, Mr. Arnette. My name is Gabrielle
8 Thompson.

9 A. I can't see you. I'm sorry.

10 Q. That's okay. My name is Gabrielle Thompson, and
11 I'm here on behalf of the City. I just have a few
12 follow-up questions for you.

13 A. Okay.

14 Q. Earlier you mentioned that there was a LID
15 agreement that you had to review in January.

16 What -- what is that agreement that you're
17 referring to?

18 A. You know, I don't -- I don't have access to my
19 machine (indecipherable) and reference it. I don't have
20 it in front of me. So I don't -- I can't tell you
21 specifically. But I know it was -- I think it was
22 agreeing to the LID. That's all I kind of remember.

23 And I think one of our outside attorneys sent it
24 to us January 1st, said he'd like to get it all back
25 from us the 16th, and that it was due the 28th. That's

1 what I remember.

2 But I can -- I can follow up with Jerry and send
3 that through, if that helps.

4 Can you guys hear me, Gabrielle?

5 Q. Yes, we can. Thank you.

6 So you mentioned that the property is currently
7 100 percent leased and that that was in place as of
8 September 2019; is that right?

9 A. That's right.

10 Q. And you also mentioned that the King County
11 Assessor for 2019 had assessed the building at a value
12 of 290 million; is that right?

13 A. I think I said 290. It may have been a little
14 bit higher. But below 300.

15 Q. Okay. And do you know if the King County
16 Assessor's 2019 value included the value that would be
17 associated with the 100 percent leasing?

18 A. I don't know.

19 Q. And have you retained an appraiser to perform an
20 individual appraisal of the 2+U building since it has
21 been leased by, you know, 100 percent leasing?

22 A. I believe that we employed Northwest Accounting
23 to provide a less than appraisal report, more of a
24 general review. And I think we're still in discussions
25 around getting a full appraisal report. But I don't

1 think (indecipherable).

2 Q. And a similar question.

3 Did you retain somebody to perform a special
4 benefit analysis for the 2+U building?

5 A. I don't recall the terms of the engagement with
6 Northwest Accounting Services, which is, I think, Ben
7 Scott. But there could have been some review relating
8 to that under his services. And I can't answer that,
9 because I'm not sure that we didn't use somebody else as
10 well. I think we may have.

11 Q. And earlier you said that the City didn't ask
12 for information about the 2+U building as part of its
13 special benefit study and assessment.

14 Did you ever provide information to the City
15 independently about the building?

16 A. I don't recall. I don't know offhand.

17 MS. THOMPSON: No further questions.

18 HEARING EXAMINER VANCIL: Any redirect?

19 MR. LUTZ: No, redirect.

20 HEARING EXAMINER VANCIL: Thank you,
21 Mr. Arnette.

22 MR. ARNETTE: Thank you, guys.

23 I appreciate it. Sorry I couldn't see you.
24 It made it very awkward on my end. (Indecipherable).

25 MR. LUTZ: Thanks, Mike.

1 MR. ARNETTE: Sure.

2 MR. LUTZ: I'm going to leave it back to
3 you.

4 MR. STILLWELL: Sounds good.

5 MR. LUTZ: And vacate the room.

6 HEARING EXAMINER VANCIL: Are we switching
7 to a new witness?

8 MR. LUTZ: Back to Ben.

9 MR. STILLWELL: Mr. Scott, who I believe is
10 still on -- on the line.

11 Are you there, Ben?

12 MR. SCOTT: I am, yes.

13 HEARING EXAMINER VANCIL: All right. Given
14 that we have Mr. Scott's connectivity established and we
15 do need to take breaks, let's take a break at ten to
16 now, and we'll go until 10:30.

17 MR. SCOTT: Thank you.

18 (A break was taken.)

19 HEARING EXAMINER VANCIL: We'll return to
20 the record with Mr. Scott back on direct.

21 MR. STILLWELL: Mr. Scott, can you hear us
22 okay?

23 MR. SCOTT: I can. Can you hear me?

24 MR. STILLWELL: Yep.

25 So I would like to -- this is resuming

1 testimony with regard to the 2+U building.

2 I would like to introduce into the record
3 Exhibit 41, Mr. Scott's property report for the 2+U
4 building, which was an exhibit to the objection.

5 HEARING EXAMINER VANCIL: Marked as
6 Exhibit 41.

7 BY MR. STILLWELL:

8 Q. Mr. Scott, do you have your property review for
9 the 2+U which has been marked here as Exhibit 41 in
10 front of you?

11 A. I do, yes.

12 Q. And did you conduct a property review to 2+U
13 building with respect to the Seattle Waterfront LID?

14 A. I did.

15 Q. And is this report your conclusions on that
16 study?

17 A. Those are my initial conclusions, yes.

18 Q. Please describe the 2+U building and your -- the
19 method that you used to evaluate the property with
20 regard to the LID?

21 A. The 2+U building is being -- being delivered,
22 high-rise office tower in the financial district. It
23 sits above a rather substantial retail pedestal.

24 I visited the site. I perused its rent rolls,
25 its leasing commission, and then walked its vicinity in

1 the LID improvements.

2 I haven't done that -- excuse me. I discussed
3 the leasing situation and how the building is positioned
4 relative to the LID with ownership representatives and
5 management and -- as well as considering the effects of
6 a LID onto the property itself; all that based in
7 Mr. Macaulay's final study.

8 Q. Okay. Thank you.

9 I would like to begin by turning to the third
10 page of your report. Middle of the page under "Section
11 C: Incorrect Data."

12 Can you please discuss the parcel data here and
13 your conclusions about their inconsistency with
14 on-the-ground conditions?

15 A. Yeah, the -- the notation there -- this is a
16 list of three parcels. The three parcels are what make
17 up a sort of ground footprint of the 2+U building.

18 So parcels ending in -- by 190 and 210, all of
19 those sit underneath the property, the building itself.
20 They were purchased separately, demolished, and then
21 constructed upon.

22 So the building itself sits and straddles these
23 three parcels. The -- this is what Mr. Macaulay
24 describes as a, quote, "larger parcel." And this should
25 be described as an economic unit.

1 So a value derived by capitalizing income to the
2 property would require the contribution of those land
3 parcels.

4 What it does not seem to be -- what did not seem
5 in the initial study was that the two parcels were
6 deducted from the overall value.

7 In essence, to create 100 percent of the value,
8 some of that value is contributed by the underlying
9 land.

10 What did not appear from the original study was
11 that the Freedman's Loan building and the play yard,
12 vacant lot, were deducted from the total value of the
13 property itself.

14 Upon further review of the spreadsheets that
15 were provided after the fact; that's clear.
16 Essentially, the \$591 million value of -- derived from
17 the income approach by Mr. Macaulay includes the
18 contributory value of those two parcels. So they should
19 be deducted in the allocation back to the large parcel
20 ending in 0175.

21 The -- the difference that that makes is
22 relatively substantial. In a sense, what is happening
23 is the special benefit of those properties is being
24 double counted. It's assumed --

25 Q. If you wouldn't mind -- Ben, you cut out there

1 for quite -- for a minute. I think you had some
2 operative phrases.

3 Could you go back about 15 seconds or so?

4 A. Yeah, I think what -- what became clear from the
5 spreadsheet is that the values, the special benefit that
6 Freedman's Loan and the vacant lot are being,
7 essentially, double counted.

8 Those values stay in the value of the 0175
9 parcel, the big parcel; and then they're counted against
10 separately as if they are developable components of
11 land.

12 Q. And what --

13 A. -- values.

14 Q. And can you please explain why -- why those two
15 properties, the Freedman's Loan and vacant lot play --
16 play yard, as you've labeled them in your report, why
17 should those parcels be subtracted from the value of the
18 land rather than added to it.

19 A. If you look at the -- I think if you go to the
20 final page -- or the second-to-the-last page of
21 Exhibit 41, the imagery shows the pedestal.

22 This is the footprint -- the bold line indicates
23 the footprint of the property --

24 Q. And for the record, I think we're actually on
25 the final page of your report with the two images, one

1 on top of the other?

2 A. Correct.

3 Q. Okay.

4 A. That L-shaped footprint is the consolidation of
5 all three parcels.

6 The special benefit of the two parcels, and they
7 make up the lower left; they sort of shine out on part
8 of the "L," I would say.

9 Those two parcels; their entire value is
10 contributed to the building itself. You can't generate
11 the income -- I can tell the picture being poor audio
12 quality.

13 Can you hear me?

14 Q. It's a bit spotty, but I think we can hear you
15 okay.

16 A. I -- so, essentially, the special benefit that
17 accrues to those parcels, contributes to the special
18 benefit of the big... parcel.

19 Q. Ben, I'm sorry, that last sentence you're going
20 to have to repeat.

21 HEARING EXAMINER VANCIL: I think,
22 Mr. Scott, for the most part, we can hear what you're
23 saying.

24 You may want to slow down a bit; enunciate
25 more. That won't fix everything. It's not just you,

1 but that may help with the system.

2 MR. SCOTT: I will try.

3 The economic unit that we've talked about,
4 what Mr. Macaulay describes as a larger parcel, is the
5 sum of the values of all the contributory parcels.

6 The special benefit should not be allocated
7 outward as -- if it could be used separately.

8 Essentially, the value of those parcels... for
9 a (indecipherable) bigger component. And so adding it,
10 essentially -- then it would just say that, well, I can
11 generate income from this building; I can generate
12 potentially separate income from these other land
13 parcels. That's not the case.

14 The land parcel is directly contributing to
15 the building on top of it. I'm sorry.

16 BY MR. STILLWELL:

17 Q. Okay. And so you're saying that, essentially,
18 it's being counted -- these two other parcels are being
19 counted twice because they are both included in the
20 value of the 2+U building and, in addition, are treated
21 as two separate parcels with potential income
22 generation?

23 A. That's correct.

24 Q. If those two parcels had been treated more
25 accurately in the report, such that their value was

1 reduced from the 2+U building's value, how would that
2 have impacted the pre-LID value and how would that have
3 impacted the special benefit?

4 A. The difference would be that the total pre-LID
5 value calculated by Mr. Macaulay and attributed to the
6 0175 parcel...

7 Q. Oh, Ben, you're gonna have to start your
8 sentence over.

9 A. The pre-LID value calculated by Mr. Macaulay for
10 the 0175 parcel, as it includes the values of the other
11 two parcels, the application back to the 0175 parcel
12 should have been reduced from \$591,082,000, to
13 \$559,114,000.

14 I apologize, if we didn't do this, I think --
15 I'm not sure if you can see that?

16 HEARING EXAMINER VANCIL: Nothing is coming
17 through. Oh, yes. Okay.

18 MR. SCOTT: And that -- what that hopes to
19 show is that the 2+U building descriptor, that's the
20 total value. If we don't -- if we don't disagree with
21 Mr. Macaulay's calculation.

22 The allocation should have been back out the
23 other two parcels. So the bottom number is what should
24 be allocated back to the 2+U building.

25 The after LID, in the same manner. And the

1 final special benefit, then we do, essentially, by the
2 difference of the two.

3 BY MR. STILLWELL:

4 Q. And is that -- the difference of the two, then,
5 is that that final number you've highlighted?

6 A. It is. That would be the 562,587 minus 559,114.

7 So instead of the \$4.1 million special benefit
8 accrued to the 2+U big parcel, I'll call it, it would be
9 the 3.473 million.

10 Q. And that's assuming all other data in the
11 Macaulay study is correct?

12 This is just taking his numbers from the public
13 documents and assuming everything is correct; that's
14 just the subtraction of those two other parcels?

15 A. That's correct.

16 HEARING EXAMINER VANCIL: Is that chart in
17 his report?

18 MR. STILLWELL: That chart is not in his
19 report. I believe, given Mr. Scott's additional
20 analysis, after looking at some of the spreadsheets, we
21 discussed providing some supplemental reports to the
22 Examiner and to the City that will clarify Mr. Scott's
23 more recent analysis too; that will be provided as part
24 of the record at a later date, if that works.

25 HEARING EXAMINER VANCIL: What -- what's

1 your -- what's your anticipated path for doing that?

2 Wait. Let me ask specifically, do you
3 anticipate doing that within the time allocated for the
4 cases that objectors are --

5 MR. STILLWELL: Yes.

6 HEARING EXAMINER VANCIL: -- representing?

7 MR. STILLWELL: Yes.

8 HEARING EXAMINER VANCIL: So you're
9 suggesting that we were going to have during that time
10 additional materials submitted for Mr. Scott?

11 MR. STILLWELL: Correct. Yes.

12 HEARING EXAMINER VANCIL: All right. And
13 that this would simply be a part of that?

14 MR. STILLWELL: That's correct. And -- and
15 for now, we're simply sort of referencing his quick
16 math. But we wouldn't necessarily be entering the
17 spreadsheet into the record, for example, right now.
18 This data would be included, though, in a supplemental
19 report.

20 HEARING EXAMINER VANCIL: Okay.

21 MR. STILLWELL: This is more for
22 demonstrative purposes.

23 HEARING EXAMINER VANCIL: That's fine.

24 If it's going to come in, in some form, I
25 think that's useful for both purposes of the record and

1 the Examiner's consideration.

2 And I -- if it's coming in during the
3 allotted period, then you're not needing the record left
4 open to do that. It seems perfectly acceptable.

5 MR. STILLWELL: Thank you, Mr. Scott.

6 BY MR. STILLWELL:

7 Q. So moving on from the -- the parcel analysis
8 there.

9 Does the 2+U currently have improved access to
10 the waterfront?

11 A. Yeah. 2+U, they noted in their document...
12 their original design, the access to the waterfront via
13 Harbor Steps, which is just across the street.

14 Can you hear?

15 That does allow them an existing pedestrian...

16 HEARING EXAMINER VANCIL: He cut out again.

17 BY MR. STILLWELL:

18 Q. Mr. Scott, I think your last couple sentences
19 cut out.

20 And then also if -- I think your screen-sharing
21 tab might still be open. We can see you, but you're
22 sort of minimized. If you can go back to your larger
23 screen.

24 A. Did that do it?

25 Q. It did not.

1 If you have a "hide stage" tab open, I think
2 that might minimize the document sharing.

3 A. I apologize. (Indecipherable) share.

4 HEARING EXAMINER VANCIL: The view isn't
5 inhibiting your ability to proceed. But it's possible
6 that the more functions you have like that in
7 operations, that it cuts down on your audio coming
8 through.

9 MR. SCOTT: I understand.

10 I do show that I don't -- I'm not sharing
11 anything anymore, so I'm not sure. I apologize.

12 HEARING EXAMINER VANCIL: Okay.

13 BY MR. STILLWELL:

14 Q. That's all right. So -- and I apologize. So
15 could you -- I'll ask again.

16 Can you describe the 2+U's current access to the
17 waterfront?

18 A. Yes. As noted in their design documents, they
19 do mention a direct pedestrian access to the waterfront
20 via Harbor Steps from 2+U.

21 Q. From Harbor Steps from 2+U?

22 A. Correct.

23 Q. And --

24 A. I'm sorry --

25 Q. I'm sorry?

1 Are you having technical problems?

2 A. No, I saw a hand --

3 HEARING EXAMINER VANCIL: I'm trying to say
4 something when he cuts out.

5 If my hand goes up, I can't hear you.

6 MR. SCOTT: I see.

7 HEARING EXAMINER VANCIL: Yeah.

8 BY MR. STILLWELL:

9 Q. Okay. Could you please repeat your comments
10 with regard to waterfront access?

11 A. The waterfront is -- is pedestrian accessible
12 from 2+U via Harbor Steps directly across First Avenue
13 from 2+U.

14 Q. Okay. Is it your understanding that the Harbor
15 Steps are being improved at all by the LID project?

16 A. I believe not. They are not included in any
17 improvements.

18 Q. In your opinion, are any of the pedestrian
19 connection improvements specially benefitting the 2+U's
20 primary access point to the waterfront?

21 A. No.

22 Q. Will the Union Street pedestrian connection
23 improvement have any special benefit on how 2+U office
24 tenants or retail customers go between the 2+U building
25 and the waterfront?

1 A. No. I believe they will draw pedestrian traffic
2 away -- some portion of pedestrian traffic that would
3 have utilized Harbor Steps away from that east and west
4 corridor. A reduction in pedestrian traffic has a
5 concomitant effect on retail sales.

6 Q. And what is your -- what is your opinion about
7 the impact of the Pioneer Square improvements on foot
8 traffic to the 2+U building?

9 A. I think in a similar manner, they will have a
10 tendency to draw pedestrian traffic away from that
11 corridor from the Harbor Steps; other retail amenities
12 around there.

13 Essentially, what is happening is the gravity is
14 being -- the weight of the gravity in Pioneer Square and
15 along Union and Pike Place as being increased,
16 essentially, drawing off pedestrian traffic that might
17 have visited the pedestrian amenities of 2+U.

18 Q. On the second page of your report under the
19 subheading "Proximity to Amenities," you describe the
20 retail atrium. It's where the pedestrian traffic area
21 below the 2+U building is an urban village.

22 And in his testimony as well, Mr. Arnette,
23 comment -- similarly described it as "the urban
24 village."

25 What, in your opinion, is the purpose behind

1 designing a ground floor of a building similar to that
2 urban village pedestrian amenity function?

3 A. The urban village, I think, was expressly
4 designed to create a public/private space for not only
5 tenants of the building to utilize but also as a
6 gathering space and, essentially, a pool for retail
7 tenancy.

8 It was designed, I think expressly -- the
9 designing proposal includes responses to design review
10 board questions which sought to improve the sort of
11 public-facing amenities of that space.

12 It was expressly designed to be a welcoming sort
13 of... main space for pedestrian traffic in the area for
14 both the public and the tenants of the property.

15 Q. And how do you think the -- in your opinion, how
16 will the Pioneer Square and Pike Place Market
17 improvements, what impact will those have on the 2+U's
18 ability to accomplish its goal of sort of creating that
19 vibrant urban space there in the atrium?

20 A. I think with the reduction -- the potential
21 (indecipherable), what you have, is you think about
22 those locations -- a much larger concentration and much
23 larger population of retail amenities... people -- the
24 relative.

25 Q. Go ahead and start that sentence over, please.

1 A. They are going to pull more people in towards to
2 those higher concentrations of retail amenities. The
3 location itself, 2+U, has -- while a relatively high
4 amount of retail space and public gathering space will
5 be, essentially, out-competed by larger concentrations
6 to the north and to the south.

7 BY MR. STILLWELL:

8 Q. Was that impact taken into account in the
9 Macaulay study?

10 A. Not to my knowledge.

11 Q. Are -- are any of the 2+U's atrium, urban
12 village spaces, going to see special benefits from the
13 LID projects?

14 A. No, I don't think so. The -- the retail atrium
15 at the pedestrian -- the urban village was constructed,
16 essentially, with a goal of improving the streetscape
17 along this corridor. So that was, essentially, private
18 investment to generate an improved pedestrian
19 streetscape.

20 The LID amenities are not in this area yet.
21 They are not improving the sidewalks along this
22 corridor, for instance. So no, I don't believe so they
23 do.

24 Q. Will the improvements have any negative
25 externalities with the 2+U ground floor?

1 A. I think, potentially, they will. The location,
2 approximately, in -- between 2- and 400 meters from the
3 waterfront.

4 What is defined as a public gathering space?

5 A public gathering space is -- can be either a
6 positive or potentially a negative.

7 One thinks of other parks in the city where
8 they're -- gathering of the public does not -- is not,
9 essentially, a net positive.

10 So if the people who gather in the face of
11 potentially decreased retail tenancy, if you have a
12 number of clothes storefronts in a covered location
13 accessible to the public, that's a potential negative.

14 This has to do with the spillover effects that
15 are cited in the Crompton studies, et cetera. I think
16 that there is very -- a relatively high potential for
17 problematic gatherings that would have to be dealt with
18 by, say, with security or be of concern.

19 Q. You mentioned that those externalities are
20 heightened when there are retail vacancies in the area.

21 Do you see any negative impacts on retail for
22 the 2+U building due to the LID, to the extent that it
23 may cause vacancies?

24 A. I think what we would see is that as the retail
25 and pedestrian traffic moves to the other polls

1 (phonetic) that are being improved by the LID, I think
2 that added competitive nature will have a tendency to
3 decrease either retail rents, will decrease their sales
4 by decreasing their pedestrian traffic.

5 That kind of thing can increase vacancies. It
6 can increase turnover; and so you will have a higher
7 vacancy and turnover rate which may lead to such -- such
8 high vacancies.

9 Q. Switching now to the waterfront amenities.

10 What impact will the -- the amenities on the
11 waterfront, such as the park, how will that provide a
12 special benefit to the 2+U building, considering its use
13 of office space and retail?

14 A. I think the -- with respect to the office space,
15 the office tenancy is not like we can leverage that or
16 see it as a selling point.

17 They have already capitalized on the views in
18 the face of the removal of the viaduct. And I think
19 those are implicit.

20 In the retail atrium, I noted that on the
21 southwest corner of the property they have described --
22 there's a waterfront overlook. So they are already
23 leveraging the views.

24 The idea that the amenities on the waterfront
25 are going to be a net positive for 2+U's office tenants.

1 I think not only are the tenants less likely to leave
2 the building than bypass the atrium itself, which is
3 promoted for that reason and designed for that reason,
4 to bypass that and then walk down to the waterfront to,
5 say, have a meeting on the park, I think, is unlikely.

6 With respect to the retail tenancy, I think, as
7 I indicated before, that's going down more of a tendency
8 to draw people away from bypassing the 2+U.

9 Q. And -- and you touched on this earlier. But on
10 page 2 of your report, again under "Proximity to
11 Amenities," you discuss the proximity to the waterfront
12 amenities in particular being a disamenity.

13 Could you comment on that in the context of the
14 2+U?

15 A. Yes. I think the proximity to those waterfront
16 parks, the spillover, I think, given a relatively large
17 pathway in the form of Harbor Steps, which has
18 historically had a number of issues with security, at
19 the end of that pathway is another public gathering
20 space in the form of the urban village at 2+U. And I
21 think those spillover effects in the form of that form
22 impose a disamenity.

23 There's also the situation of parking. 2+U's
24 parking garage is largely devoted to tenants. It had a
25 number of -- the number of spaces in the parking garage

1 were included as called "must takes" by their tenants.
2 So in signing an office lease, you agreed to take a
3 portion of the parking in the garage.

4 The waterfront amenities have... according to
5 the report, I believe there's a removal... according to
6 the report, there's a removal of approximately 450
7 parking spaces.

8 2+U, and especially the retail amenities there,
9 would leverage off-site parking to generate traffic.
10 Removal of parking off-site could potentially have an
11 impact; in terms of, not only the congestion, but -- and
12 the traffic issues that have a tendency -- that's
13 included with the street parking question, which is
14 difficult.

15 Q. Thank you.

16 On the third page of your report, under
17 subsection (b) there at the top, it's titled
18 "Competitive Disadvantages." You discuss the Maritime
19 Building's comparable improvements and benefits versus
20 its special assessment.

21 Can you please comment on its -- its relative
22 improvements as they relate to the 2+U's?

23 A. Absolutely. The Maritime Building, which is a
24 couple blocks away from 2+U, that property did abut the
25 viaduct. And so a tenant that moved into that property

1 did so with the intention of waiting out the viaduct
2 removal and negotiated a number of improvements to the
3 building that leveraged its proximity.

4 Similarly, that -- the water -- the street
5 frontage and the pedestrian streetscape along the
6 Maritime Building will go from a relatively poor
7 condition to a very high standard.

8 This is a move from -- in that location, there
9 were, essentially, two standard deviations below the
10 mean, in terms of the IMI that I discussed previously.

11 And those will go to, essentially, 1-1/2 to 2
12 standard deviations above the mean by the time the
13 waterfront LID improvements are concluded.

14 That's a dramatic improvement associated with
15 not only higher rents but also improvements on the
16 retail.

17 That kind of building that is very
18 well-positioned to take advantage of waterfront -- the
19 waterfront LID improvements.

20 Q. And I would direct you to the final page -- or
21 the last page of the text of your report, which I
22 believe is the next page.

23 In that last paragraph you conclude -- pointing
24 out the -- the disparate special assessments with the
25 Maritime Building, receiving, it looks like, about

1 \$100,000 less of an assessment than the 2+U's.

2 Can you please talk about your views on the
3 misallocation there?

4 A. Yes. I'll put it, that special benefit is
5 approximately -- it's closer to a million dollars'
6 difference.

7 The Maritime Building, as a function of those
8 IMI improvements, the streetscape improvements and that
9 is an acknowledged goal to benefit from those parks.

10 I think the benefit that is applied to that
11 property is -- it stands to benefit much more from the
12 LID than 2+U, as -- the streetscape will improve. You
13 will have better retail access on the ground floor.

14 Its office tenants explicitly were looking for
15 those improvements. And that was described in an
16 article in the Puget Sound Business Journal.

17 So the benefit, I think, is not appropriately
18 divided here. I think with the Maritime -- the Maritime
19 Building is in a position to accrue a substantially
20 higher benefit due to those -- due to the improvements
21 that find this.

22 When I do talk about -- I did talk there about
23 an increase in rents in that creating income as well as
24 a decrease in cap rates. That's per studies that show
25 that improvements in the walk -- the streetscape have a

1 tendency to -- not only increase rents but decrease cap.
2 You're increasing the numerator and decreasing the
3 denominator, so the value has a tendency to go up
4 dramatically there.

5 Q. And so that -- in your opinion, then, is that
6 one of the important reasons why appraisers should pay
7 attention to the IMI and its impact on improvements to
8 particular properties?

9 A. I do think so. I think that it is a
10 quantifiable method for quantifying the streetscape.
11 And we have studies that show that it can be linked to a
12 change in value.

13 MR. STILLWELL: Thank you.

14 Nothing further on direct.

15 HEARING EXAMINER VANCIL: Cross?

16 CROSS-EXAMINATION

17 BY MS. THOMPSON:

18 Q. Hello, Mr. Scott.

19 A. Hi.

20 Q. You mentioned before that you had prepared a
21 revised calculation of the before value based on the
22 inaccuracies that you identified with respect to the
23 parcels; is that right?

24 A. Correct.

25 Q. And you also sort of used that before value

1 calculation to adjust the after value; is that right?

2 A. Correct.

3 Q. Did you perform an independent calculation of
4 the value of the 2+U building?

5 A. I did not for this purpose.

6 Q. And did you calculate an independent after value
7 for the 2+U property?

8 A. I did not.

9 MS. THOMPSON: No further questions.

10 HEARING EXAMINER VANCIL: Any redirect?

11 MR. STILLWELL: None.

12 HEARING EXAMINER VANCIL: Thank you,
13 Mr. Scott.

14 MR. SCOTT: Thank you.

15 MR. STILLWELL: And since we have the
16 benefit of Mr. Scott here, that's -- that's all the
17 testimony we have for the -- the 2+U.

18 Mr. Scott is also on deck to discuss the
19 three GID properties that are scheduled for today.

20 And so considering we still have an hour
21 left before lunch, we can just stay with Mr. Scott, if
22 that works.

23 HEARING EXAMINER VANCIL: Do you want to
24 introduce 40 and 41?

25 MR. STILLWELL: Yes, please.

1 HEARING EXAMINER VANCIL: Any objections to
2 40 or 41?

3 MS. THOMPSON: No objection.

4 HEARING EXAMINER VANCIL: 40 and 41 are
5 admitted.

6 (Exhibit Nos. 40 and 41 admitted.)

7 MR. STILLWELL: So objectors would next like
8 to turn to Appeal No. CWF-0416. This is the building
9 called "The Martin."

10 And I have for the record some -- one-pager
11 property summary for The Martin.

12 HEARING EXAMINER VANCIL: That will be
13 marked Exhibit 42.

14 MR. STILLWELL: As well as Mr. Scott's
15 property report for The Martin.

16 HEARING EXAMINER VANCIL: And that will be
17 43.

18 MR. STILLWELL: Ben, are you still with us?

19 MR. SCOTT: I -- I am. I am. I tried to
20 reconnect, hopefully, to improve some of these issues.

21 MR. STILLWELL: Oh, wonderful.

22 DIRECT EXAMINATION

23 BY MR. STILLWELL:

24 Q. Do you have your report --

25 A. I do.

1 Q. -- dated January 31st, 2020, for The Martin.

2 A. I do.

3 Q. And is this report your assessment of the
4 Macaulay study with regard to The Martin Apartments?

5 A. It is.

6 Q. Can you please describe the property and the
7 steps you took to complete this report?

8 A. The Martin is a multifamily property with ground
9 floor retail located at Fifth and Lenora. I visited the
10 site. I perused rent rolls and income data on the
11 property. I considered the Macaulay report as it
12 pertained specifically to this location, as well as
13 walking the improvements in the immediate proximity.

14 Q. You say in your report here on the first page --
15 I apologize, I believe it's on the first page.

16 But you reference that this property caters to
17 the Denny Triangle area; is that correct?

18 A. Yes. The property is located close enough to
19 that area, and it leverages the South Lake Union
20 property. That's where, of course, in recent years the
21 predominant development of office and... has been.

22 So that location is a new driver of,
23 essentially, tech jobs.

24 The Martin's proximity to that at the north
25 downtown area is really just vying to leverage that

1 proximity.

2 Q. And approximately how far is that Denny Triangle
3 area from the waterfront?

4 A. The Denny Triangle is probably more than a half
5 mile from the waterfront. It's more -- it would be
6 probably three-quarters to the most proximate waterfront
7 amenities.

8 Q. At the bottom of the first page of your report
9 under "Proximity to Amenities," you state that the Pine
10 Street improvements will be minimal given the high level
11 of current pedestrian amenities that are currently in
12 place.

13 And on the next page, at the top paragraph, you
14 describe it as suggesting that the benefit would almost
15 be unnoticeable.

16 Could you please describe, in your opinion, what
17 impact the streetscape improvements will have on The
18 Martin?

19 A. As I indicate, they would be minimal. These are
20 a number of blocks away from The Martin.

21 So improvements way over there, I think, are not
22 likely to improve the lives or the tenancy of
23 multifamily tenants. Same, six blocks away, they are
24 adding better sidewalks, doesn't have a tendency to make
25 people want to move into your building.

1 Q. Thank you.

2 And we discussed previously, sort of, the
3 average tenancies for this area's multifamily building.

4 Do you have an opinion on the lease terms
5 typical for The Martin?

6 A. At The Martin, they are typically on six --
7 six-month to one-year leases. Average tenancy is in the
8 one- to two-year range, but that's -- that would be
9 typical for downtown multifamily properties.

10 Q. And approximately how far is The Martin from the
11 closest street improvements?

12 A. I calculated it at approximately .28 miles from
13 the entrance. And that would be the... at point...
14 sorry.

15 Q. You'll have to repeat that sentence.

16 A. At .28 miles from the Pine Street improvements,
17 that's the closest from the entrance. That would be --
18 the entrance of the property is on the east side along
19 Fifth Avenue.

20 Very slightly farther is the Lenora pedestrian
21 bridge that would be improved at .3 miles. That's just
22 walking down Lenora.

23 Q. And so based on your assessment of the turnover
24 rates at The Martin, then is it your testimony that
25 there will be several tenants in the average dwelling

1 unit before improvements are completed .2 to .3 miles
2 away.

3 A. Yes. Average turnover at the property would --
4 over five years, for instance, one would expect
5 100 percent turnover in the multifamily tenants at The
6 Martin.

7 Q. Would -- do residents typically accept higher
8 rent for those types of future improvements?

9 A. Typically not. One does not usually accept a
10 higher rent for an improvement that one is not likely to
11 see.

12 Q. How do you think the -- how would The Martin
13 have to deal with the increased assessments without
14 being able to raise rates?

15 A. That would be incurred through costs to the
16 ownership. It will come in the form of higher operating
17 expenses.

18 Passing those on, the only likely tenants that
19 one could pass those costs on to would be the retail
20 tenants in the form of increased triple net expenses.

21 That is -- becomes a burden, then, on the retail
22 tenants as well. Higher operating costs are associated
23 with the reduction value for all. It's a deduction from
24 the income generated by the property.

25 Q. Were any of those deductions taken into account

1 in the Macaulay study?

2 A. I did not specifically see them in the original
3 study.

4 In the subsequent spreadsheets, I did observe
5 that the operating expenses at apartments were not
6 increased by the cost of the LID. So there appears to
7 be -- the assumption is expenses will remain level.

8 Q. Okay. So it sounds like the -- the spreadsheets
9 didn't add any new information. It was rather just
10 confirmation that -- sort of silence in the original
11 report was also silence in the methodology --

12 A. Correct.

13 Q. -- with regard to these negative impacts?

14 So you sort of touched on these already, but
15 will the -- the Pioneer Square or Pike Place Market
16 pedestrian connections have an impact on tenants of The
17 Martin?

18 A. I don't believe so.

19 Q. Is there any data on tenants living in The
20 Martin who crisscross between their property and the
21 waterfront and which routes they take or anything like
22 that; is that a measurable data point?

23 A. It would be measurable. I think -- I believe
24 that per the leasing information and I think the
25 targeted leasing, the tenants are much like -- more

1 likely to travel north and northwest -- or northeast of
2 the property traversing the amenities of -- associated
3 with South Lake Union.

4 Q. In your experience, tenants who rent properties
5 in this area, what is their typical driving force on why
6 they chose that location? Does it have anything to do
7 with the waterfront?

8 A. No. I think it's much more centered on the
9 South Lake Union drivers of the economic activity there.

10 Q. So employment, for example?

11 A. I think among employment -- the retail amenities
12 that are centered there, yes.

13 Q. In your opinion, is there any connection between
14 increased tourism at the waterfront and the property
15 success, either with regard to residential rates or
16 their sort of retail success?

17 A. I do not believe so. I think this is a -- a
18 separate market that leverages proximity, again, to
19 South Lake Union. It's a very peripheral market, if you
20 consider the center as the waterfront.

21 Q. At various places in your report, I think
22 primarily on page 2, under the heading "B: Competitive
23 Disadvantage," you discuss several different properties,
24 including Volta, West Edge, Elliott Point, some of these
25 that are competitive buildings that are essentially

1 putting The Martin at a disadvantage to these
2 improvements.

3 Can you please discuss a few of those properties
4 and sort of the misallocation associated with them?

5 A. Sure. Initially, I know Volta. Volta is
6 located along L Street, which is said to -- as part of
7 the LID. The streetscape adjacent to Volta is to be
8 improved dramatically. That goes from a relative
9 (indecipherable) pedestrian scape to a continuation of
10 Bell Street Park, which, essentially, adds not only the
11 wider sidewalks, you know, improved landscaping, but
12 also advantages, essentially, a public gathering space
13 immediately adjacent to the Volta property.

14 The event that that will accrue, those being
15 immediately adjacent are substantially higher than those
16 that would accrue to The Martin by being in a relatively
17 distant proximity to the improvements.

18 With respect to Elliott Point Apartments --

19 Q. I'm sorry, if we could stay on Volta for one
20 moment.

21 I'd also like to discuss your opinion, at the
22 bottom of the first paragraph, under "Competitive
23 Disadvantage," the last line there you highlight the
24 difference in special benefit between the Volta and The
25 Martin.

1 As consistent with your testimony, the Volta's
2 special benefit is much lower than The Martin's.

3 I was wondering if you could comment on that
4 spread.

5 A. Yeah, that spread -- the increase attributed to
6 Volta at...

7 Q. You're gonna have to start that sentence over.

8 A. Sorry about that.

9 The improvement -- the special benefit allocated
10 to Volta, otherwise known as the difference between its
11 pre-LID and post-LID values, is calculated at \$137,000,
12 despite all the improvements that it will accrue.

13 The Martin special benefit was considered
14 \$503,000. That difference is dramatic. It's given the
15 leverage that each property will be able to achieve from
16 the...

17 Q. I think the last word there is cut out, but I
18 think you were saying "LID improvements."

19 A. Correct.

20 Q. Thank you.

21 And those numbers are there in your report.

22 Next, I think you were moving on to Elliott
23 Point?

24 A. Right. Elliott Point, that's -- it's just
25 across the street from Volta. Elliott Point is located

1 on -- it will be at the end of the Bell Street Park, and
2 then the Blanchard Overlook is just across the street
3 from it. Elliott Point has a dramatically less friendly
4 pedestrian environment. This is where, essentially, an
5 offramp of the viaduct used to be. And so it's -- the
6 pedestrian amenities there are limited, to say the
7 least. Improvements there will be dramatic. And the
8 benefit was only described to accrue \$213,000. That's
9 against The Martin's \$503,000 special benefit.

10 Q. Can you think of any -- well, I'll withdraw that
11 question.

12 Finally, there at the last full paragraph on
13 page 2, you discuss the ArtHouse and Elliott Bay Plaza.
14 If you could discuss their improvements relative to the
15 markets, please.

16 A. Of course. So ArtHouse and the Elliott Bay
17 Plaza are two relatively recently constructed apartment
18 properties. They do front Elliott. And they will be
19 adjacent to the Bell Street improvements.

20 They -- I note that their special benefits are
21 at .35 percent and .25 percent of value. The Martin was
22 attributed .5 percent of value as its special benefit.

23 Q. So with all -- all of these examples -- and I
24 believe there's one or two more in your report.

25 But, generally speaking, is there anything in

1 the Macaulay report that you can highlight that -- that
2 sort of generally gets at why The Martin was misvalued
3 to this degree?

4 A. I believe it's -- I think their value -- excuse
5 me. There's nothing specific, I would say. I think --
6 and then perusal of the documents afterwards, the
7 assumption is that the waterfront improvements will be a
8 net benefit. And then that's directly related to
9 proximity rather than a consideration of the underlying
10 market fundamentals.

11 Q. And was the -- was the proximity of The Martin
12 to the waterfront versus the -- it sounds like the draw
13 more towards the South Lake Union area. Was any of that
14 discussed in Macaulay's study? Or was there more of an
15 assumption that The Martin's tenants would be enjoying
16 more of the waterfront, period?

17 A. There is some discussion, and that's -- it can
18 be implicitly assumed to be as part of the location --
19 location that the Macaulay study does.

20 It does note that South Lake Union is a driver.
21 In that -- that was taken into account in terms of the
22 factors he was doing.

23 Q. You think it was taken into account to a
24 sufficient degree?

25 A. I do not.

1 Q. What -- could you talk about the degree with
2 which it was taken into account versus what you would
3 have expected to have seen given the -- to realities on
4 the ground?

5 A. I think, specifically, Mr. Macaulay lip-serviced
6 to the... as an economic driver. What he doesn't
7 assign, I believe, is an appropriate level of gravity.

8 So what he doesn't break out is the level of
9 improvements that were accrued to those -- that are more
10 centered on the waterfront. I think the disparate
11 nature of those two markets is mentioned, but I don't
12 think fully considered.

13 So I would say that, for instance, rent changes
14 in proximity of South Lake Union are much more driven by
15 the actual economic activity at South Lake Union than
16 improvements on the waterfront.

17 Q. In that analysis, waterfront amenities towards
18 them versus market/economic forces in South Lake Union;
19 was there any discussion about that in the Macaulay
20 study, as a driver for -- for rents and other attributes
21 of the property?

22 A. Mr. Macaulay discusses significantly the
23 occupancy changes and the rent changes in the South Lake
24 Union neighborhood.

25 What he doesn't do, I think, is draw the line

1 between those end changes attributable to the
2 waterfront.

3 MR. STILLWELL: Thank you.

4 I have nothing further.

5 HEARING EXAMINER VANCIL: Cross?

6 CROSS-EXAMINATION

7 BY MS. THOMPSON:

8 Q. Hi, Mr. Scott.

9 Did you perform an independent calculation of
10 the before value for The Martin property?

11 A. No.

12 Q. And, similarly, did you calculate an independent
13 after value for The Martin property?

14 A. No, I did not.

15 MS. THOMPSON: No further questions.

16 HEARING EXAMINER VANCIL: Any redirect?

17 MR. STILLWELL: None.

18 HEARING EXAMINER VANCIL: Thank you,

19 Mr. Scott.

20 And we continuing with him?

21 MR. STILLWELL: Well, I think what we can
22 do -- I know we've been splitting up, sort of, all
23 experts for one property; then all experts for another
24 property.

25 Given, we're trying to coordinate a bunch of

1 remote testimony --

2 HEARING EXAMINER VANCIL: Mm-hmm.

3 MR. STILLWELL: Given we have Mr. Scott's
4 listed testimony for the next two properties as well.
5 They are all owned by GID, so they'll have the same
6 ownership testimony.

7 But if it doesn't confuse the record too
8 much, we could just keep going with Mr. Scott's
9 testimony.

10 HEARING EXAMINER VANCIL: I think that's the
11 most appropriate thing to do.

12 MR. STILLWELL: So next we will turn to --

13 HEARING EXAMINER VANCIL: Oh, we have
14 Exhibits 42 and 43.

15 MR. STILLWELL: Thank you.

16 HEARING EXAMINER VANCIL: Any objection?

17 MS. THOMPSON: No objection.

18 HEARING EXAMINER VANCIL: 42 and 43 are
19 admitted.

20 (Exhibit Nos. 42 and 43 admitted.)

21 MR. STILLWELL: Objectors would next turn to
22 Appeal No. CWF-0412. This is the Cirrus.

23 And I have for the record a property summary
24 for the Cirrus.

25 HEARING EXAMINER VANCIL: Exhibit 44.

1 MR. STILLWELL: And for the record,
2 Mr. Scott's property report for the Cirrus.

3 HEARING EXAMINER VANCIL: Exhibit 45.

4 MR. STILLWELL: And the report is made an
5 exhibit to the objectors' appeal as well.

6 DIRECT EXAMINATION

7 BY MR. STILLWELL:

8 Q. Mr. Scott, do you have your report to the Cirrus
9 in front of you?

10 A. I -- I do.

11 Q. And is this report a reflection of your study of
12 the Cirrus with regard to the LID?

13 A. It is.

14 Q. And the Macaulay study?

15 A. Correct.

16 Q. Sorry. One moment. Okay.

17 Could you please describe the Cirrus? Its
18 location and its usage, please.

19 A. Yes. The Cirrus, it's located at 8th and
20 Lenora. Multifamily tower of roofs and vintage with
21 retail on the ground floor.

22 Q. What's the extent of the ground floor retail?

23 A. It's relatively (indecipherable). It's a small,
24 you know, multi-tenant store...

25 Q. And you mention in your report that the Cirrus

1 is also drawn to Denny Park, McGraw Square, and the
2 Urban Triangle Park.

3 Can you sort of describe that area? Where's the
4 center of gravity for this property?

5 A. Yes. So this is even closer to the South Lake
6 Union center of activity. This is at the very northeast
7 corner of the waterfront boundary, the LID boundary.

8 Its location -- I mean, we're within blocks of
9 many of the Amazon properties. The -- Denny Park is
10 approximately two blocks away.

11 The McGraw Square is another small recently
12 improved park.

13 And the Urban Triangle Park was actually
14 developed concomitantly as part of the development of
15 the property itself. The City had already planned for
16 that park. It's a small triangle immediately adjacent
17 to the subject property.

18 Q. So you're saying the -- the park was developed
19 along with this residential property?

20 A. They were not at -- at the same time, but they
21 were in progress at the same time; yes.

22 Q. Did you find in your view of the property that
23 many of the residents tend to use that park and those
24 amenities?

25 A. It's much more oriented to just sort of

1 cross-traffic. The City -- as part of the City's
2 overall parks goals, the goal is to have an open space
3 or gathering, apart, within a certain number of blocks
4 of every -- every couple blocks you will have a park or
5 a resting place. And it was cited as in-fill for that
6 reason.

7 Q. So it's not that this park is necessarily for
8 the Cirrus, but this park sort of acts as the public
9 gathering place for properties in that area; is that
10 right?

11 A. Yeah.

12 Q. Okay. Was there any mention in the Macaulay
13 study about the impact of the draw of those types of
14 parks and those types of amenities to tenants relative
15 to the draw of the waterfront park?

16 A. Not relative to. The Macaulay study goes
17 into -- does a lot of high-level review about the impact
18 of parks to adjacent properties.

19 What it doesn't mention is other parks and their
20 concomitant draw.

21 So parks that are not in the waterfront do not
22 appear to have been given much credence in terms of
23 their impact.

24 Q. And I guess what I'm getting at is, in your
25 review of the study, was there -- was -- did Macaulay

1 take into account that there was these other parks
2 closer to the Cirrus that tended to draw tenants who
3 wanted that, sort of, park experience that's closer
4 rather than going down to the waterfront? Or was
5 there -- did there appear to be an assumption that the
6 waterfront park was the new center of gravity for
7 tenants in the -- in the Cirrus?

8 A. I do believe it's the latter. The assumption is
9 that the parks at the waterfront are going to be the
10 draw. And the idea that pedestrians would bypass other
11 such amenities on the way does not appear to be
12 considered.

13 Q. And how close is the Cirrus to the -- the
14 closest improvements, be the streetscape improvements or
15 the waterfront?

16 A. Approximately a third of a mile. It's situated
17 almost -- it's a .32 miles between Eighth and Pine as
18 well as the Bell Street Park, at the beginning of Fifth
19 Avenue. Those are the most proximate.

20 Q. What impact will those improvements, once
21 completed, that are about a third of a mile away, what
22 impact do you feel that they will have on the -- on the
23 Cirrus?

24 A. I think minimal. Given their distance, they're
25 unlikely to be a -- a direct draw for tenants or even

1 pedestrian traffic due to their location.

2 In the opposite direction of the South Lake
3 Union center or gravity, I think they are not going to
4 be relevant to many tenants there.

5 Q. What is the IMI at the Cirrus now?

6 A. The IMI is relatively high.

7 Q. Will the -- will the improvements have any
8 impact on the Cirrus's current IMI?

9 A. No sidewalk improvements are proximate.

10 Q. And in sort of a general walkability analysis of
11 sort of the pedestrian experience in this area, how
12 was -- is the Cirrus, I guess, generally an already
13 well-improved area in your professional experience?

14 A. Absolutely. It has a high level of pedestrian
15 experience -- amenities.

16 Q. In addition to the IMI, is there any walkability
17 or pedestrian-related experience improvements that will
18 come from the streetscape improvements about a third of
19 a mile away to the Cirrus?

20 A. I do not believe so.

21 Q. Is there any obvious or general way that tenants
22 or retail customers at the Cirrus now access the
23 waterfront?

24 A. I'm sorry, you cut out there.

25 Q. Is there any obvious or way that tenants at the

1 Cirrus or retail customers access the waterfront from
2 the Cirrus building? Is there any direct route to the
3 waterfront now?

4 A. If one follows Lenora, there is the Lenora
5 pedestrian overpass, which is receiving some benefit to
6 the -- according to the LID. Those benefits to the road
7 will be minor. They are, essentially, adding plantings
8 across -- on the -- plantings on the pedestrian bridge.

9 That connection is over the Port of Seattle's
10 World Trade Center and then connects to the Bell Street
11 Conference Center. I think that corridor is relatively
12 lightly used. And I think it is unlikely to be used by
13 pedestrian or tenants of the Cirrus.

14 Q. Do you have any examples similar to The Martin
15 of comparable, multifamily buildings that are receiving
16 greater -- greater benefit through the LID project that
17 are being assessed less?

18 A. Yeah. I mentioned, again, the Volta, which will
19 receive dramatic improvements, according to the Bell
20 Street Park, et cetera. Those benefits are calculated
21 at \$137,000.

22 The Cirrus was attributed \$379,000.

23 Elliott Point, again, was mentioned. Its
24 proximity to the waterfront and the improvement of its
25 streetscape were dramatic. The benefit attributed was

1 only \$230,000 against the Cirrus' \$379,000.

2 The Second and Pine, the West Edge -- or,
3 actually, the Second and Pine would be the Helios
4 property, which we talked about. That about -- I'm
5 sorry, Second and Pine is across the street from Helios.

6 That benefit was calculated \$312,000, just by
7 its dramatic -- dramatically improved proximity to the
8 improvements.

9 Q. Can I take a moment -- I know these are very
10 similar properties to The Martin, so I don't want to
11 have you repeat too much testimony here.

12 But, you know, it might be similar, but still
13 important.

14 Is there any connection that you found between
15 increased tourism along the waterfront and the success
16 of either ground floor retail or residential rates at
17 the Cirrus?

18 A. No. I see no connection there.

19 Q. And are tenants at the Cirrus, they have the
20 same general lease turnover that we discussed earlier?

21 A. That's correct. It is a newer building. So
22 leases have a tendency to be likely longer in the
23 initial term. Lots of pre-leased and one-year leases.
24 So the tenancy is still going to be in the one to two
25 years on average; especially in the coming years.

1 Q. Do you know when they started leasing out the
2 Cirrus?

3 A. I believe -- and I don't have the documents in
4 front of me, but I believe -- I believe 2016 to 2017
5 would have been the initial lease-up.

6 Q. And, in your opinion, are future improvements to
7 the tune of then, you know, five to -- to eight years
8 incorporated into the pre-lease figures --

9 A. No.

10 Q. -- as far as rents and all that?

11 A. The turnover in a multifamily property means
12 that rents are going to revert to what I would call
13 "market rents" every -- essentially, at the end of every
14 term. And they are relatively level -- they are
15 relatively short-terms are going to mean that one would
16 see the impact of (indecipherable) is much more
17 immediately.

18 Q. And is there -- given the -- I think you
19 mentioned before that the Cirrus is a bit further away
20 from the improvements than even The Martin.

21 So in your opinion, are -- is management at the
22 Cirrus, would they be able to offset the assessments
23 imposed by the City on higher rents here or would there
24 be any sort of demand that could be satisfied through
25 just paying higher rents because of the improvements?

1 A. I believe not. I think that the market rents
2 for multifamily this far away from these improvements
3 would not change. Those are going to be much more
4 centered on, again, the center of gravity south --
5 changes in Amazon improvements.

6 The -- they can potentially be passed on in the
7 form of higher operating expenses to the triple net
8 reimbursements to retail tenants.

9 I think those retail tenants are going to have a
10 tendency to be very concerned with that.

11 Q. So, in other words, it sounds like offsets, you
12 know, for the property management might, though, be felt
13 by the retail, and so there would still be sort of a net
14 difficulty for the building; is that right?

15 A. Right. Not only to the retail, but also the
16 property management would have to incur those higher
17 operating expenses.

18 MR. STILLWELL: Thank you.

19 I have no further questions.

20 HEARING EXAMINER VANCIL: And direct
21 [verbatim]?

22 CROSS-EXAMINATION

23 BY MS. THOMPSON:

24 Q. Hi, Mr. Scott. Just a couple of follow-ups
25 here.

1 You mentioned a few minutes ago your belief that
2 ABS didn't take into account parks that are located
3 closer to the Cirrus building.

4 Why -- why do you think that?

5 A. I find no explicit mention of them; especially
6 as drivers of local rents.

7 Q. And would your opinion change if ABS did in fact
8 take those into account?

9 A. It...

10 HEARING EXAMINER VANCIL: Can you repeat
11 that?

12 MR. SCOTT: Yes, it would change if I...

13 MS. THOMPSON: Sorry. You cut out again.

14 MR. SCOTT: Yes. My opinion would change if
15 I think the report did take that into account.

16 BY MS. THOMPSON:

17 Q. And for the Cirrus property, did you perform an
18 independent calculation of a before value?

19 A. I did not.

20 Q. And as for the after value, did you
21 independently calculate the after value of the Cirrus
22 property?

23 A. I did not.

24 MS. THOMPSON: No further questions.

25 HEARING EXAMINER VANCIL: And any redirect?

1 MR. STILLWELL: Just one.

2 REDIRECT EXAMINATION

3 BY MR. STILLWELL:

4 Q. Is the -- in your experience, is the -- the
5 impact of nearby amenities, is that something that would
6 typically be in an appraisal study that would highlight
7 the methodology?

8 In other words, is the fact that those parks
9 were not assessed to that degree indicative that they
10 weren't taken into account in the study?

11 A. Yes. One would typically -- one would typically
12 explicitly state that one considered the draw of other
13 amenities. Essentially the competition between the
14 items under study.

15 MR. STILLWELL: Thank you.

16 Nothing further.

17 HEARING EXAMINER VANCIL: And are we
18 proceeding to another?

19 MR. STILLWELL: Yes. One last.

20 Ben, we might be able to finish you off this
21 morning.

22 MR. SCOTT: Sounds good.

23 I do apologize if there's activity here that
24 you're overhearing.

25 MR. STILLWELL: Next, I would ask that the

1 report and summary be admitted into the record?

2 HEARING EXAMINER VANCIL: Any objection to
3 Exhibits 44 or 45?

4 MS. THOMPSON: No objection.

5 HEARING EXAMINER VANCIL: 44 and 45 are
6 admitted.

7 (Exhibit Nos. 44 and 45 admitted.)

8 MR. STILLWELL: Thank you.

9 So, finally, we have a bit of a Harbor Steps
10 situation here with the Stratus. The Stratus is two
11 separate parcels. Two separate appeal numbers. So the
12 appeal numbers are CWF-0410 and CWF-0411.

13 HEARING EXAMINER VANCIL: I have the
14 property summary for the record marked as Exhibit 46.

15 MR. STILLWELL: And similar with the Harbor
16 Steps, Mr. Scott produced one study that treated both as
17 a single property for purposes of valuation admitted
18 into the record -- submitted to the record.

19 HEARING EXAMINER VANCIL: Marked as
20 Exhibit 47.

21 DIRECT EXAMINATION

22 BY MR. STILLWELL:

23 Q. Ben, do you have your -- do you have your study
24 for the Stratus in front of you?

25 A. I do.

1 Q. And is this study reflective of your conclusions
2 with regard to the Stratus and the Macaulay study?

3 A. It is.

4 Q. Could you please describe the Stratus and your
5 method for drafting this report?

6 A. Yes. The Stratus is in another -- a new --
7 recent construction, multifamily property with ground
8 floor retail. It's located, again, very proximate to
9 Cirrus. These two were developed as, essentially,
10 Phase 1 and Phase 2 in the 8th and Lenora area.

11 As part of this I studied -- I visited the
12 property, studied its rent roll, and income and
13 expenses, and then considered how the waterfront LID
14 would impact the property.

15 Q. So then you're saying that this is, essentially,
16 in the same location as the Stratus with regard to its
17 proximity to the amenities and the streetscape
18 improvements?

19 A. To the Cirrus, yes.

20 Q. To the Cirrus. Yes, thank you.

21 What type of retail is on the ground floor here?

22 A. I believe the -- I believe Stratus has -- it
23 would be relatively small retail. I believe at this
24 location it may be -- I want to say a frozen yogurt
25 establishment.

1 Q. And do you know about when they began leasing
2 up?

3 A. In 2017, they were undertaking leasing.

4 Q. Do you know if they were taking into account the
5 LID properties when offering pre-lease terms?

6 A. No, they would not have. At that time, the
7 waterfront LID was in its most basic conceptual design.
8 And, once again, they would -- they were much more
9 focused on the South Lake Union proximity.

10 Q. Do you find a similar -- similar pull then as
11 far as tenants in this property drawn more towards the
12 South Lake Union economic areas rather than the
13 waterfront?

14 A. I do.

15 Q. Is that a similar analysis to your previous
16 report?

17 A. Yes, I do.

18 Q. And how close -- how close is the -- is the
19 Stratus to the -- to the closest streetscape
20 improvements?

21 A. They would be .33 miles. So a third of a mile
22 from the Pine's improvements.

23 Q. Okay. So it sounds like just a bit further than
24 the Stratus. I'm sorry, the Cirrus.

25 A. Essentially the other end of the block.

1 Q. Yes. Okay.

2 And since it is a bit further down or across the
3 block, what's the IMI in front of the Stratus? Has it
4 changed much?

5 A. It is relatively high. It is a very nice
6 streetscape.

7 Q. Will the LID improvements have any impact on the
8 current streetscape?

9 A. Not to its direct. If anything, they will
10 reduce their position within the whole universe of
11 streetscapes in Seattle.

12 Q. How so?

13 A. By improving, of course, other locations, one
14 brings the mean up, which means that this property which
15 is -- I believe -- it was approximately one and a half
16 standard deviations above the mean originally. That
17 would be decreased as the mean increases.

18 Q. And what does that mean for the property value?

19 A. In practice, I would say there's no change.

20 Q. Okay.

21 A. In the studies, a change of that magnitude is
22 not likely to be observed.

23 Q. So then, you wouldn't expect there to be any
24 sort of measurable special benefit because of that?

25 A. No.

1 Q. Would that -- would there be an increase in
2 competition, though, for the surrounding properties?

3 A. The more proximate to the improvements, there
4 would be. The draw would improve there.

5 Q. And I won't have you go through the details
6 again, but are there other comparable buildings then in
7 the area who are going to benefit from this that would
8 put Stratus at a competitive disadvantage?

9 A. There are. I think...

10 Q. You'll have to start that sentence over again.
11 And that one.

12 A. Those that were mentioned there, previously, in
13 the form of Elliott Point, Volta, et cetera --

14 HEARING EXAMINER VANCIL: I'm sorry,
15 Mr. Scott. Could you simply just re-answer the entire
16 question. We need a clearer record. So I know that
17 we're doing the best we can. But this is all getting
18 into a transcript and so it's a little problematic if we
19 have gaps.

20 You're still not coming through.

21 MR. SCOTT: Are you hearing me now?

22 HEARING EXAMINER VANCIL: Yes.

23 MR. SCOTT: There are properties that will
24 achieve better benefits that are receiving lower value
25 increases.

1 BY MR. STILLWELL:

2 Q. Is there a -- a park similar to the Cirrus park
3 serving the Stratus that could be the same one where the
4 City essentially planned it so that it would be the draw
5 for tenants and, sort of, folks in the area?

6 A. Yes. The Urban Triangle Park was placed for
7 that reason. It's very proximate to Stratus as well.
8 Less than a tenth of a mile. Essentially, the other end
9 of the block.

10 Q. And was there any discussion in the Macaulay
11 study about the triangle park with respect to the
12 Stratus?

13 A. No.

14 Q. And, again, did the Macaulay study take into
15 account at all the pull that that park would -- the
16 triangle park would have on measuring the Stratus'
17 special benefit for a park -- a new park on the
18 waterfront?

19 A. I don't believe it did. There's not mention of
20 competitive amenities in the city.

21 Q. On page 2 of your report, under "Benefits are
22 Misallocated," sort of there in the middle, you discuss
23 the Blanchard Overlook and other properties comparable
24 advantage on using the Blanchard Overlook.

25 Could you please discuss sort of other

1 properties' ability to use those improvements versus the
2 Stratus'?

3 A. Those more adjacent properties are going to be,
4 I guess, is...

5 Q. You'll have to begin that sentence again.

6 A. I guess the Blanchard overlook is part of the
7 north end of the waterfront improvements. That amenity
8 is much more proximate to those properties listed. One
9 from -- if one were to leave from Stratus, one would
10 have to bypass all of those properties to get to the
11 Overlook Walk and bypass all of the other competing
12 amenities on the way.

13 Q. And those other properties that you would have
14 to bypass, did you look at what their special
15 assessments are?

16 A. Yes. As noted, one such property had an
17 assessment of \$137,000, the Volta versus Stratus'
18 444,000.

19 Q. And that's despite being closer in proximity and
20 deriving greater benefit from those?

21 A. Correct.

22 Q. Since it is in a bit of a different location, I
23 mean, are there any direct draws between the Stratus and
24 the waterfront that isn't included in the LID project at
25 all?

1 A. Dealing direct -- other direct would be that
2 Lenora Street. And I don't -- the traffic is relatively
3 negligible in that direction.

4 Q. And with regard to the Stratus' retail, is there
5 any data about increased tourism at the waterfront
6 having an impact on its competitive aspect?

7 A. (Indecipherable).

8 HEARING EXAMINER VANCIL: I'm sorry, we
9 didn't get an answer.

10 BY MR. STILLWELL:

11 Q. Can you please repeat your answer?

12 A. I don't believe there is, no.

13 Q. And finally is the lease -- the lease term for
14 the Stratus, is it similar to the other -- The Martin
15 and the Cirrus with regard to frequent turnover?

16 A. Yes.

17 Q. Or average turnover, rather. I'm sorry.

18 A. Yes. Standard tenancy would be one to two
19 years.

20 Q. And would you expect at a building such as the
21 Stratus, sounds like its newer and a bit further away,
22 would you expect the building to be able to increase
23 rents to offset the assessments due to the future
24 improvements?

25 A. No. Not directly related to the improvements.

1 MR. STILLWELL: Thank you.

2 I have nothing further.

3 HEARING EXAMINER VANCIL: Any cross?

4 CROSS-EXAMINATION

5 BY MS. THOMPSON:

6 Q. You mentioned on direct that competitive
7 amenities in your opinion were not considered as part of
8 the ABS study; is that correct?

9 A. Yes. That's correct.

10 Q. And if ABS did consider competitive amenities in
11 assessing the value of the Stratus apartments, would
12 that change your opinion?

13 Sorry, could you repeat your answer, please?

14 HEARING EXAMINER VANCIL: And, again.

15 BY MS. THOMPSON:

16 Q. One more time.

17 A. It would.

18 Q. Thank you.

19 And did you perform an independent calculation
20 of the before value for the Stratus property?

21 A. I did not.

22 Q. And did you prepare an independent calculation
23 of the after value for the Stratus property?

24 A. I did not.

25 MS. THOMPSON: No further questions.

1 HEARING EXAMINER VANCIL: And any redirect?

2 MR. STILLWELL: Just one.

3 REDIRECT EXAMINATION

4 BY MR. STILLWELL:

5 Q. Mr. Scott, is the inclusion of competitive
6 amenities something that you would typically see in an
7 appraisal report?

8 A. One would discuss that, yes. Competitive
9 amenities specifically, so --

10 Q. So is its absence indicative that it wasn't used
11 in the methodology?

12 HEARING EXAMINER VANCIL: Repeat your
13 question.

14 BY MR. STILLWELL:

15 Q. Were you able to hear me?

16 A. I was not. I'm sorry.

17 Q. Is its absence in the report indicative that it
18 was not included in the methodology?

19 Were you able to hear that?

20 A. Yes. I apologize. I keep being muted.

21 Yes, I believe its absence would suggest that it
22 is not considered.

23 MR. STILLWELL: Thank you.

24 Nothing further.

25 HEARING EXAMINER VANCIL: Okay.

1 And how are we proceeding now? Is Mr. -- do
2 we have more for Mr. Scott.

3 MR. STILLWELL: We do not. And the next
4 witness we have will be Mr. Lee to testify on behalf of,
5 again, the GID properties from the ownership
6 perspective. He's scheduled to come on at 1:30. So
7 that's who we have.

8 HEARING EXAMINER VANCIL: All right. We'll
9 take a break until 1:30, then. Thank you.

10 Oh, I'm sorry. Before we go to the break.
11 We're still on the record.

12 Exhibits 46 and 47, any objection?

13 MS. THOMPSON: No objection.

14 HEARING EXAMINER VANCIL: 46 and 47 are
15 admitted. We'll reconvene at 1:30.

16 Thank you.

17 (Exhibit Nos. 46 and 47 admitted.)

18 (A luncheon recess was taken.)

19 HEARING EXAMINER VANCIL: All right. We'll
20 return to the record. We'll continue with the
21 objectors' next witness.

22 MR. STILLWELL: Thank you.

23 And objectors would like to open Appeal
24 No. CWF-0416. This is in regard to The Martin. And the
25 objectors are calling Mr. Elton Lee on behalf of the

1 represented taxpayers.

2 HEARING EXAMINER VANCIL: Please state your
3 name and spell it for the record.

4 MR. LEE: Sure. Elton Lee. E-l-t-o-n.
5 Last name Lee, L-e-e.

6 HEARING EXAMINER VANCIL: And do you swear
7 or affirm the testimony you provide in today's hearing
8 be the truth?

9 MR. LEE: I swear.

10 HEARING EXAMINER VANCIL: Your witness.

11 MR. STILLWELL: Thank you.

12

13 ELTON LEE, witness herein, having been
14 first duly sworn on oath,
15 was examined and testified
16 as follows:

17 DIRECT EXAMINATION

18 BY MR. STILLWELL:

19 Q. All right. Mr. Lee, are you the representative
20 tax payer for the property subject to the proposed Local
21 Improvement District known as "The Martin"?

22 A. Yes, I am.

23 Q. And what is your position with regard to that
24 building?

25 A. I work for GID, the ownership entity. I am VP

1 of Asset Management. So I assist with the company's
2 management and oversight of all the assets in the
3 Pacific Northwest region inclusive of Martin.

4 Q. How long have you been in that capacity?

5 A. At this company, since April 1st. But Asset
6 Management, since 2008.

7 Q. And you say you oversee properties throughout
8 the northwest. Where are those locations, generally?

9 A. Oh, sure. Well, let's see, we've got assets in
10 city of Seattle -- that includes the three buildings
11 we're talking about today -- an asset in West Seattle,
12 one in Bellevue, one in Kirkland, one in Redmond, and
13 one more in Issaquah.

14 Q. In addition to --

15 A. And another two assets in Portland. So I'm kind
16 of clumping that together.

17 Q. And where are you testifying from today?

18 A. San Francisco.

19 Q. What is your professional experience and
20 background operating multifamily apartment buildings in
21 the urban environments where you have properties?

22 A. Probably since 2008, function of Asset
23 Management, kind of working throughout a multitude of
24 (indecipherable) office, industrial, and multifamily as
25 well.

1 Q. In your professional capacity, do you come
2 across appraisals and review appraisals and reports on
3 property values, things like that?

4 A. Yes. All the time.

5 Q. Are you familiar with gauging property values on
6 your own?

7 A. Yeah.

8 Q. Are you familiar with sort of similar types of
9 analyses, like determining net operating income, cap
10 rate, that sort of thing?

11 A. Yes.

12 Q. Could you please describe The Martin?

13 A. Sure. It's a high-rise on 5th and Lenora. It's
14 188 units, residential. We've got some ground floor
15 retail. A little over 4,000 square feet. It's a Type 1
16 construction. You know, it's a pretty occupied,
17 stabilized project. Built in 2013. So it's pretty
18 stable. Average rents are somewhere around -- just shy
19 of \$3,000 bucks a month. About maybe .4 miles from the
20 waterfront. Kind of close to Denny Triangle area.

21 Q. What is the average length of tenancy?

22 A. So typically we market across this specific
23 property and a lot of our other properties. It is a
24 pretty transient tenant base. You know, most folks'
25 average term is somewhere between 11 and 12 months of

1 stay. You know, every other year they will probably
2 either move out or renew. So on average, anywhere from
3 two to three years term on max, probably.

4 Q. And you mentioned it was built in 2013.

5 When did you begin leasing out the property?

6 A. What do you mean by "leasing out the property"?

7 Q. Providing leases for the original tenants.

8 A. Oh, uh -- so GID took over the site July
9 of 2018. So we've -- we've been providing oversight for
10 this property since then.

11 I would -- I would have to defer to another time
12 to answer that question. I don't have the data right
13 now.

14 Q. That's fine.

15 A. Yep.

16 Q. Turning now to the -- to the pre-LID value of
17 the property.

18 Did anyone from the City ever request
19 information from you about The Martin prior to the
20 proposed final assessment?

21 A. No.

22 Q. Are you aware of anyone at GID who was
23 approached by the City requesting information?

24 A. No.

25 Q. Were you or anyone else to your knowledge at GID

1 asked to provide feedback on the preliminary assessment?

2 A. Nope.

3 Q. To your knowledge, did the City ever request
4 site access to the property for purposes of preparing
5 the final benefit study?

6 A. Nope.

7 Q. Have you had a chance to review the -- the
8 pre-improvement value of your property by the City?

9 A. Yes.

10 Q. And based on your professional background and
11 experience, and then your familiarity with this property
12 in particular, do you believe that the property was
13 accurately valued?

14 A. No. I think the values are pretty -- pretty
15 high compared to what the market is.

16 I can expand on more detail if this is the right
17 time for that.

18 Q. Please.

19 A. So The Martin -- and correct me if I'm wrong --
20 I think it was -- pre-assessed value was 126,396,000 --
21 396,000.

22 So right now, over the last year, year and a
23 half, high-rises in Seattle have traded for a standard
24 kind of cap rate trailing three months or three and
25 twelve months NY. Typically around 4 to 4-1/4 percent.

1 So taking our actual operating financials from
2 this building on a T-12 or T-3 income over T-12 expense
3 trailing actuals, that cap rate comes out to be
4 somewhere around 3.4 percent. Which is kind of unheard
5 of for anyone acquiring assets any time -- I think is a
6 near term of the cycle for the last few years.

7 Generically, you know, again, all of the recent
8 trades in the last year or so have been kind of in the
9 4, 4-1/4 range.

10 So -- so the value that was assessed here is --
11 is very high. I don't know anyone that would buy at
12 that -- at that current value.

13 Q. Would you say that the -- the waterfront LID
14 improvements are necessary to the functionality of The
15 Martin?

16 A. No. You know, Martin -- Martin's physical
17 location is about a block away from the Amazon Spheres
18 and a slew of their high-rise towers. You know, that
19 first and foremost is what drives a lot of our value of
20 their buildings, local employment, and certainly
21 everyone is aware of the rise of the, you know, tech job
22 market right now. Not just Amazon but, you know,
23 Facebook and there's a whole slew of other companies.

24 I would say the proximity to that and kind of
25 everything kind of towards the South Lake Union area is

1 what kind of drives up value.

2 So to kind of answer your question, no, I don't
3 think what you asked will -- will help with value here
4 at Martin.

5 Q. And similar to that, then, if the proximity to
6 those employment centers is driving a value, would you
7 say that is also driving your tenants' decision to rent
8 at The Martin versus other locations?

9 A. Not -- absolutely. I mean, literally, you know,
10 all the -- all the tech employees of Amazon can walk a
11 whole block from their office to our tower here. And so
12 that -- that is absolutely driving up some of the value
13 here over -- over, you know -- in this cycle of the
14 market. You know, proximity to the jobs at Amazon and,
15 again, a whole slew of other companies in and around
16 this area.

17 Q. So it sounds like GID recently acquired the
18 property.

19 When making those decisions, was there any
20 factor about the property's location to the waterfront,
21 to your knowledge?

22 A. To my knowledge, no.

23 Q. Were -- were those discussions more along the
24 lines of what you were just saying its location relative
25 to major employment centers, that sort of thing?

1 A. I wasn't involved with the acquisition process,
2 but I would imagine so.

3 Q. Okay. Could you please describe The Martin's
4 access to the waterfront?

5 A. Sure. You know, it's located on Lenora and 5th.
6 It's roughly, I think, around a little less than a half
7 mile to the waterfront. Kind of a straight shot down
8 Lenora, obviously, you know, to -- kind of obstacles
9 before you get to the water. But, yeah.

10 Q. Would you describe it as the waterfront access
11 being an amenity of The Martin?

12 A. No.

13 Q. No. Okay. So, in other words, the proximity
14 between The Martin and the waterfront, is it just that
15 it's too distant for it to really be a part of the
16 amenities of The Martin?

17 A. Yeah. I mean, it's -- for example, when -- when
18 a tenant comes to lease, you know, tour the site, we
19 show them the introduction of all the great amenities on
20 site; obviously, pointing out the local employers, local
21 restaurants in and around Denny Triangle, around the
22 area.

23 They might point out Pike's Place as kind of a
24 distant, you know, attraction, but that will not drive
25 or compel somebody to pay more rent to live at this

1 property compared to another.

2 Q. Do you see any immediate benefits to The Martin
3 of the proposed improvements? Either the park along the
4 waterfront or the pedestrian connections or, you know,
5 the street improvements, did any of those have a
6 material impact on The Martin, in your opinion?

7 A. I don't think so.

8 Q. So you said before you were calling in from
9 San Francisco.

10 Are you familiar with -- I'm sorry, I'm going to
11 pronounce the park wrong -- "Em-park-dar-roe"?

12 A. Uh, yeah. Embarcadero.

13 Q. Embarcadero. Okay.

14 A. I was born and raised in the city. Been here my
15 whole life. So I am quite aware of that area, yeah.

16 Q. If -- if we could turn to Exhibit 3 in the
17 record, is the Macaulay study. And I bring that up
18 to -- not to quote from it, but that Macaulay uses in
19 the study a comparison to that park as a sort of similar
20 waterfront improvements. There's a lot of similarities
21 that he notes. A viaduct being removed. Development
22 along the waterfront.

23 And I was just wondering, considering your
24 experience with the area and your experience and
25 knowledge with this project and this property, do you

1 feel that's an apt comparison to the Seattle waterfront
2 project?

3 A. You know, I think the physical similarities are
4 there. You had like this double-decker freeway that
5 more or less partially fell down in '89 Loma Prieta
6 earthquake. It was triggered this kind of motion
7 towards dismantling of this whole area.

8 I think, physically, there's similarity there.
9 Obviously, the viaduct got taken down. So -- but I
10 think in terms of value impact, there is a huge
11 transformation in San Francisco immediately at the
12 location where the freeway ran, you know, physically
13 once the freeway was removed, allows the ability for
14 kind of eventual up-zoning, different change of use.

15 So you have, you know, a valuation impact if you
16 were to redevelop in that immediate area.

17 Kind of transitioning over to Seattle, I'm not
18 sure that translates the same, since a lot of the area
19 is already built out.

20 With respect to where Martin's location is, you
21 know, I don't think it changes anything. Because,
22 again, this building is relatively new. It is a 2013
23 build. Type 1 construction. We're not -- the zoning
24 doesn't change. I won't be tearing down this building
25 any time soon to rebuild something else. I think

1 residential right now is still highest/best use.

2 Does that -- does that help?

3 Q. Yes. Thank you.

4 And I would note that the viaduct here coming
5 down was part of an independent project and not part of
6 the LID project.

7 And that, to your point, I believe the Macaulay
8 study does say the benefits extend out about a block or
9 two.

10 And with your familiarity of the building, it
11 sounds like The Martin is a bit further away from the
12 waterfront than a block or two.

13 A. Yeah.

14 Q. Would the -- will The Martin have increased
15 improvements to views, view corridors, you know, views
16 of the Sound, anything like that, as a consequence of
17 the LID project?

18 A. No, I don't think so. It's probably too far.

19 Q. Okay. Do you anticipate realizing any gains in
20 property value or the ability to increase your rent now
21 due to the anticipated improvements five years down the
22 road?

23 A. No. No, not at all. I mean, and apparently it
24 won't be coming along for five years, I would find it
25 hard to believe tenants are coming in, you know, common

1 thing on an improvement that's five years to come to
2 paying higher rent now or any time in the next five
3 years.

4 Q. What would --

5 A. (Indecipherable) -- include rents is the driving
6 source of our valuations here.

7 Q. And what would happen if in order to make up the
8 cost of the assessment in the next five years, you were
9 to increase your rent through -- at a comparable rate,
10 how would that impact GID?

11 A. Say that one more time. I'm sorry.

12 Q. So if you were to increase your rent --

13 A. Yeah.

14 Q. -- to make up for the assessments --

15 A. Okay.

16 Q. -- levied, but it sounds like the demand
17 wouldn't be there necessarily since the improvements
18 wouldn't be constructed yet.

19 I'm wondering how that situation would impact
20 GID's management of the -- of the property?

21 A. That's a great question. You're asking me to do
22 some math on the spot here.

23 Q. I mean, you can speak generally about -- you
24 know, you don't have to put numbers on it.

25 A. I'll need to attempt this math here.

1 So with the -- let's see, the assessment fee is
2 about \$197,000 on a per annum over 18 years is about
3 10.9k. So on a valuation impact at, again -- I think
4 more recent trades have been around kind of like the
5 4 percent cap rate, roughly, maybe a little higher. But
6 just for the sake of easy math here. If I cap that at
7 4, you know, that's a valuation reduction of Martin at
8 roughly 240 -- \$274,000.

9 Right?

10 So if -- again, I apologize for the slight delay
11 while I attempt to do some math. \$274,000, we have
12 188 units. Let's see. That's -- hold on one second.

13 Oh, I'm sorry. Give me two more minutes. All
14 right. Hold on here.

15 Okay. So -- okay. Here we go. Sorry for the
16 lag here.

17 So net/net, again, \$274,000 impact, we would --
18 and, again, we don't think that the improvements of the
19 waterfront LID -- waterfront here would directly push up
20 rents.

21 So to offset the annual costs for the
22 assessment, we would have to push rents up magically
23 about \$58 per unit per year. I think that math is
24 right. Yeah.

25 Q. Do you think those are competitive rates?

1 A. To magically push rent \$60?

2 Q. Yeah.

3 A. I don't know if -- I don't know how to answer
4 that question.

5 But, you know, it will be hard just to randomly
6 push up rents and somehow magically think everyone will
7 pay that for no changes outside of the waterfront.

8 Q. Yeah. And I guess my question -- my question is
9 if you did have to increase those rental rates without a
10 similar demand for those properties due to the
11 improvements, would that make renting those units more
12 difficult?

13 A. Yeah.

14 Q. Do you anticipate any -- any detriment to The
15 Martin either in property value or other negative
16 impacts due to the LID construction over the next five
17 years?

18 A. Well, we'll be potentially charged this annual
19 portion of assessment. So, again, to a valuation of the
20 building, we would receive that negative reduction of
21 value of \$274,000.

22 Q. And I'm getting at --

23 A. I think -- I think as part of the plan here, a
24 lot of the parking will be eliminated. And so I would
25 presume that, you know, this is -- I would presume this

1 is kind of indirect correlation of our tenants. You
2 know, the ingress/egress out of buildings around the
3 area, there would be a little bit more traffic during
4 certain parts of the time because of elimination of
5 parking in the area. So that translates to a negative,
6 but it's hard to quantify that.

7 Q. Sure. And that's more what I was -- I was
8 getting at more sort of those physical externalities
9 around, you know, parking, building access, noise,
10 anything like that.

11 I realize it sounds like The Martin is
12 relatively far from the improvements. But, you know, if
13 there were any sort of cascading effects around
14 congestion or anything like that due to the
15 construction, if they would impact the building at all.

16 A. Yeah. But construction would be relatively far
17 away. So I don't think so on that end.

18 But, yeah -- how many parking spots are being
19 removed? (Indecipherable).

20 Q. I believe 450, but I don't know off the top of
21 my head.

22 A. So, you know, again, it's hard to quantify. But
23 anecdotally speaking here, if you remove 450 parking
24 spaces kind of around the waterfront, you know, you
25 would have -- I guess, more people kind of circling

1 around adding to the congestion in the area.

2 So that would be kind of -- again, kind of a
3 negative.

4 Q. What -- what is the impact to -- to GID if
5 you're unable to realize any gains from the improvements
6 for at least the next five years as we've discussed,
7 because it doesn't sound like you will be able to
8 increase rent; and yet at the same time are being
9 assessed -- assessed these assessments from the City for
10 those improvements under the hypothetical that they were
11 constructed already.

12 How would that impact GID and GID's bottom line?

13 A. Yeah. So as I mentioned, you know, the -- a
14 reduction in value of the asset's value about \$274,000.
15 On an annual basis you're talking about, you know, cash
16 flow a little less than the property of almost \$11,000
17 per year. So those would be negative impacts.

18 Q. Do you think you would have to make up those
19 costs somewhere else; for example, push them on to
20 retail tenants, that sort of thing?

21 A. No. The retail tenants operate in a whole
22 different kind of isolated portion. I wouldn't be able
23 to -- I wouldn't be able to pass this on to tenants. It
24 would be a net decrease of profit to our company
25 directly. This is not something I could pass on to

1 tenants whether residential or retail.

2 Q. If --

3 A. Yeah.

4 Q. If the -- if GID were having to take on the
5 cost, at least during the five year --

6 A. Actually, let me correct myself there.

7 So Martin currently has a long-term retail
8 tenant, who I hope is gonna be there for some -- some
9 more time. It's a restaurant.

10 To fully answer your question, we would not be
11 able to pass through this expense to our residential
12 tenants.

13 However, if, you know, the restaurant leaves and
14 we get a new tenant, potentially they can pay a -- some
15 small allocation of that assessment over time. But it
16 would be very, very small and immaterial as most of the
17 square footage of this building is all residential.

18 Sorry. Just a small nuance to answer your
19 question a little bit more fully.

20 Q. No. Thank you for that.

21 And if you were to re-let the retail space
22 there, approximately how much does that cost? Is that a
23 net increase in cost after re-let a retail space?

24 A. Yeah. Yeah. Tenant improvement; leasing
25 commissions. Absolutely.

1 So let's say if, you know -- let's say if,
2 hypothetically, the waterfront is an amazing, you know,
3 beautification project, as a result, some really nice
4 Mexican restaurants, which is what we have right now,
5 gets, you know, a tent in along the waterfront that kind
6 of drives the appeal towards waterfront for this type of
7 restaurant use, you know, and they go out of business or
8 our tenant decides to relocate over there and leave us.
9 Cross my fingers that that doesn't happen.

10 You know, there's -- there's a lot of downtime
11 if that happens while we try to remarket the space. So
12 anywhere from eight, nine months downtime. Easy to --
13 to -- then we probably have to kind of -- you know, kind
14 of clean it up. Spend some amount of landlord capital.

15 The new tenant comes in, we have to pay a
16 leasing broker a certain amount of money to kind of lock
17 in the new tenant.

18 In addition, that would usually come along with
19 some type of landlord. Providing capital to -- towards
20 kind of building out their space as they plan it.

21 So yes, there is certainly a re-tenanting cost
22 if -- if that were to happen.

23 Q. You sort of hinted at the possibility that the
24 retail space might suffer a loss or, perhaps, even have
25 to be -- might either have to move or be drawn away from

1 The Martin towards the new improvements due to increased
2 competition.

3 I was wondering if you could comment a little
4 bit more about that?

5 A. Sure. And these are kind of hypotheticals;
6 right?

7 So waterfront improves, let's say if one of the
8 local parcels redevelops adjacent to it or an existing
9 office building with ground floor retail improves the
10 area where, you know, better foot traffic, improves, if
11 that's the case, for a nice restaurant like what we have
12 to be sourced there and provides more competition for,
13 you know, one, the patrons of our existing restaurant
14 or, two, provides an option for our restaurant owner to
15 relocate too, as well.

16 Those are not, you know, positives for our
17 project here.

18 Does that answer your question, or?

19 Q. Yeah. I was just wondering about the impact on
20 your retail tenant that -- that the waterfront
21 improvements would have?

22 A. Yeah, I would say -- it certainly wouldn't be
23 positive. It will be neutral to negative. Because we
24 aren't exactly close to the waterfront. You know, the
25 center of gravity for nice view restaurants, like

1 (indecipherable) in Seattle is towards the waterfront
2 that you can -- you know, some of those patrons of that
3 restaurant would get drawn towards that area. So that
4 would be in the negative.

5 You know, if that's the case, it would be
6 neutral to no -- no change.

7 Q. So what -- what is the impact -- I'm sorry, I
8 think I actually already asked that.

9 What will -- will your property benefit from the
10 supposed increase in tourism due to the waterfront
11 improvements?

12 A. I -- I don't think tourism will have any
13 positive benefits to our building. You know, I
14 mentioned earlier in this -- I want to call it a
15 conversation -- earlier in our dialogue here.

16 But one of the main drivers of the why our
17 tenants come to tour Martin and certainly the high-rises
18 adjacent to it, it's job -- job relocations. Job -- you
19 know, along that path of -- not so much of tourism, it's
20 a -- it's not a driver for residential here where Martin
21 is located.

22 Q. It sounds like the driver for residential is
23 more employment-based, as we were discussing?

24 A. Yeah. Employment base. I would argue that any
25 kind of immediate adjacency to leisure activities would

1 be helpful.

2 You know, I would say the Whole Foods a few
3 blocks northeast is a big draw, kind of restaurants,
4 retail, in an immediate, like, call it one-, two-,
5 three-block radius is also positive. But -- but primary
6 driver is probably going to be jobs.

7 Q. And with respect to -- to leisure activities,
8 Ben Scott was testifying earlier about the presence
9 of -- I forget the name of it -- I think urban triangle
10 or something like that --

11 A. Denny Triangle?

12 Q. Yeah. A park that sort of serves the area that
13 The Martin is located in.

14 A. Oh, yeah.

15 Q. Is it -- my question is: Are you familiar with
16 a park that's closer to The Martin sort of in the
17 neighborhood that operates as sort of the center of
18 gravity for park amenities for tenants there?

19 A. I don't know the immediate -- so we have, like,
20 some pet owners in our building. Pretty good
21 penetrations [phonetic].

22 You know, within our building itself, we have
23 like a pretty cool, fancy outdoor pet relief area. It's
24 already built into the site in our building.

25 You know, in the -- there's a park just kind of

1 slightly north of where the site is. It's relatively
2 walkable. Fully developed -- just kind of northeast of
3 this, when we developed the Stratus building, which I
4 think we'll get to later in our discussion here, we
5 built out a park for the City -- give to the City. It's
6 a pretty cool playground. I would imagine a lot of
7 people utilize that since it's only a short distance
8 from Martin here. And literally out -- outside of
9 Stratus and Cirrus.

10 So those are kind of, like, cool. It's kind of
11 center of gravity, kind of using your -- your lingo
12 there. Yeah.

13 Q. Okay. Thank you.

14 And so I want to get back, briefly, to the
15 discussion we were having before about how sort of GID
16 would react to both having assessments levied on it as
17 though the -- under the hypothetical that the
18 improvements are there now, yet because they're not
19 actually there, they're not able to increase rent.

20 And I was wondering if -- it sounds like the
21 testimony before was essentially the GID would take a
22 financial hit from that, because you're not actually
23 able to just increase rents without there being the
24 completed improvements.

25 My question is once the improvements are

1 completed, say in five years from now, what will GID
2 have to do to sort of make up that gap?

3 A. What would we have to do to make up that gap?

4 So, you know -- so what we -- well, when I took
5 a long time to calculate earlier to -- to break even, if
6 you will, we have to raise rents.

7 Again, that would be hard to do if holding all
8 else constant; right?

9 Yeah, it would be -- it would be a hit to our
10 bottom line. I don't know, it's hard to answer your
11 question. There's not much we could do.

12 If the end result is an assessed fee that we
13 must pay, then, you know, it's -- it's a hit to our
14 business here.

15 Q. And I guess to put my question another way.

16 If you -- if you weren't actually able to
17 increase rents in the next five years because there's no
18 demand there because the improvements aren't there, but
19 then after the improvements are completed, let's say
20 there is a bit more of a demand, because the
21 improvements are there, I'm wondering if -- even if you
22 were able to raise rents after the five years because of
23 the improvements being there, if you would still sort of
24 be in a hole because you went, you know, five years
25 being assessed without being able to raise rents. If

1 that's accurate.

2 A. Sure. Sure. That would be accurate. You would
3 be paying the annual fee every year for the five years.

4 And then, again, that's a hypothetical that the
5 improvements help demand at my building which drives up
6 rents. Again, I don't agree with that.

7 Q. Right.

8 So I guess, it seems as though my question
9 assumes that you would be able to increase rents based
10 on the improvements.

11 But is it your testimony that that's not
12 necessarily the case?

13 A. Correct.

14 Q. Will -- apart from an analysis on the rental
15 rate, will the -- in your opinion, will the waterfront
16 amenities or the increased -- the improvements to the
17 street, would they impact the fair market value of the
18 property at all?

19 A. Not as a direct, immediate result. It's
20 certainly not a benefit. Arguably, the other way, you
21 know, you're improving the area. You're -- essentially,
22 you know -- and, again, I don't know if taking down
23 that -- the viaduct is part of this discussion, but
24 assuming the -- you know, once that's removed and
25 there's beautification along this pathway, you could

1 argue that, you know, you would allow potential better
2 uses for -- for additional "resi" on the waterfront.
3 Right?

4 So you could see -- I could see that, you know,
5 developers would be somewhat attracted to, you know,
6 adding more residential use buildings, i.e. building
7 more apartments along the waterfront, which would be --
8 you know, you're adding supplies to a market that's
9 already pretty saturated with supply coming online with
10 pipeline over the next few years. That would not be
11 good for -- for my rents. That would be the reverse
12 opposite; right?

13 Q. Yeah. And it sounds like you were saying that a
14 lot of that benefit comes from the viaduct removal?

15 A. Yeah. Yeah. Viaduct removal, and then if
16 there's any kind of out-zoning opportunities that
17 allows -- or allowance of developers to, you know,
18 change the use of certain parcels for -- for residential
19 construction, that would not have a positive benefit for
20 the value of my building or rent in the area.

21 Q. So it sounds like what you're saying is -- is
22 factors besides what's in the LID project are what would
23 increase value; right? Because the viaduct is not part
24 of the project of zoning. These other factors would
25 lead to a more valuable property rather than the

1 improvements?

2 A. Yeah. I'm saying that all of that leads to
3 out -- more appreciation in value for the medium parcels
4 along that path. But to respect of where Martin exists,
5 it would be negative. Because you could create a
6 potential adding supply to a market, again, that has a
7 pretty big pipeline of apartments coming online in the
8 next year to two.

9 Q. So are you -- are you making the point that that
10 would put your property at a competitive disadvantage?

11 A. Yes. Assuming that, you know, this leads to
12 more supply coming online in the near future along the
13 waterfront. Which, you know, you could argue that that
14 could be the case.

15 Q. If there were, then, more supply along the
16 waterfront and closer to the improvements, what impact
17 would that have on The Martin's average rent? Do you
18 think?

19 A. Well, (indecipherable) will put a struggle on
20 them, downward pressure. You're adding supplies to the
21 market. Yeah, it would be a downward pressure on the
22 market on rents.

23 Q. What about the cap rate?

24 A. That -- I don't think that would have any effect
25 on the cap rate. I don't think that impacts capital

1 flows into this market.

2 Q. All right. Last question for Martin, then.

3 Given all of that, do you see a special benefit
4 for The Martin due to the LID project?

5 A. Not directly.

6 MR. STILLWELL: I have nothing further on
7 direct.

8 HEARING EXAMINER VANCIL: Cross?

9 MS. THOMPSON:

10 CROSS-EXAMINATION

11 BY MS. THOMPSON:

12 Q. Hi, Mr. Lee.

13 A. Hi.

14 Q. I just have a few follow-up questions for you.

15 On direct examination, you stated that when you
16 review your -- the actual financials for The Martin, the
17 cap rate is lower than what would be assumed as part of
18 the -- the value that's been assessed in the study; is
19 that right?

20 A. Oh, the reverse.

21 Q. The reverse?

22 A. Yeah. So to just kind of repeat that so it's
23 clear.

24 What I said there was that the assessed value as
25 part of this -- I'm probably using this word wrong, but

1 "study," you know, the 126,396,000, using our actual
2 performance operating financials of the building, it
3 concludes to roughly a 3.4 percent cap rate.

4 In the market right now, you know, what we're
5 seeing from recent trades over the last year, year and a
6 half, for kind of high-rises, it's typically around,
7 like, a 4 percent mark. Somewhere between that. So,
8 like, 4, 4-1/4.

9 So -- so the conclusion, what I was trying to
10 get to was that the assessed value from this LID
11 study -- and, again, I apologize if I'm using the wrong
12 terminology here. But it's -- it's really high compared
13 to what this -- this project would probably trade for
14 today.

15 Q. Okay. So maybe I'm confused.

16 You mentioned the actual financials. And I'm
17 assuming, you know, calculating the net operating income
18 for the property and looking at that using -- applying a
19 cap rate and then coming to a value for basically the
20 income value approach to property; right? Where --

21 A. Yeah.

22 Q. -- you're -- you've calculated on your end what
23 you would anticipate a buyer would be willing to buy The
24 Martin at today; is that right?

25 A. Sure.

1 Q. And that calculation is -- results in a value --
2 a before value that's less than what's been assessed in
3 the ABS study; is that right?

4 A. That would be correct, yeah.

5 Q. Did you or anyone at The Martin provide that
6 actual financial information to the City?

7 A. No.

8 Q. And you stated earlier that the City didn't
9 request information about The Martin. But, again, did
10 you independently offer the City any specific
11 information about The Martin property as part of the
12 assessment process?

13 A. To my knowledge, I haven't offered. And there's
14 one other contact at GID that was involved with this
15 process, and I don't think he -- to my knowledge, he
16 was -- he did proactively offer that.

17 Q. And has The Martin engaged an appraiser to
18 perform an individual appraisal of The Martin property,
19 recently?

20 A. Yes.

21 Q. Have you submitted that appraisal information as
22 part of your objection in this proceeding?

23 A. I have not.

24 Q. Do you plan to?

25 A. Was that -- is that a requirement? I'm not

1 aware.

2 Q. My question is just -- because your objection
3 is -- part of your objection is that the before value
4 that's been assessed to The Martin in the study is
5 higher than it should be.

6 My question is what's the basis for that? And
7 if it's -- if it's that you've obtained a professional
8 appraisal -- appraiser to appraise the property, whether
9 that's -- that information is going to be made part of
10 this proceeding or not?

11 A. So we do have a third-party appraised value that
12 is certainly lower than the number that we're talking
13 about here.

14 I -- I'm not sure how to answer that, because
15 that third-party appraisal value is created for our
16 internal purposes, you know, and we -- we mark -- market
17 all -- most of our properties on a quarterly basis just
18 due to our kind of account structure here.

19 I'm not sure -- I don't know the answer to your
20 question, if we are able to furnish that specific
21 appraisal.

22 Q. Okay. So it sounds like, as part of The
23 Martin's internal processes, you have periodic
24 appraisals done so that you have an understanding of the
25 value of the property; is that right?

1 A. That's right. Every quarter.

2 Q. Every quarter.

3 So it's not something that was prepared
4 specifically in relation to this proceeding?

5 A. Not at all.

6 Q. Okay. You also -- earlier you did some
7 calculations of the increase in rent that you would need
8 to apply across the 188 residential units; is that
9 right?

10 A. Correct.

11 Q. So I wanted to get a sense of what other type of
12 income the building has aside from residential rent.

13 You mentioned that there was a restaurant
14 tenant.

15 Are there any other commercial tenants in the
16 building?

17 A. So primarily most to all of the income from the
18 building is derived from residential use.

19 You know, the retail is only -- the retail use
20 is a pretty small percentage of the total income from
21 the building.

22 The -- for the 188 units that we rent out, you
23 know, there are typically a number of units that are
24 rented out to businesses for kind of corporate housing;
25 right?

1 So you have -- again, you have, like, Amazon
2 across the street and a number of different companies
3 that have your executive relocations, intern stays, kind
4 of sort of shorter-term nature. And so we do have a
5 small percentage, typically, that would be directly
6 leased to a business but for residential purposes.

7 But I don't know the exact number of that
8 business off the top of my head. But we typically cap
9 that at 5 percent. So no more than 5 percent throughout
10 the year will we have, you know, direct leases to a
11 business for residential use.

12 But the primary driver of the -- the operations
13 here at The Martin is residential.

14 Q. And so is there -- how many commercial tenants
15 do you have?

16 A. Right now -- I can look it up, but it might take
17 a few minutes.

18 Do you mind?

19 Q. Can you just give me an estimate? So it's more
20 than one...

21 A. It's like 5 percent of the 188 units, ever.

22 Q. Oh.

23 A. We have a threshold that we never cross. Or we
24 try to.

25 Q. Sorry. What I mean by "commercial tenants" is

1 not like the corporate units that you're talking about,
2 but actual, like, retail in the building.

3 A. Oh, okay. We have one -- one restaurant on the
4 ground floor.

5 Q. Okay. And you also have parking in the
6 building?

7 A. That's correct.

8 Q. And is that parking available to tenants as part
9 of their rent or do they pay a premium to park in the
10 building?

11 A. That -- that is a great question. I believe, to
12 my knowledge, they pay a premium per month.

13 Q. And is that --

14 A. We have pretty limited parking at Martin. So I
15 think some of our -- some of our studios. I think, to
16 the best of my knowledge, I think certain units come
17 with like one slot, one parking stall for, like, one
18 bedrooms and twos. I don't think studios come with one.
19 And then if you wanted to, you could rent on -- as an
20 additional fee for additional parking.

21 Q. And is parking also available to the public at
22 the building? Or is it just residential parking?

23 A. Great question.

24 As of today, we do not have parking to the
25 public on a -- kind of a transient basis, no. It's all

1 internal to our rent roll.

2 Q. So earlier your calculation about how much you
3 would need to raise rent on the residential units in
4 order to make up for the assessment, the proposed
5 assessment in this case, that was a calculation that
6 assumed the only place that you could increase rent or
7 income, for lack of a better word, was through the 188
8 units and didn't include the commercial tenant or
9 parking income; is that right?

10 A. That would be correct. That would be correct.

11 So the retail tenant is locked in for a term of
12 their lease, so I wouldn't be able to do anything there.

13 You could -- the parking that we have is
14 month-to-month by nature. So technically, we could
15 offset some of that there. But it would be -- yeah,
16 it's not a quick calc that I could produce.

17 But to answer your question, no, I did not
18 include the parking.

19 Q. And do you know off the top of your head when
20 that commercial lease term ends?

21 A. No, I'm embarrassed. But, no, I don't.

22 Q. Do you have a --

23 A. Again, I could look it up, because I've got my
24 computer here if you would like that.

25 Q. Do you have an estimate of one year? two years?

1 three years.

2 A. I can look it up. Do you mind? I can open a
3 file.

4 HEARING EXAMINER VANCIL: Mr. Lee, it's
5 actually best that you not be jumping in and looking at
6 stuff on your computer. We're in a live hearing with
7 recording.

8 MR. LEE: Okay.

9 HEARING EXAMINER VANCIL: And so you really
10 need to be acting as if you're a witness in a courtroom
11 and not doing independent research or you could have
12 questions about what you're looking at and we have to
13 try to get it submitted to the record and that kind of
14 thing.

15 MR. STILLWELL: I see.

16 HEARING EXAMINER VANCIL: If you could just
17 operate from your memory and what you know, that that's
18 perfectly acceptable. I appreciate the effort you are
19 willing to put in, though.

20 MR. STILLWELL: Okay. Understood.

21 BY MS. THOMPSON:

22 Q. So just to -- to repeat here. Your testimony is
23 that you can't recall at this time what the term of the
24 lease is; is that right?

25 A. That's correct.

1 MS. THOMPSON: Okay. Thank you.

2 No further questions.

3 HEARING EXAMINER VANCIL: And redirect?

4 MR. STILLWELL: None.

5 HEARING EXAMINER VANCIL: Thank you,

6 Mr. Lee.

7 MR. LEE: You're welcome.

8 MR. STILLWELL: Mr. Lee, the objectors would
9 like to next turn to the Cirrus building, which is Cause
10 No. CWF-0412.

11 HEARING EXAMINER VANCIL: And, Counsel, if
12 you would like, you can just read the end of the case
13 numbers. You don't have to do CWF zeros and all that,
14 just 412. I'm using just the -- we know what comes
15 before that.

16 If you do, that's fine. Just let you know
17 on my end it is easier.

18 MR. STILLWELL: Anything we can do to cut
19 down on repetition, the better.

20 HEARING EXAMINER VANCIL: Right.

21 MR. STILLWELL: So, thank you.

22 DIRECT EXAMINATION

23 BY MR. STILLWELL:

24 Q. Okay. So thank you, Mr. Lee.

25 So we're moving on to the Cirrus.

1 Could you please describe that property?

2 A. Cirrus is a -- another high-rise. It's on 8th
3 and Lenora, in the Denny Triangle area. It is a Type 1
4 construction. It's a more recent build than Martin.
5 It's a 2015 build. It's got some ground floor retail.
6 We've got a restaurant on the ground floor and I think a
7 juice shop. So two retail tenants down there.

8 So 355 residential tenants. Primary --
9 primarily a residential building. Average rent here is
10 a little bit higher than \$3,000 a month.

11 Q. You mentioned Type 1 construction here and also
12 with The Martin.

13 Would you mind explaining what that means?

14 A. Yeah, that's a great question.

15 I think it's a concrete frame. Reinforced
16 concrete.

17 Q. Okay. So it has to do with the material used?

18 A. Correct. Yeah. As opposed to like, timber,
19 wood.

20 Q. Oh, I see.

21 A. Yeah.

22 Q. And then, just to confirm, again, does GID also
23 own the Cirrus?

24 A. Correct.

25 Q. When did it purchase the building?

1 A. Oh, that's -- I don't know exactly when the
2 parcel land was purchased. I believe -- we have an
3 in-house department that built this, and that was
4 completed in 2015.

5 Q. What would you say is the average length of
6 lease at the Cirrus?

7 A. Pretty similar to Martin. You know, two, three
8 years, tops. A lot of -- given that it's literally
9 across the street from, you know, a few of these Amazon
10 towers, some of the employees there are a little bit
11 more transient.

12 Especially, you know, there have been kind of a
13 relocation of their worldwide operations to --
14 department to Bellevue. So we've had quite a few
15 move-outs since that was announced sometime last year.
16 But pretty transient nature, I would say.

17 Q. And does it -- it sounds like, then, the primary
18 cause of tenants moving in and out of your building are
19 workplace-related?

20 A. Yeah, probably -- relocation for jobs and home
21 purchases, specifically.

22 Q. Any -- any indication that proximity to the
23 waterfront or its, you know, future improvements have
24 anything to do with tenancy?

25 A. No. Not positive nor negative.

1 Q. What's the occupancy rate?

2 A. Right now it -- it's -- as of today, I don't
3 know. But, generally, we're pretty stabilized at
4 around -- at around 95 percent.

5 Q. And you mentioned two retail tenants.
6 Do you know what those are specifically?

7 A. Yeah, one restaurant. Kind of café restaurant
8 and one juice shop.

9 Q. And approximately how far is the Cirrus from the
10 waterfront?

11 A. It's under a mile. I don't have the specific
12 distance. Maybe a half mile, something like that. It's
13 a few blocks more than Martin.

14 Q. It's further away from the The Martin than --

15 A. That's correct.

16 Q. -- to the waterfront, you would say?

17 A. Yes. Exactly.

18 Q. What, in your opinion, is the major neighborhood
19 draw of the Cirrus?

20 A. Probably be Amazon. The Spheres are also a
21 block or two away, along with their towers. You got the
22 cool Amazon store downstairs. Across the street. So
23 employment is a huge driving factor here.

24 In addition to Amazon, you've got a lot of other
25 tech companies as well that's driving up a lot of the

1 kind of growth of -- of rent and certainly the draw to
2 this area.

3 And outside of that, I would say there's a Whole
4 Foods there that's, like, two or three blocks north of
5 here in Denny Triangle. That seems to be a great --
6 popular thing that we point out.

7 The building itself has fantastic amenities.
8 You know, an in-house gym and a bunch of rooftop deck.
9 And a number of other things, you know, as part of the
10 original instruction that was absolutely a draw.

11 Yeah, the ground floor retail is great. And the
12 ground floor retail across the street at Stratus that --
13 which we'll talk about next. It's also a nice draw
14 that's, you know, got a Starbucks there, a princy
15 (phonetic) kind of concept. There's a -- there's also a
16 restaurant, as I mentioned, on the ground floor of
17 Cirrus. Got a gym. Fairly, I think, in and around the
18 area to we're kind of retail restaurants. Might have
19 been kind of more localized as a good draw.

20 Q. What -- what is the purpose of creating so many
21 amenities within the building or nearby the building?

22 A. Jacob, it's because everyone else is doing it.

23 Q. Okay.

24 A. Sorry. It's my attempt to be funny.

25 But, yeah, I think it's -- you know, you build a

1 brand-new high-rise in Seattle anywhere in, you know,
2 the kind of urban core and it's expected to have all of
3 these amenities because your competition has it; right?

4 Whether it's kind of rooftop deck where you have
5 barbecues and internal gyms that, you know, allow your
6 residents to be on site. Pet relief areas. Dog wash
7 stations. Yoga rooms. You know, it kind of runs the
8 gamut. But, you know, every building to try to keep up
9 with the competition or set itself apart to track
10 through tenancy, right, is compelled to include a lot of
11 these amenities.

12 Q. Is the desired effect of those sort of enclosed
13 amenities to create a more localized space where your
14 tenants have access to a variety of amenities, like,
15 sort of cafés, restaurants --

16 MS. THOMPSON: Objection. Leading.

17 MR. STILLWELL: Withdrawn.

18 HEARING EXAMINER VANCIL: Sustained.

19 BY MR. STILLWELL:

20 Q. Could you please describe the -- the purpose
21 behind -- including so many localized amenities?

22 A. To draw tenancy to rent at our building. Yeah.
23 And, again, to compete better with existing product
24 that's already built.

25 Q. And what is the -- what is the effect of having

1 put in those amenities?

2 A. One would hope higher rents.

3 Q. For -- for the Cirrus, did the City ever request
4 information from you or, to your knowledge, anyone at
5 GID about the proposed final assessment?

6 A. To my knowledge, no.

7 Q. Okay. And were you ever asked to provide
8 feedback on the preliminary assessment or, to your
9 knowledge, anyone at GID?

10 A. No.

11 Q. And did anyone from the City request site access
12 from you or, to your knowledge, anyone at GID for the
13 property for the purpose of preparing the final benefit
14 summary?

15 A. No.

16 Q. Have you had a chance to review the pre-LID
17 completion value of the Cirrus offered by the City?

18 I'm sorry. Could you repeat the answer?

19 A. Yeah. Yes.

20 Q. In your professional background and experience,
21 do you feel that was an accurate valuation?

22 A. No.

23 Q. Could you please explain why?

24 A. Can I relate back to what was previously
25 discussed from (indecipherable) or is it a whole new

1 discussion?

2 HEARING EXAMINER VANCIL: He can relate,
3 back, yes. This is all -- your whole presentation is a
4 single hearing. I appreciate you segmenting it for
5 organization purposes, but you don't have to pretend
6 that it didn't happen.

7 MR. STILLWELL: Thank you.

8 I appreciate that.

9 BY MR. STILLWELL:

10 Q. You're able to refer back to the estimate.

11 A. Great. Great. So I don't have to repeat the --

12 Q. Correct.

13 A. But it's the same top process rate. Utilizing
14 the same methodology here, if I were to take, again, and
15 analyze this two ways. One was taking trailing three
16 months of income over trailing 12 months of operating
17 expenses, method one; and then, method two, I also
18 looked at just trailing 12 months of actuals,
19 calculating that net operating income, dividing that by
20 the assessed value here for the LID. It comes to a very
21 low cap rate, to which, you know, you wouldn't probably
22 find that trading in the market based on recent sale
23 comps of similar types of structures or buildings.
24 Again, you know, recent trade (indecipherable)
25 somewhere between 4 percent and 4-1/4 percent cap rates.

1 Using our actual financials here on non-operating
2 income, dividing that by the LID assessed values, you
3 know, you're talking about -- somewhere between 3.3 to
4 3.5 percent, which again, is much lower than your kind
5 of better market rate right now for cap rates.

6 So -- so I find that the assessed value is
7 relatively much higher than what this building would be
8 typically valued at today or to trade at, if it were to
9 be positioned for sale.

10 Q. Is the Cirrus -- I'm sorry, or -- yes, is the
11 Cirrus able to take more advantage of its proximity to
12 the streetscape improvements or the waterfront
13 improvements than The Martin?

14 A. No. For -- for the similar -- similar argument
15 as to before, it is even further away, so -- so no.

16 Q. So then is it your testimony that the effect on
17 rents would be similar, if not more -- if not more
18 difficult given its proximity?

19 A. Yeah, I would argue the same -- if that's --
20 again, it's neutral to no effect at worse, once this
21 project is complete in five years, you know, new supply
22 for residential would be felt along the waterfront,
23 thereby providing more supply for the market and
24 providing downward pressure in the "R" rents here. So
25 somewhere between that range of neutral to negative

1 on -- on our rents.

2 Q. And you -- you mentioned before that the -- the
3 average term of lease is approximately two to three
4 years.

5 And so once new supply comes to the market, what
6 would you expect would happen to your occupancy rates
7 given you might have lease terms for a year or two.

8 A. You know, typically the tenancy that's in place
9 right now, materially, I would say most of those folks
10 would have cycled on to the next project already. So no
11 impact there.

12 You know, it's always kind of -- I'm trying to
13 answer your question.

14 But, you know, typically it's a balance between
15 rent and occupancy; right?

16 And so if you're saying that potentially there
17 is new supply, again, only all else constant being felt,
18 you know, your rents would go down or your occupancy
19 will go down if you held your rents flat. But,
20 otherwise, it would be a negative impact to my operating
21 profits, profits and loss.

22 Q. And given -- given that result, what is -- can
23 you comment on how the -- how the improvements impact
24 the property sort of comprehensively? Would you say it
25 is a net positive or a net negative to the building?

1 A. Neutral. Nothing. No effect. I think it's too
2 far away.

3 Q. Okay. At -- and do you mean it's a neutral
4 effect right now?

5 A. Yeah, there's no effect.

6 What I mean by "neutral," is there's no effect.

7 Q. What about in five years, assuming the
8 improvements are complete, how would you -- how would
9 you classify the impact of the improvements then?

10 A. To this project?

11 Q. Yeah.

12 A. Same -- it would be no impact. However, you
13 know, worse case is developers decide to build new
14 residential towers, increase in supply along the
15 waterfront, would put downward pressure on the rents
16 here. So hoping all holds constant, it would not be
17 good.

18 Q. Do you see any aspect of the LID project that
19 would be a net positive for the building?

20 A. No. It's pretty far away.

21 Q. Similar to The Martin, but considering that
22 there's the potential that you will be assessed right
23 now for improvements that don't come online for another
24 five years, would you be able to make up that difference
25 now by raising rents at the Cirrus?

1 A. The same methodology as we talked about before,
2 yeah, we would have to raise rents to offset that
3 operating expense increase due to the assessment.

4 Q. And how would that impact the --

5 A. Or -- or parking to -- to fully answer it. Yes.

6 Q. And how would that impact the competitiveness of
7 the Cirrus relative to similar buildings in the area?

8 A. Well, I mean, we couldn't arbitrarily just raise
9 our rents \$50, \$60 because -- you know, we hinge upon
10 our competitors in terms of what they're charging for
11 the -- for the product that you offer your renters, and
12 so if I arbitrarily just raise rents \$60, \$70, you'd
13 probably find, potentially, tenants not renting at our
14 building. And so, you know, our occupancies would
15 probably fall a little bit.

16 Q. And when -- okay. Thank you.

17 In your opinion, would the ground floor retail
18 tenants derive any benefit from the street improvements?

19 A. No.

20 Q. Why not?

21 A. Similar to the argument at first, you know, we
22 have a -- we have a restaurant here. If a similar --
23 you know, if a new building were to pop-up with ground
24 floor retail next to the waterfront, you know, that
25 charge relatively similar rents, it provides our current

1 tenant an option to relocate, as that time of
2 expiration, you know, it gives an option to leave.

3 So that wouldn't be good for all the reasons
4 that we discussed earlier for Martin. A re-tenanting
5 cost to fill that new space, downtime to find a new
6 tenant, paying a broker to fill the space would all be
7 costs to our business.

8 But in the more near term, you know, if -- if --
9 although near term is not really accurate because it's
10 going take five years anyway.

11 But assuming we're five years ahead now, you
12 know, that this -- the build-out is complete and there's
13 new retail along there that competes with this
14 restaurant, then you could argue that, you know, that
15 (indecipherable) draw away from the specific restaurant
16 which probably would be hurtful for that business owner.

17 Q. Do you know approximately how much of GID's
18 profit or revenue from this building comes from the
19 retail tenants?

20 A. Again, pretty marginal. But this is primarily
21 residential. So I don't know off the top of my head
22 that percentage, but it will be pretty marginal compared
23 to the rest of the residential here.

24 Q. And last question here. Is there any
25 relationship in your professional view between

1 improvements down on the waterfront and your tenant and
2 the demand for apartment dwelling units at the Cirrus?

3 A. No. Probably no, no. Yeah, I don't -- I don't
4 think so. Unless -- unless -- here's a hypothetical.
5 If -- if you argue that, you know, the improvements
6 along the waterfronts create jobs and those jobs would
7 be -- you know, would have to be pretty high-paying
8 jobs.

9 Our average rent here is, you know, like 3025 to
10 3050 a month, and that's kind of like the mean average.
11 So it goes up from there if you're talking about two
12 bedrooms.

13 Our typical credit check process is 2-1/2 times
14 rent up to -- I think it's either 2-1/2 times or 3.

15 So, you know, just for simple math, three times.
16 So someone would need to make nine grand a month to live
17 here. So it would be -- to fit the argument that the
18 waterfront improvement project would help our tenant
19 demand, it would have to provide for, you know, a
20 plethora of new jobs that would have an average annual
21 income of, you know, call it a hundred grand or more;
22 and that's for, again, kind of like the -- the mean
23 average of our rents here and certainly the two bedrooms
24 go up from there.

25 Two bedrooms are roughly, you know, like 4,500

1 bucks or so. So three times that would be the -- kind
2 of like credit, you know, minimal -- minimal amount of
3 salary you would need to have in order to qualify to
4 live here. So -- so a lot of hypotheticals.

5 But, you know, I -- I don't know if that's where
6 this is headed towards. But it would require, you know,
7 high-paying jobs, the growth of that, in order to
8 increase demand for our building here or to have a
9 positive impact.

10 Sorry, kind of roundabout answer to your
11 question.

12 Q. No, that's fine.

13 And to button it up, is it your testimony, then,
14 that it's the -- the waterfront improvements would have
15 to create a new job center versus a tourism market
16 essentially?

17 A. A high-paying job center; correct.

18 MR. STILLWELL: Nothing further on direct.

19 HEARING EXAMINER VANCIL: Ms. Thompson?

20 CROSS-EXAMINATION

21 BY MS. THOMPSON:

22 Q. So similar to your testimony about The Martin
23 apartments, you testified that you looked at the actual
24 financial information for the Cirrus apartments and did
25 some calculations to determine, based on net operating

1 income, whether the proposed pre-LID assessment value
2 was high or low based on the actual financial
3 information. Is that correct?

4 A. Correct. The implied cap rate based on the LID
5 assessed value is much lower than, you know, what the
6 market would typically trade at.

7 So concluding the fact that it's assessed at
8 much higher value than what the market would trade today
9 for this project.

10 Q. And you're drawing conclusions about what the
11 market would trade based on the actual financial
12 information that the Cirrus apartment has?

13 A. Yes. Based off of the trailing financials of
14 net operating income over the last three -- three to
15 12 months, and then also utilizing an average cap rate
16 to which we've seen in the market for similar types of
17 projects.

18 Q. And did you provide -- did you or anyone at GID
19 provide that financial information to the City?

20 A. I haven't. To my knowledge, I certainly did
21 not.

22 Q. And you also testified that in response to the
23 proposed assessment, you wouldn't just be able to raise
24 your apartment rents because you have to remain
25 competitive with apartment buildings in the area; is

1 that correct?

2 A. Correct.

3 Q. So --

4 A. Well, to better answer your question, we -- we
5 couldn't, but if we did, you know, our -- our price to
6 value to which, you know, a tenant would ascribe living
7 at our building won't be as attractive as such. They
8 may choose other competitive buildings to live at and,
9 thus, our occupancy would decrease a little bit, you
10 know, assuming that we were, again, raising the price
11 with nothing else to provide.

12 Q. And you mentioned earlier that something that's
13 driving your occupancy rates at the Cirrus is the tech
14 employees; is that right?

15 A. Local job growth; correct.

16 Q. So would you consider your top competitors to be
17 apartment buildings within that Denny Triangle area?

18 A. Yes.

19 Q. And those buildings are also within the LID
20 boundary, are they not?

21 A. I don't know if they all are. Some of the new
22 supply coming online is, I think -- I think slightly
23 north. But some are; correct.

24 Q. So for the apartment buildings that are your
25 competitors that are also in the LID boundary, they will

1 also be having to deal with an assessment, and so would
2 that change your opinion about whether you would be able
3 to raise rents at the Cirrus?

4 A. No. You would have to get all of the landlords
5 together and, I guess, collectively increase rent at the
6 same rate. But that would be collusion, I presume. So
7 that's not good.

8 So -- so no, to answer your question.

9 Q. So you anticipate that apartments in the area
10 will absorb the cost of the assessment and not increase
11 rents?

12 A. Yeah. I mean, you're now providing -- so take
13 it from a context of a new renter. You're coming in
14 and, you know, just because I, as the owner of Cirrus is
15 incurring a new cost, it's hard to justify, you know,
16 increasing your rents, you know, call it 50, 60 bucks
17 for the year but not providing anything that's
18 different. So -- so, yeah, I'm -- I'm not sure if that
19 answers your question.

20 Q. Well, I mean, don't apartment owners have to do
21 that all the time with new property taxes?

22 A. Correct. They -- they -- the operating expenses
23 increase, yep.

24 MS. THOMPSON: No further questions.

25 HEARING EXAMINER VANCIL: Any redirect?

1 MR. STILLWELL: Just -- just one.

2 REDIRECT EXAMINATION

3 BY MR. STILLWELL:

4 Q. If you're having to increase your rent -- I'm
5 sorry.

6 If you're having to increase your rent in order
7 to make up for the assessment -- no, I'm sorry. The
8 question is too complicated in my mind.

9 No redirect.

10 A. Because can I add one bullet that I think is
11 relevant to, you know, the question that is being asked
12 right now --

13 HEARING EXAMINER VANCIL: Mr. Lee, I'm
14 sorry. Mr. Lee.

15 MR. LEE: I'm sorry -- it's against the
16 rules, huh?

17 HEARING EXAMINER VANCIL: Yeah, you're not
18 allowed to just comment. If there's a question for you,
19 you can respond to it; otherwise, there's not that
20 opportunity.

21 MR. LEE: I apologize.

22 THE COURT: Not a bit.

23 All right. Are we gonna proceed with
24 Mr. Lee? Is he finished? Or who's your next witness?

25 MR. STILLWELL: We have one more -- one more

1 with Mr. Lee, and then we will be finished with all the
2 GID properties.

3 HEARING EXAMINER VANCIL: Okay.

4 MR. STILLWELL: And so we can sort of power
5 through the 3:00 -- I know you usually break at 3:00.

6 HEARING EXAMINER VANCIL: Somewhere around
7 3:00. Between 3:00 and 3:30.

8 MR. STILLWELL: Okay.

9 HEARING EXAMINER VANCIL: Depending on where
10 we are with witnesses. Mr. Lee is here. I say, let's
11 just do it. At least he can be free.

12 MR. STILLWELL: Yep. Sounds good.

13 All right. The objectors would like to
14 raise appeal -- or re- -- re-open appeals 0410 and 0411
15 with regard to the Stratus building.

16 DIRECT EXAMINATION

17 BY MR. STILLWELL:

18 Q. Mr. Lee, does GID also own the Stratus building?

19 A. That's correct.

20 Q. And could you please describe the Stratus
21 building?

22 A. The Stratus building is across the street from
23 the Cirrus building. It's 396 units, high-rise. Got
24 ground floor retail, a little bit more than Cirrus. A
25 little bit more than double. So 9200 square feet of

1 retail. It's on 9th and Lenora. It's a little bit --
2 it's a little bit newer than Cirrus. It's pretty
3 recently built, 2018. Average rents are a little bit
4 higher than Cirrus; on the average, about \$3400 a month.

5 Roughly, equivalent distance to the waterfront
6 from Cirrus, because it's across the street.

7 Q. And what is the average term of lease at the
8 Stratus?

9 A. I mean, this was literally just built recently
10 in 2018, so -- so far a lot of short-term tenants. Have
11 been there for two years, roughly, year and a half, two
12 years.

13 But the -- the turnover ratio is pretty -- would
14 be pretty similar to Cirrus and Martin.

15 So relatively the same term length, if we were
16 to hypothesize, you know, were out two, three years and
17 kind of looking back. Pretty similar to Cirrus, I would
18 imagine.

19 Q. And do you have a sense of the occupancy rate at
20 Stratus?

21 A. We hit stabilization last year. It's been
22 trending around 94, 59 percent.

23 Q. So is it your -- your view that this is a very
24 similar operation as Cirrus, then --

25 A. Yep.

1 Q. -- with similar statistics?

2 A. Very, very similar. Their tenant profile is
3 very similar. The rents are a little bit higher. You
4 know, nicer -- some of the finishes are just a little
5 bit nicer. Amenities are a little nicer as well.
6 Everything is a little bit nicer.

7 Q. Does it also have --

8 A. Generally -- generally same kind of demographic,
9 more or less.

10 Q. And what are those kind of demographics?

11 A. High proportion of tech employees in and around
12 the area. Certainly a big exposure to Amazon. It's
13 just across the street.

14 Q. And does it also have ground floor retail?

15 A. It does. Yeah.

16 Q. What are those tenants?

17 A. You have some kind of retail café. There is a
18 gym as well and then -- the newest tenant is Stretch 22,
19 it's kind of like this cool, upscale stretch -- I'm not
20 sure how to describe it. I've never personally attended
21 a session or had -- you know, kind of -- yeah, it's a
22 stretch lab, if you will.

23 Q. Okay. Can you comment on -- maybe you have
24 already, but clarify why the rents are a little bit
25 higher here than at Cirrus?

1 A. Sure. Unit amenities are slightly nicer. The
2 amenities in the building are slightly nicer. You have
3 more square-footage of the rooftop deck for sure. You
4 have just slightly newer construction, newer project.

5 Q. So I want to ask you about when -- let's see if
6 I can phrase this correctly.

7 When -- in your experience, if a building like
8 the Stratus is being levied with a municipal tax, do you
9 find that it's typically that tax is -- is for a
10 particular benefit that you realize right then?

11 A. I'm not sure I know how to answer that question.

12 Q. Let me rephrase.

13 When you're -- when you're assessed some sort of
14 levy or tax --

15 A. Yeah.

16 Q. -- do you find that as a building
17 operator/owner, you see a benefit that that tax is
18 paying for immediately, for example, improved streets or
19 a new sewer system, something like that?

20 A. Directly, immediately, no.

21 Q. Okay. When being assessed the LID assessment,
22 in your experience -- let me. I'm sorry let me withdraw
23 that question.

24 Have you ever managed a property that was -- had
25 a similar Local-Improvement-District-type assessment to

1 pay for a capital improvement project in the area?

2 A. I'm sure I have in the past, but I can't recall
3 right now specifically.

4 Q. Is there anything with regard to the Stratus
5 that is different than the Cirrus with regard to impacts
6 that the waterfront amenities will have on the building?

7 A. No. I think everything we discussed earlier
8 would be relevant to Stratus. No material differences
9 of that.

10 Q. Would there be -- would there be any difference
11 in your need to raise rental rates in order to make up
12 the cost of the assessments?

13 A. So what I wanted to volunteer earlier is now
14 relevant to your question, so we'll -- we'll discuss
15 this here.

16 You know, the -- the notion of raising rents
17 because of my expenses go up, typically is a
18 (indecipherable).

19 For example, if my property taxes go up ten
20 percent, it doesn't mean I can immediately offset that
21 loss with a gain by pushing my rents. It just
22 doesn't -- doesn't function that way.

23 So, for example, whether it is property taxes or
24 payroll or the LID assessment, if my expenses go up, it
25 doesn't create an opportunity for me to push rates

1 for -- in other words, my renters will not pay me a
2 higher rent just because I'm trying to offset my loss
3 by, you know, charging more. That relationship, I don't
4 think, exists.

5 My rents are driven up by a demand by -- you
6 know, job growth in the area, immediate impacts that are
7 positive experiences for people that live there, and,
8 again, immediate -- in, you know, immediate few blocks.

9 Whether it is like a Whole Foods that is being
10 installed or some cool new -- you know, something new
11 and interesting that's useful that creates a positive
12 experience for -- for living there. That -- that's what
13 provides opportunities to drive up rent; right?

14 Or -- or, collectively, if all the other
15 competition is, you know, charging a certain amount for
16 their product, then -- then it's an opportunity for me
17 to increase rents.

18 I can't -- I can't -- I can't increase rents
19 because my operating expenses go up. So -- so to, you
20 know, to this question it -- you know, I think the
21 answer is, yes, I could attempt to increase the rates.
22 But it's not like I would -- I would break even on
23 that -- on that annual assessment cost to my P&L.

24 Q. And "P&L," for the record, stands for what?

25 A. Oh, sorry, profit and lost. My net income for

1 the year.

2 Q. Okay. Thank you.

3 And so, is it, then, your testimony that you
4 don't view the LID improvements as the types of
5 improvements you were just describing that would allow
6 you to raise rents because it's a -- increases the
7 desirability of the property?

8 A. Correct. Yeah.

9 Q. How -- how do you view the LID improvements and
10 the assessments being imposed because of them?

11 A. Well, it -- it's a negative. Because it's a new
12 annual cost to the business of this specific building.

13 I don't think I'll see any positive benefits of
14 it because it is pretty far away. So it would be a net
15 negative.

16 Q. So is it your testimony that it's a new cost
17 without a tangible amenity that can allow you to raise
18 rents?

19 A. Uh, yeah, that's a much better way of saying
20 what I was attempting to say.

21 Q. And have you reviewed the -- the City's pre-LID
22 improvement valuation of the Stratus?

23 A. I have.

24 Q. And are you familiar with the special benefit
25 amount that the City has associated with the Stratus?

1 A. Yes.

2 Q. For -- for that amount of money, what would you
3 expect to see to -- what would you expect to see that
4 would increase your tenants' desirability for the
5 property for that kind of assessment?

6 A. Once again, when the operating expenses go up,
7 driven by the assessment, I can't, you know,
8 equivalently say I can raise rents by a certain amount
9 to, you know, break even from that cost.

10 I can -- can you rephrase your question again?

11 Q. Sure.

12 What would you expect to see from the City in
13 return for paying an assessment at the amount that
14 the -- that the Stratus is being assessed for the
15 purpose of creating new amenities?

16 What sort of things would you expect to see that
17 would allow you to then raise rents to sort of
18 compensate for the assessment?

19 A. Yeah, yeah. Here -- here's a great one.

20 So outside of the physical building, Stratus,
21 you know, we built a park that -- that's literally
22 outside of our -- literally outside of our building.

23 So, you know, if the City were to improve
24 something that's tangible that's available for our
25 tenants' use immediately outside of the building, that

1 would be -- that would be a net positive. And -- and
2 certainly, you know, justifiably worth it for paying
3 some kind of fee.

4 So, hypothetically, if I were -- if you could
5 literally pick up the Stratus building and put it on the
6 waterfront, you know, presumably a lot of the
7 improvements on that street -- I'm not necessarily --
8 you know, that there's streetscape improvements, general
9 walkability has improved. So those are -- those would
10 be tangible improvements, but that would be immediately
11 outside my building that my tenants would be, you know,
12 directly impacted by.

13 So -- so those kind of things would be
14 beneficial and certainly justifiable for -- for fee
15 increase. Something that is relatively close and that
16 my tenants can utilize or experience on a -- on a kind
17 of more daily -- daily kind of process.

18 Q. And is there any aspect of the current LID
19 project that fits that description that you feel
20 comfortable raising rents to, because you think they
21 would increase the desirabilities of the properties?

22 A. No.

23 MR. STILLWELL: Nothing further on direct.

24 HEARING EXAMINER VANCIL: All right. And
25 cross?

1 CROSS-EXAMINATION

2 BY MS. THOMPSON:

3 Q. So I notice that the Stratus has two parcel
4 numbers.

5 Is there a division between the two parcels
6 across a building?

7 Or could you just describe how the building is
8 situated on these two parcels?

9 A. It's kind of hard to describe it without the
10 parcel map. But, yeah, there are two parcels that this
11 physical building or product sits on.

12 I think we're -- we're in the process of
13 vacating a piece of it back to the City as well. And --
14 and -- uh, yeah.

15 MS. THOMPSON: No further questions.

16 HEARING EXAMINER VANCIL: Anything further?

17 MR. STILLWELL: Nothing.

18 HEARING EXAMINER VANCIL: All right. So is
19 Mr. Lee finished?

20 MR. STILLWELL: We are.

21 HEARING EXAMINER VANCIL: All right.

22 Thank you, Mr. Lee.

23 MR. STILLWELL: Okay. Thank you, guys.

24 Appreciate it.

25 HEARING EXAMINER VANCIL: Thank you.

1 And how are we proceeding?

2 MR. LEE: Have a good day.

3 MR. STILLWELL: Thanks. You too.

4 MR. LEE: All right. Take care.

5 MR. STILLWELL: So we are -- we have
6 concluded with the three GID properties. And I believe
7 after the -- oh, thank you -- after the break we are
8 moving on to a new witness --

9 MS. LIN: Correct.

10 MR. STILLWELL: -- who's speaking general.

11 MS. LIN: Yes. Peter Shorett, who will be
12 speaking on -- on behalf of a number of cases. And I
13 can rattle those off for you now or later.

14 THE COURT: No, I think I know which one
15 those are. Thank you.

16 So, Mr. Shorett, is he going to be with us
17 for the remainder of the day then?

18 MS. LIN: Yes.

19 HEARING EXAMINER VANCIL: Okay. Great.
20 We'll return and get started at 3:30.

21 MR. STILLWELL: Thank you.

22 (A break was taken.)

23 HEARING EXAMINER VANCIL: All right. We'll
24 return to the record with objectors' next witness.

25 Please state your name and spell it for the

1 record.

2 MR. SHORETT: Peter K. Shorett,
3 S-h-o-r-e-t-t.

4 HEARING EXAMINER VANCIL: And I know you've
5 appeared on behalf of other objectors, but I'll swear
6 you in for this portion of the ceremony.

7 Do you swear or affirm that the testimony
8 will you provide today in this hearing will be the
9 truth?

10 MR. SHORETT: Yes.

11 HEARING EXAMINER VANCIL: Thank you.

12 MS. LIN: Mr. Shorett will be testifying on
13 behalf of a number of case numbers and so I'll just go
14 ahead and note -- identify them right now.

15 Those are CWF --

16 HEARING EXAMINER VANCIL: You can skip the
17 "CWF" and the zeros. Just the last part is helpful.

18 MS. LIN: Okay. So 318, 413, 414, 415, 417,
19 418, 429, 430, 431, 432, 433, 434, 435, 436, 437, 438,
20 and 439.

21 And he will also be appearing to provide
22 property-specific testimony on each of the -- most --
23 some of the -- he or John Gordon will be doing property
24 -specific testimony on some of these.

25 But for this next portion, his testimony

1 applies to all of these case numbers.

2 And I believe it is your wish that we
3 incorporate his prior testimony as well, to the extent
4 possible; is that correct?

5 HEARING EXAMINER VANCIL: That's entirely up
6 to you. If you can, I certainly welcome it. But if you
7 believe that there's something -- we're in a tough
8 position where the objectors have an obligation to --
9 their burden of proof is to show that the specific
10 assessment to -- related to a specific case number
11 parcel is not appropriate.

12 And you can certainly do that by
13 incorporating from other portions of the hearing;
14 whether that's portions of this section of the hearing
15 with these case numbers or even other case numbers you
16 can do that, but you do need to do that.

17 That's been the rule for case numbers that
18 are outside of the -- the -- I don't have a good summary
19 for case numbers 233, all of these that I -- I call
20 them -- Mr. Lutz has been the pri- -- the lead on those.

21 And so all of those case numbers which were
22 identified in the first day, this is, essentially, an
23 open hearing for all of those.

24 And your firm has elected to identify
25 segments, which I think is helpful to the Hearing

1 Examiner. But it's not -- we're not opening a new
2 hearing each time you identify a new segment. It's we
3 have an open segment to all of those cases at the same
4 time.

5 So I'm not sure what you need to reference
6 back to and adopt by reference. But if there was
7 another time he's appeared for another case number, then
8 I would have asked that you would identify that.

9 MS. LIN: Okay.

10 HEARING EXAMINER VANCIL: Incorporate it by
11 reference.

12 MS. LIN: Okay. So I think in order to
13 reduce redundancy, we would like to incorporate
14 Mr. Shorett's testimony on February 18, 2020, to the
15 extent it's relevant. And we believe the relevant
16 portions would be with regard to his testimony on
17 Exhibit 1, which is an attachment to his appraisal
18 review.

19 We will be asking some further questions
20 regarding this exhibit. But the testimony that he's
21 already provided on this exhibit should be incorporated
22 into our cases that I just listed.

23 And just to be specific, that testimony on
24 February -- I believe it was 18th was with regard to
25 case 133, 134, and it might have been with respect to

1 additional case numbers as well.

2 HEARING EXAMINER VANCIL: Okay. I
3 appreciate it.

4

5 PETER K. SHORETT, witness herein, having been
6 first duly sworn on oath,
7 was examined and testified
8 as follows:

9 DIRECT EXAMINATION

10 BY MS. LIN

11 Q. Okay. And so, Mr. Shorett, I'm going to provide
12 some context for you at some portions regarding your
13 prior testimony, but I'm going to try to ask you
14 questions that are in addition to that previous
15 testimony.

16 Do you understand that?

17 A. Yes. Thanks.

18 Q. Okay. So you've already testified regarding
19 your experience and background.

20 Do you have anything to add regarding that --
21 regarding your relevant experience providing special
22 benefit -- I'm sorry, preparing special benefit studies?

23 A. Yes, I do.

24 And I believe when I testified previously I was
25 explaining my prior experience with local improvement

1 districts.

2 And maybe it's my age, but I had completely
3 forgot that last year I was retained by the City of
4 North Bend to provide a preliminary feasibility analysis
5 for a proposed order LID for utility improvement that
6 they were planning. It happened to be a sewer system
7 for some 80 properties. It just escaped me. I had not
8 realized (indecipherable).

9 Q. And based on your experience and knowledge, is
10 an LID an unusual funding -- you mentioned the sewer
11 utility.

12 Is an LID an unusual funding mechanism for the
13 waterfront LID improvements?

14 A. Well, I think it is. The -- most LIDs -- the
15 purpose of an LID is to provide group funding and, in
16 simple terms, to provide an improvement to a greater
17 area. And usually it's something -- for the utility,
18 like the property and project in North Bend, those were
19 examples of properties who were on a septic system.
20 Their septic systems were failing. They were all
21 benefitted, to varying degrees, by having a sewer system
22 in place.

23 And so it's -- it's improvements like those that
24 I typically see funded with an LID. It could be a road
25 project to provide access or it could be -- usually a

1 specific and direct, I guess, betterment is a way to put
2 it, that benefits very clearly defined properties.

3 Q. And is it typical to see an LID of this size
4 encompassing more than 6,000 properties?

5 A. I haven't seen one this big. But, again, as I
6 testified previously, there's -- you know, most of the
7 LIDs are -- well, then it just proves -- I just
8 testified, there -- there are different
9 magnitude-in-scale types of developments.

10 I've never seen one this big. I -- I think the
11 South Lake Union Streetcar might have been -- I don't
12 know how many, but wouldn't have been near this many.
13 6,000-plus is a very large scale LID project.

14 Q. And what does that size tell you about special
15 benefits versus general benefits?

16 A. That's a good question. I think you -- you
17 know, and -- and this is unscripted. It's -- I think
18 given the magnitude of it, it just makes it so much more
19 of a general benefit than a special benefit. Special
20 benefits for LIDs and improvements are really
21 narrow-focused.

22 Again, back to the -- the concept of providing
23 the utilities is such a great example or providing a
24 road to improved properties.

25 To me, I look at 6,000-some properties, and I

1 know that some of them are multifamily condominiums.
2 And if you look at it on a building-by-building basis,
3 it would be smaller. But it is just a huge, a huge
4 scope of LID boundary area and properties involved.

5 Q. Can you give some examples of how some other
6 major projects in Seattle have been funded?

7 A. Well, sure, I think -- the question kind of
8 is -- a little bit is, is this a reasonable funding
9 mechanism for waterfront LID improvements -- or I can't
10 speak to that. I'm also not a funding consultant.

11 But, you know, even to look around at all the
12 improvements that have been made around the area -- and
13 I'm reading because I needed to take notes but, you
14 know, the viaduct itself. The viaduct and tunnel
15 replacement was funded by state, federal, and local
16 sources including the Port of Seattle and
17 (indecipherable).

18 The seawall project, a 290 million project was
19 voter-approved with a bond measure.

20 Coleman Dock -- and these sort of happen to all
21 be in the area -- comes from federal, state, and local
22 sources.

23 The Seattle Aquarium. The new aquarium will be
24 funded by city, county, state, federal, and private
25 donations.

1 The Olympic Sculpture Park was funded through --
2 not only by the City of Seattle, but also by the Seattle
3 Arts Commission.

4 The Washington State Convention Center paid for
5 \$10 million for the funding for the Freeway Park project
6 renovation. The park had been in place. It was in need
7 for repair. And they paid for -- they're paying for
8 that.

9 And last but not least, the Seattle Center,
10 which was funded by the voter-approved bond issuance,
11 state and federal funding.

12 I think I -- just to kind of summarize some
13 previous -- my previous testimony, the last major LID
14 improvement -- project in the city was ten years ago for
15 the South Lake Union Streetcar. And just very rare.

16 Q. And how does that one compare to the waterfront,
17 the south -- sorry, the streetcar?

18 A. South Lake Union Streetcar was a completely
19 different project, in that, you know -- again, as I
20 testified before -- and this will be kind of be a theme
21 for the testimony here, I would think, is the -- the
22 level of difference between the value of the property
23 before the LID improvements and the value of the
24 property after the LID improvements. Or I should say
25 the condition of the -- of the -- the scope of the

1 project, even the condition of the project and also the
2 property values are so different -- are so greater or
3 so -- such a small measurable difference.

4 You look at the streetcar, that provided a very
5 physical and obvious transportation project that is --
6 you know, you already discussed whether it's a benefit
7 or not. But it's very definable. It's completely
8 different than the LID improvements we're talking about.

9 Q. So as long as we're talking about your -- your
10 testimony regarding incremental increase in -- with this
11 incremental difference between the before and the after
12 condition.

13 Can you describe how Macaulay defined the before
14 and the after condition?

15 A. Sure. I think -- and, again, kind of some it --
16 I don't want to repeat too much previous testimony but,
17 you know, the Alaskan Viaduct came down. And there's
18 funding sources for restoring the road grid system,
19 sidewalks, landscaping. And basically bringing the
20 project back to a serviceable -- serviceable
21 infrastructure, transportation corridors, et cetera.

22 And there was improvements there in Exhibit 1,
23 which the Hearing Examiner has seen, basically show a
24 project that is largely the functionable corridor, I
25 guess if you will, for lack of a better term, with all

1 the landscaping and the sidewalks and the road,
2 et cetera.

3 That -- and that's a very simple, simplistic
4 explanation of what it is -- what the condition of the
5 property is assumed to be in the before scenario by
6 the -- by Macaulay and the ABS appraisal.

7 So, basically, is -- as if the LID improvements
8 weren't going to exist, which are kind of the
9 incremental difference between what it is -- and you
10 assume that the ABS before condition --

11 HEARING EXAMINER VANCIL: And question -- I
12 apologize. Let's go back to some initial items.

13 Counsel, I didn't ask you to introduce
14 yourself --

15 MS. LIN: Oh, I'm sorry.

16 HEARING EXAMINER VANCIL: -- so you're not
17 on the record.

18 MS. LIN: My name is Megan Lin. I'm from
19 Perkins Coie. I'm counsel for objectors.

20 HEARING EXAMINER VANCIL: Thank you.

21 There's been reference to an Exhibit 1. I
22 assume that's Exhibit 1 for cases 133, 134, the others
23 you mentioned.

24 MS. LIN: Yes.

25 HEARING EXAMINER VANCIL: Are you looking to

1 incorporate it into this --

2 MS. LIN: Yes, we will. So we might as well
3 do that right now.

4 HEARING EXAMINER VANCIL: Let's do that now,
5 so we can refer to it by its new exhibit number.

6 Do you have a copy? We can just use that.

7 MR. STILLWELL: Actually, you have a copy
8 right there.

9 HEARING EXAMINER VANCIL: Okay. Which one?

10 MR. STILLWELL: This one.

11 HEARING EXAMINER VANCIL: Okay. This will
12 be marked as --

13 MS. LIN: We're marking Exhibit 1 to --

14 HEARING EXAMINER VANCIL: That's 48.

15 MS. LIN: -- Peter Shorett's -- it will be
16 Peter Shorett's attachment to his appraisal review.

17 HEARING EXAMINER VANCIL: This will be
18 Exhibit 48.

19 MS. LIN: Exhibit 48.

20 HEARING EXAMINER VANCIL: All right. And
21 lastly, I understood that Mr. Shorett might be speaking
22 to some other cases. Case No. 375 and, I believe, maybe
23 also was speaking to something for 133 and 134.

24 Is that happening today, later, or at all?
25 Do you know?

1 MS. LIN: I think that at some point at the
2 end of our testimony -- of our direct and cross of
3 Mr. Shorett, that Dick Moses, who is pro se --

4 HEARING EXAMINER VANCIL: Yes.

5 MS. LIN: -- for 375 --

6 HEARING EXAMINER VANCIL: Yes.

7 MS. LIN: -- will want to, I guess, stay our
8 cases, open his case, and -- and question Mr. Shorett.

9 HEARING EXAMINER VANCIL: Okay. Got it.

10 And, Mr. Shorett, are you testifying for
11 anybody else today in this?

12 MR. SHORETT: You know, my clients that I am
13 testifying for at this point... Megan Lin and Dick
14 Moses.

15 HEARING EXAMINER VANCIL: Right. Okay.

16 Thanks very much for the clarification.

17 I apologize for the interruption.

18 BY MS. LIN:

19 Q. And so you've described this before condition as
20 removal of the viaduct and completion of a number of
21 WADOT projects.

22 Is the before condition then a hypothetical
23 condition?

24 A. Yes, it is.

25 Q. And how do -- how does ABS valuations, before

1 and after valuations, relate to the current conditions
2 as of October 2019?

3 A. Well, the -- the hypothetical value -- I'm
4 sorry, the hypothetical condition before the ABS
5 appraisal, as I previously described with those road
6 improvements in place and landscaping and the like.

7 The condition of the property today and the -- I
8 assume it's changed. I didn't go back to exactly his
9 date of value, October 1.

10 When we performed our work, it was the 1st of
11 January, and the condition of the areas, largely the
12 viaduct was fully removed. There's still some debris
13 being removed. Alaskan Way is in place. There are
14 sidewalks that are in place.

15 The views, obviously, have been substantially
16 improved because the viaduct is down and the noise
17 nuisance.

18 But there have not yet been any -- I've got to
19 be careful, I'm not an engineer here.

20 I didn't observe any real new construction of
21 the LID -- or not the LID, of the waterfront improvement
22 project yet. I just see it is more of a demolition --
23 the preparation stage.

24 Q. And so it's your testimony that the current
25 condition is not the condition that is assumed in the

1 before scenario in the final study?

2 A. That's correct.

3 Q. And from your review of the final study, can you
4 tell what the current value of properties is?

5 The actual current value of the properties. Not
6 the value of properties as assumed in the before
7 condition.

8 A. Well, we did provide opinions of value for the
9 properties' current value of the -- I don't have the
10 list of all of them. But John Gordon will be speaking
11 to the value of the certain properties (indecipherable)
12 five, four hotels, a few others.

13 Does that answer your question?

14 Q. No, I'm asking from the final benefit study.

15 Does the final benefit study give any indication
16 of current value? Actual current value.

17 A. Oh, I understand.

18 Well, no, it doesn't appear to. It appears to
19 be the -- the straight hypothetical assumption that the
20 improvements are in place as defined by -- by the before
21 condition in this report as I previously testified to.

22 Q. And can you tell from your review of
23 Mr. Macaulay's appraisal what the deduction -- what --
24 what -- sorry, what the quantitative value of the
25 viaduct removal was for each of the properties?

1 A. There doesn't appear to be an adjustment, other
2 than he says he ignores the fact that the viaduct has
3 been removed.

4 Q. And so there's no way to tell from his final
5 special benefits study or any of the materials that you
6 reviewed, what -- what removal of the viaduct and the
7 construction of those before projects, what the value of
8 those are?

9 A. In other words -- no. In other words, what the
10 current condition of the property is today? No, he
11 doesn't make -- there's no clarification as to whether
12 he assumed that the condition is current. There is
13 normal adjustments for the -- any change in property
14 values from today to the condition of his hypothetical
15 completed before condition.

16 Q. Have you ever seen a special benefit study where
17 the before and the after conditions were both
18 hypotheticals?

19 A. No, it's -- I have not.

20 Q. If both the before and after conditions are
21 hypotheticals, and there is no indication of current
22 value, actual current value, is it possible to calculate
23 the actual measurable special benefit to a particular
24 parcel?

25 A. I think that's -- it's -- that's a good

1 question. And it's a hard question to answer, only in
2 the sense I -- let me rephrase it.

3 It's difficult to determine how one could value
4 the condition of something that they don't know other
5 than total occupants and statements.

6 You basically -- you know, I don't want to get
7 off-base here.

8 But the use -- Uniform Standards of Professional
9 Appraisal Practice, I'll say that once the acronym is
10 used, has certain conditions that they require you use a
11 hypothetical condition.

12 And -- and this is also very consistent with a
13 differential standards of that, is that whatever
14 opinions an appraiser renders, it must not be
15 misleading.

16 So to make that assumption that it's
17 completed -- trying to form this into some kind of
18 conversation is -- you know, for something that's
19 supposed to be completed five years from today that
20 isn't completed is --

21 MS. THOMPSON: Objection. Nonresponsive.

22 HEARING EXAMINER VANCIL: Sustained.

23 Or do you have a response?

24 BY MS. LIN:

25 Q. Mr. Shorett, we're just -- I'm trying to ask, if

1 you've got two hypothetical -- if the before condition
2 is hypothetical and the after condition is hypothetical,
3 doesn't that introduce -- is there anything special an
4 appraiser should do or is there a way to account for any
5 risks associated with the fact that both of your before
6 and after conditions are hypotheticals?

7 A. Let me answer it this way.

8 And it is that you must disclose the use of a
9 hypothetical assumption and you must explain the
10 potential value -- their issues to value even if you
11 just use one.

12 Using two makes it just that much more
13 complicated.

14 Q. You mentioned that the improvements aren't going
15 to be in place for a number of years until, I believe
16 2024 at the earliest as -- as projected by the City's
17 documents.

18 How does that affect the -- the City's proposed
19 assessments?

20 A. Well, under the assumption that the
21 assessments -- the final assessment roll is approved and
22 this sphere of them -- I mean...

23 HEARING EXAMINER VANCIL: Mr. Shorett, we
24 can't hear you. You cut out.

25 So you're going to have to -- let's make

1 sure -- let's make sure we get a connection with you
2 again. And then you will have to repeat your response
3 to the question since it broke up.

4 Can you hear me okay?

5 MR. SHORETT: I can hear you fine.

6 HEARING EXAMINER VANCIL: All right. And
7 this -- this may happen. We've had it with a couple
8 other witnesses today. Sometimes a sentence or two will
9 break out. We just ask that you repeat what you said.

10 MR. SHORETT: Could I ask for the question
11 to be repeated?

12 BY MS. LIN:

13 Q. Sure. Sure.

14 So you talked about the fact that the -- the
15 improvements are not scheduled to be in place for a
16 number of years, 2024 at the earliest.

17 How does it affect the City's proposed
18 assessments and their estimates of what those
19 assessments are?

20 A. If -- assuming that the assessment is assigned
21 to the property this year, just say (indecipherable) the
22 data. It's an incumbrance against the property. And
23 that incumbrance is monetary and it impacts the value of
24 the property. Usually negative or anything because it
25 is a (indecipherable) deduction for -- and this is for a

1 benefit that would -- would not accrue until 2024, five
2 years from now. So this basically -- this is basically
3 paying -- paying for something that you don't have yet.

4 Q. And so you talk -- talking a little bit more
5 about that.

6 So for commercial properties, if they are paying
7 for something that they don't have yet, what does that
8 do to the value of their property?

9 A. It reduces the value of their property by
10 incremental difference between the day they are assessed
11 to the day they realize the benefit.

12 Q. Can you explain?

13 A. I'll put it in simple terms, and this is -- I
14 call it "cowboy math," if you don't mind.

15 If the assessment -- if someone is assessed a
16 million dollars in -- in LID assessment and it's payable
17 over 20 years and they don't -- and they don't realize
18 any benefit of that for five years, they are basically
19 taking 25 percent of that amount and paying it up-front
20 for something they are not going to have in five years
21 from now.

22 So it's like, basically asking me to invest --
23 take my \$250,000 and invest it in something that I'm not
24 going to realize any benefit from for five years.

25 So you could say that they're basically asking

1 you to take \$250,000 of your capital and move it from
2 one investment to another that's going to receive zero
3 interest, zero -- zero growth, and, you know -- and
4 defer any value of that until the three to five years.
5 If that makes sense?

6 Q. It does. Thank you.

7 And the fact that these improvements have not
8 been built yet, the waterfront LID improvements, how
9 does it -- how could an appraiser account for the
10 economic value today of benefits to be received five
11 years from now?

12 A. Well, the -- that's a pretty big question. The
13 number one is, is that under -- you make the assumption
14 that there are special benefits, and we'll just go ahead
15 and make that assumption.

16 The reality of it is, is that it would be
17 discounted in some form. I mean, there's so many
18 factors that you have to look at when determining the
19 value of a property before and after. Over that
20 five-year term, that's almost impossible to figure out
21 what it is.

22 And I could go over our latest, you know, health
23 situation of the Coronavirus is one example of here's a
24 change that I don't think anybody saw coming, but this
25 could impact values.

1 Q. And so there are these -- you said these other
2 factors that might impact values between now and then
3 that we really don't know about.

4 Could you talk a little bit about those factors?

5 A. Well, it's -- you know, the basic economics of
6 supply and demand. But it is very economic driven.
7 Jobs driven. I mean, I'm not an economist. But you can
8 just see the factors. We've been in a very growth
9 economy and there's a lot of individuals that are
10 projecting or pontificating some form of a recession.

11 So there's just all these real estate cycles
12 that you end up -- property owners go through. So it's
13 almost more that than it is anything that is specific.

14 We're not even talking about the disruption of
15 construction of the project over the duration. That is
16 another element you could look at. There's a lot of
17 different factors that go in and try to figure out
18 something five years from now. It's -- it isn't unusual
19 to do that.

20 Q. You mentioned construction.

21 To your knowledge, and based on your review, did
22 Mr. Macaulay take into account any risks that there
23 would be delays in constructions, that there would be
24 delays in obtaining permits, that the times might
25 change?

1 A. You know, I went over the report again today
2 just to see what -- about the eighth time going through
3 it and I saw nothing about that.

4 Q. Based on your review, did Mr. Macaulay take into
5 account the risk that there be negative impacts due to
6 the improvements on certain properties; such as, loss of
7 parking, loss of use, increased traffic?

8 A. He made a note, and if I recall, in there about
9 a loss of parking, but that being offset by a benefit
10 of -- of the project, an LID improvement project.

11 (Indecipherable) but I apologize. I know of --
12 (indecipherable) --

13 HEARING EXAMINER VANCIL: Mr. Shorett --

14 MR. SHORETT: And the 57 --

15 HEARING EXAMINER VANCIL: Mr. Shorett.

16 MR. SHORETT: Working -- and -- the -- the
17 54 -- that whole line appears, they all appear not
18 working.

19 So, you know, what the impacts are going to
20 be, I don't think anybody really knows. But we know
21 that there's a loss of parking, and we know they are
22 concerned about it.

23 HEARING EXAMINER VANCIL: Mr. Shorett, could
24 I please ask that as you're given testimony you keep
25 your eyes on the screen. If I'm raising my hand, I

1 can't hear you.

2 MR. SHORETT: Thank you.

3 HEARING EXAMINER VANCIL: So you need to --
4 just keep your eyes on us. I know you're trying to
5 process thoughts and -- and share testimony. It's a
6 little difficult with this extra step.

7 Just keep your eye on us, because there was
8 a point where you missed a couple sentences.

9 Honestly, at this point, I don't even know
10 what they are. So we're going to have to proceed
11 without that.

12 But I'm trying my best to try to get you to
13 stop and alert you that you're -- you're missing
14 testimony.

15 And your -- your counsel may be as well. So
16 just keep an eye on us in addition to providing the
17 testimony, and it will be appreciated.

18 MR. SHORETT: Sure. So if you're raising
19 your hand, you can't -- you can't hear?

20 HEARING EXAMINER VANCIL: Yeah. I don't
21 wave just spontaneously in hearings.

22 MS. LIN: I'll also do this, if that's
23 helpful.

24 HEARING EXAMINER VANCIL: I can't see you?

25 MS. LIN: Oh, okay. Can't see me.

1 HEARING EXAMINER VANCIL: Can you move
2 forward?

3 MR. SHORETT: I can see the Hearing Examiner
4 and his assistant.

5 HEARING EXAMINER VANCIL: Can you see
6 counsel now?

7 MR. SHORETT: No.

8 HEARING EXAMINER VANCIL: Oh, you're still
9 outside the screen.

10 MR. SHORETT: I have the other person --

11 HEARING EXAMINER VANCIL: No, our camera is
12 up there --

13 MR. SHORETT: Jenny Lo, who is --

14 HEARING EXAMINER VANCIL: All right.

15 MR. SHORETT: Can you see any of us?

16 HEARING EXAMINER VANCIL: Just keep going
17 until you see her -- just keep going. I want to see how
18 far this goes.

19 Can you see her yet?

20 MR. SHORETT: Nope.

21 HEARING EXAMINER VANCIL: Keep going.

22 Not yet?

23 MR. SHORETT: You're waving. I've got your
24 shoulder. I've got your head.

25 HEARING EXAMINER VANCIL: Okay. His camera

1 is smaller. It just doesn't pick everything up.

2 MR. SHORETT: You're on the edge right now.

3 MS. LIN: I'm on the edge right now?

4 MR. SHORETT: Yep.

5 HEARING EXAMINER VANCIL: All right. But
6 you can't see me, I assume?

7 MR. SHORETT: No, I can see you. You've got
8 your hands partially up.

9 HEARING EXAMINER VANCIL: Okay. All right.
10 Interesting.

11 I'm gonna have to leave it to you, Counsel,
12 to signal him that he can't be heard and to just conduct
13 your witness.

14 Remember, this is your record; your
15 transcript. So make sure he gets stopped if you can't
16 hear him.

17 BY MS. LIN:

18 Q. Mr. Shorett, if you see me do this, then I can't
19 hear you any more. And just stop and we'll repeat the
20 question and allow you to repeat your answer?

21 A. I understand.

22 HEARING EXAMINER VANCIL: Thank you.

23 MS. LIN: And thank you for being patient
24 with us.

25 BY MS. LIN:

1 Q. So let's talk about this loss of parking again.
2 And we talked about whether or not in your review of the
3 ABS valuation study, whether or not you saw any
4 valuation of negative impacts. And I'd like to be more
5 specific in my question.

6 I'm asking whether or not you saw any
7 quantitative analysis of what that impact -- how that --
8 these negative impacts -- of these negative impacts.
9 Quantitative analysis of the negative impacts we talked
10 about such as loss of parking, increased traffic, loss
11 of use, construction noise?

12 A. No. There's none of that.

13 Q. Can you describe whether and how an appraiser
14 could account for risks like, permitting risks,
15 construction delay risk, in assessing potential special
16 benefits?

17 A. Well, I would look at -- at the outside of the
18 world of special benefits, because what you're asking is
19 the impact on the market value of a property, which is
20 the basis for a special benefits study.

21 And if there was an investor that was interested
22 in developing property, there -- they're looking at it
23 from the beginning of the cycle which is when they
24 acquire a site -- whatever -- whatever part they entered
25 in the investment. They factor in the risks for

1 permitting. Very clearly you can see the value in
2 property increase once it has a master use permit. And
3 then you still have risks beyond that, which is
4 construction of the project and completion within budget
5 and as -- as designed. And then there's even risks
6 associated with, you know, leasing up of a property.

7 So there's just risk along the entire
8 development scale. So if you're looking at, you know,
9 having -- asking an appraiser to look at the risks
10 associated with estimating a special benefit from these
11 LID improvements, you would be looking at it in a fairly
12 similar way of saying, well, where are we in the design?
13 What are the permits we have? Things like that. Or
14 what are the risks of -- of cost overruns and meeting
15 our schedule?

16 Q. And given that some of the designs are not
17 complete for the waterfront LID improvements, from an
18 appraiser's perspective, would it be prudent to take
19 into account the risks that designs might change in a
20 way that would decrease the special -- whatever
21 estimated special benefit is right now being calculated.

22 A. Well, this goes back again to the use of the
23 hypothetical assumption. And because the -- you can
24 make -- you can make the assumptions that the appraiser
25 made. It's just how credible are they? And -- and what

1 disclosures have been made to let the end user of report
2 know that there are these risks that we just talked
3 about and that if you consider these risks, it could
4 impact the value of conclusions.

5 Basically at the end of every valuation section
6 when an appraiser uses a hypothetical condition, that
7 statement is supposed to be there. That basically
8 explains everything that I just said in a long-term
9 format so that whoever is reading it can understand it.
10 That these value estimates are subject to these various
11 conditions and risks. And they are not in the report.

12 Q. Given these potential risks, is it possible that
13 a property owner will be assessed an amount but never
14 see that -- that actual increase in their property value
15 due to the waterfront LID improvements?

16 A. Well, of course. I'm not quite sure I fully
17 understand the question. But of course. I mean there's
18 no truth or guarantee. Let's just assume that
19 everything that was done in the ABS appraisal is
20 correct, which it is not. Well let's make that
21 assumption.

22 What are the risks of them -- what are the
23 chances of them seeing that benefit?

24 Well, such a granular question and so difficult
25 to answer, I don't think it could be answered with any

1 level of certainty.

2 Q. And so you're saying that -- that actual
3 measurable special benefits at that -- between this
4 hypothetical before condition and hypothetical after
5 condition, that that -- that that is basically
6 unsupported in -- in the final special benefit study; is
7 that your testimony?

8 MS. THOMPSON: Objection. Leading.

9 HEARING EXAMINER VANCIL: Response to the
10 objection?

11 MS. LIN: I was just trying to summarize.
12 But I can rephrase.

13 HEARING EXAMINER VANCIL: Okay.

14 BY MS. LIN:

15 Q. What is your opinion about whether the special
16 benefits study supports its estimation of actual
17 measurable special benefits?

18 A. I -- I think the best answer -- and it's -- I
19 testified to this before. It's in my Exhibit 1. I
20 think it's in the supplement that we're going to talk
21 about later.

22 It is so remote and speculative to determine
23 what the value benefit is for these just very
24 incremental LID improvements are to surrounding
25 properties five years out that it just leads to a report

1 that's misleading and is not credible. It's just too
2 remote and speculative.

3 Q. Let's take hotels as an example.

4 If the improvements are delivered five years
5 from now, what do the hotels -- what benefit do the
6 hotels receive right now?

7 Is it higher room rates? What benefit are they
8 seeing right now?

9 A. Nothing. Zero.

10 Q. And so what's the affect of imposing the special
11 benefit assessment right now on those hotels given that
12 the improvements aren't coming until 2024?

13 A. We've talked about this already. It's a loss in
14 value to the property until those improvements are
15 completed. And assuming there's special benefit beyond
16 that, and if there is, then at least they receive it
17 then.

18 But this is -- and, again, I'm not -- I'm not
19 legal and I can't talk about the -- all of these aspects
20 of realities is something that should be assessed when
21 the project is completed, not today. Because it
22 negatively impacts every property who's received and use
23 this benefit.

24 MS. LIN: All right. Let's turn to -- let's
25 turn to your supplement.

1 Mr. Shorett, as we noted, prepared this
2 Exhibit 1. And then he also prepared a supplement to
3 the appraisal reviews which builds on this Exhibit 1.

4 HEARING EXAMINER VANCIL: Exhibit 1, which
5 is now 48?

6 MS. LIN: Yes. Exactly, Exhibit 48.

7 So I've got copies of these.

8 And this will be marked, I guess, as
9 Exhibit 49?

10 HEARING EXAMINER VANCIL: Yes.

11 MS. LIN: Okay. And this testimony also
12 relate -- should be incorporated to all the case numbers
13 I previously listed.

14 And if you would like me to list them again,
15 I can.

16 HEARING EXAMINER VANCIL: No. No. This
17 is -- that's why it is 49. This is actually -- all of
18 these exhibits are applicable to all of the case numbers
19 that you read earlier.

20 BY MS. LIN:

21 Q. So you testified previously that a typical way
22 to assess whether an improvement would cause an increase
23 in property value is to look at match-paired analysis.
24 And you testified about that on February 18.

25 To your knowledge, did the final study use

1 matched-pair analysis on any of the properties you
2 reviewed?

3 A. No, not that I'm aware of. There's a
4 reference -- a couple of references in some of them that
5 say "matched pair," but there's no empirical data
6 presented. So I'm not quite sure what they meant by
7 that.

8 Q. But the final study does offer some case
9 studies.

10 Are these case studies -- and these are
11 comparable parks.

12 Are these case studies an adequate substitute
13 for matched-pair analysis?

14 A. I will say that it's fair to bring in case
15 studies if they are relevant.

16 But in this instance, as I testified previously,
17 I don't believe that these are relevant case studies.

18 Q. And why is that?

19 A. Well, just in simple terms, as I testified to
20 before. The scale of the projects, renovations or
21 permit projects are so substantively different than the
22 difference in the value of the property before the LID
23 improvements and after the LID improvements. Their
24 scale is huge.

25 It's -- we can go through each of these. But

1 you'll see -- I testified before -- I didn't probably go
2 into the level of detail that I should have last time.

3 But I can show you -- and you have in this
4 supplement the actual visual pictures of what they
5 looked like before and after.

6 Q. So let's walk through that.

7 Starting on page 3. And right now we're looking
8 at page 3 to -- on the supplement to appraisal review.

9 And you have additional analysis on Tom McCall
10 Waterfront Park.

11 Is this case study a basis for concluding that
12 properties within the LID will specially benefit from
13 the waterfront LID improvements?

14 A. Yes. Basically, what I'm doing is I'm going
15 through each of the case studies that are in the ABS
16 appraisal. This is the first one they presented.

17 Q. And so I'm going to repeat my question.

18 Is this case study, this Tom McCall case study,
19 is this a good basis for concluding the properties
20 within the LID are going to specially benefit from the
21 LID improvements?

22 MS. THOMPSON: Objection. Leading.

23 MR. SHORETT: I apologize I didn't answer
24 the question correctly.

25 HEARING EXAMINER VANCIL: Mr. Shorett,

1 there's an objection.

2 MR. SHORETT: Sorry.

3 HEARING EXAMINER VANCIL: Just wait.

4 There's an objection.

5 MS. LIN: So the question is: Is this case
6 study a basis for concluding that the properties will
7 specially benefit from the LID improvements? That --

8 MS. THOMPSON: A "good basis."

9 MS. LIN: I can say bad basis as well;
10 either way.

11 HEARING EXAMINER VANCIL: I think --

12 MS. LIN: I think if I said bad basis --

13 HEARING EXAMINER VANCIL: I think
14 it's either way you're qualifying the basis.

15 MS. LIN: Okay. So I will just say basis,
16 if that work.

17 HEARING EXAMINER VANCIL: If you correct the
18 question in that way, then that would not be leading.

19 BY MS. LIN:

20 Q. Is this case study a basis for concluding that
21 properties within the LID will specially benefit from
22 the LID improvements?

23 A. Well, apparently Mr. Macaulay thought so; he put
24 it in his report.

25 Q. And what do you think based on your analysis?

1 A. I don't think it's a good example.

2 Q. And can you explain why?

3 A. Well, I've been -- if you see me looking down
4 and don't hear me, let me know. Because I'm looking
5 down just to check my notes.

6 Q. And please let us know if you're referring to
7 any language within the report, because we all have this
8 in front of us.

9 A. Sure. I'm just reading -- I'm just looking at
10 page 3 and I have a few highlights there.

11 Q. Okay.

12 A. First of all, the case study only references
13 office and retail uses. It doesn't include residential,
14 hospitality, or special-purpose-type uses.

15 Q. I'll stop you there.

16 Why is that important?

17 A. Well, seems like if you're going to go and look
18 at a project that you're trying to go -- you're trying
19 to determine what the benefit is to -- the benefit is to
20 properties because of a project, you look at all
21 property types.

22 In other words, if I was doing a study and I
23 went to this area, and I was using this initially as --
24 as a basis for this study, I'd want to know about all of
25 the property types.

1 What was the purpose of just going to understand
2 office and retail uses?

3 It just seems to me that it is an incomplete
4 analysis of the benefits or -- yeah, incomplete analysis
5 of the benefit as it relates to whatever the
6 improvements are.

7 It only focuses, as I say, on office and retail
8 uses. It just seems like a fairly incomplete analysis
9 to me.

10 Q. Do you have anything else you'd like to
11 highlight from your analysis of the Tom McCall
12 Waterfront Park?

13 A. Well, sure. I have lots to talk about it. And
14 some of the questions I have from the ABS report, but it
15 just raised a question.

16 Page 50 of his report, "percent increase in
17 property values." But again, doesn't explain the
18 property types. And it also doesn't talk about the time
19 period.

20 This is a project that began in 2003, continued
21 into 2011. Nearly twice as long as what the waterfront
22 project is -- time line is.

23 And it just seems to me that, you know, if
24 you're going to look at this -- I mean, one of the
25 problems that I found throughout almost all of his case

1 examples, or the case examples, are the projects
2 occurred over a long period of time or they are
3 substantial and they're major. And it isn't -- you're
4 not able to do that snapshot with what Macaulay is
5 trying to do in his report. Here's my hypothetical
6 before, you know, improvements. Here's my hypothetical
7 after.

8 This is just a very long-range analysis of
9 something that is of a re-development or part renovation
10 project that is occurring over a variety of economic
11 times and conditions.

12 I think if -- looking here, I think we went
13 through the Great Recession in 2008. And we came out of
14 the Great Recession. There's just a lot of things
15 that -- that happened during that time frame. And the
16 ability of being able to just say, a 16 percent increase
17 in property values is really a meaningless statement.

18 I -- I asked -- we have an office -- Kidder
19 Mathews has an office -- a brokerage office in downtown
20 Portland. Steve Kline is the managing director of the
21 office. He's been in that office -- he's been -- he was
22 in an office literally across from the park for
23 14 years.

24 And I asked him what his thoughts were, if, you
25 know, the park actually resulted in property value

1 increases.

2 And his comment is, you know, he's seen no
3 difference in real estate activity from the park. What
4 his comment was, which seems to be a bit of an
5 underlying theme of some of these case studies we'll be
6 talking about is that it's about the view.

7 And the properties that are aligning the Nato
8 Parkway are looking to the east towards Mt. Hood and
9 they have very desirable views over to the river.
10 That's more of a benefit than the park. That
11 (indecipherable) benefit of the park.

12 And he -- whether, you know, it's relevant, it
13 probably is, is that, you know, we moved out of that --
14 it was called the Umpqua Plaza Building and the space
15 sat vacant for two years.

16 So it's really to say that there's empirical
17 evidence out of this case study to show that property
18 values increased specifically because of the park.

19 Q. And that's -- and you said part of the reason
20 for that was also because of this nine year time
21 frame; is that correct?

22 A. Correct. Correct.

23 It is just covering a long period of time where
24 property values are generally appreciating any way or
25 depreciating after the recession.

1 There's just these market cycles and economic
2 conditions that may be very difficult to consider really
3 any of these case studies as relevant for his infradian
4 analysis in the ABS report.

5 Q. It actually -- so tying this to the final
6 special benefit study -- final special benefit study and
7 the waterfront LID improvements.

8 If you did see a property value increase over
9 the five years between 2019 and 2024, would it be
10 possible to accurately tease out exactly what percentage
11 of that increase is due specifically to the waterfront
12 LID improvements?

13 MS. THOMPSON: Objection. Leading.

14 HEARING EXAMINER VANCIL: Response?

15 MS. LIN: I just said is it possible to
16 tease out.

17 MS. THOMPSON: To "accurately."

18 MS. LIN: I'll rephrase.

19 Do you want me to rephrase that? How --
20 what's your ruling on the objection?

21 HEARING EXAMINER VANCIL: I'm going to
22 sustain this.

23 You can either rephrase it or I can make the
24 objection. I can't do both.

25 So are you responding and wanting to rule or

1 do you offer to --

2 MS. LIN: My response is that I am asking if
3 it's possible to -- to tease out a difference in -- the
4 reason for the increase in property value over the
5 course of five years, given a hypothetical situation
6 that the property values do increase.

7 I think there's really -- I think that's
8 fair game. I also don't think there's a way to ask that
9 in a way that would appease opposing counsel.

10 So I think -- was your objection is that
11 it's leading?

12 MS. THOMPSON: Yes.

13 HEARING EXAMINER VANCIL: Yes.

14 MS. LIN: Oh, okay. And I guess, I -- I
15 think the response could very clearly be yes or no to
16 that question. And he certainly could say, yes, it is
17 possible to tease out the reason for the property value
18 increase over the course of five years.

19 HEARING EXAMINER VANCIL: Overruled.

20 MS. LIN: Okay. Thank you.

21 BY MS. LIN:

22 Q. You can go ahead and answer.

23 A. You want me to answer that question?

24 Q. Yes.

25 A. I think it's very difficult to -- I testified

1 before and I'm going to continue to testify on this.

2 I just think it's very difficult to establish
3 such -- such narrow increases and small increases in
4 property values that were performed in the ABS
5 appraisal.

6 But, you know, it's -- again, it's remote
7 speculative. It's difficult to do. It's within the
8 error of rounding. I -- I think you're asking -- I look
9 at the appraisal and go, this is a big task to try to
10 figure out if there's actually value increases from the
11 LID improvements five years from now.

12 Q. Let's turn to page 4 of your supplement.

13 And you begin a discussion about the Rose
14 Kennedy Greenway in Boston.

15 Can you describe the before and after conditions
16 in this area of Boston?

17 A. Yes. Well, this is part of the infamous big
18 gate which is where they put their... in...

19 Q. Can you please repeat that? Starting from
20 "infamous."

21 A. Okay. This is part of the infamous big, big
22 project where they moved the interstate, elevated
23 interstate underground and into the tunnel very similar
24 to what Seattle did with the 99 Tunnel. And that left
25 an open streetscape, a very substantial open streetscape

1 that was otherwise -- the roads were a physical barrier.

2 And the -- you know, the photographs show that
3 with those roads in place, it is very difficult for the
4 east and the west side of the city of Boston to actually
5 connect.

6 What they did was through -- and I believe this
7 was through public financing. They basically created
8 parks and walkways and trails and, you know, completely
9 transformed this plus-or-minus 15 or so acre
10 (indecipherable) into a very pedestrian-friendly
11 corridor.

12 The project is of a magnitude that is so much
13 greater than -- it would be like if you didn't even do
14 anything to the waterfront and then you compare it to
15 even the after condition, you know, the condition --
16 either with or without the LID improvements, it is so
17 dramatic that it's just -- again, it is just such a
18 difficult comparison case study, because the --

19 MS. THOMPSON: Objection. Nonresponsive.

20 HEARING EXAMINER VANCIL: And -- all right.

21 If it's nonresponsive, is it prejudicing the
22 City's case?

23 It's a manner, are we just trailing, which
24 is actually a disadvantage to their case.

25 MS. THOMPSON: Well, I would just ask that

1 he answer the question that is presented and not trail
2 on and on.

3 HEARING EXAMINER VANCIL: I understand that.
4 But that's actually not an objection you can raise.

5 Your objection, if it is nonresponsive, is
6 if it is prejudicing you or -- because this isn't a
7 deposition. This is -- it's her witness and you're not
8 on cross.

9 If you're -- if there's something that's
10 prejudicing the City, if it's illegal information, if
11 it's making a statement that's against the interest of
12 the City.

13 If he's rambling and not actually responding
14 to the question, that's actually to the detriment of the
15 party that's asking the question.

16 So in this case, you can't assert that. And
17 we sit through it.

18 MS. THOMPSON: Okay. Understood.

19 HEARING EXAMINER VANCIL: All right. -- I
20 reserve the right to step in and say if we're going off
21 track.

22 MS. LIN: (Indecipherable).

23 HEARING EXAMINER VANCIL: I would ask
24 you do -- and Mr. Shorett has a habit -- he's got a lot
25 to say, and I understand that. But he really should

1 stick to answering the question he's asked.

2 MS. LIN: Okay. We will try to do that.

3 I will intervene now with a question, then.

4 BY MS. LIN:

5 Q. So do you think that this -- these before and
6 after conditions are comparable to the before and after
7 conditions here?

8 A. They are not.

9 Q. And why not?

10 A. Because they're so substantively different, that
11 they are not comparable.

12 And I try not to ramble. I appreciate the
13 comment. Thank you.

14 I'm just trying to show that the -- the physical
15 improvements that were there before are so substantively
16 different than the after condition that they are not
17 comparable.

18 Q. And would it be more comparable if you had
19 included removal of the viaduct and -- and some other --
20 and the rest of the -- sorry. I'll strike my own
21 question.

22 Do you know whether there was a view enhancement
23 that contributed to the value -- the property value
24 increase in -- in this area in Boston?

25 A. No, I don't.

1 Q. And just for the record on -- on page 5, is
2 that -- what is that a picture of?

3 A. On page 5 of the report is a photograph showing
4 the comparison -- the condition of the property as it
5 was before on the left and the condition of the property
6 as it was on the right after the park improvements.

7 Q. So let's turn to page 6. And on page 6, you
8 start a discussion of the Hudson River Park in New York.
9 Was this park discussed in the final study?

10 A. Yes.

11 Q. And can you describe what these pictures show?

12 A. Well, again, they are trying to compare the
13 before and after. On the left of the photo is the
14 condition of the property before. And on the right is
15 the condition of the property after the park
16 improvements.

17 Q. Do you think that this -- the before and after
18 condition of the Hudson River Park is comparable to the
19 before and after condition here?

20 A. No. My internet research which was -- I guess
21 we can almost say that's a legitimate source nowadays --
22 described a before condition as a wasteland with
23 warehouses of no value demolished to make way for the
24 park.

25 So again, like the other example in Boston, it's

1 such a substantively different example that it really
2 isn't at all comparable to the LID study.

3 Q. And on page 7 you've got some photos.

4 What are those photos of? Oh, sorry. Pictures.

5 A. Sure. That's -- that's the Embarcadero, which
6 is another example that was used.

7 I happened to be down there when the earthquake
8 hit. I'm very familiar with what's happened down there.
9 And that is a very similar structure as the Alaskan Way
10 Viaduct. It was demolished. It was destroyed by the
11 earthquake and demolished and removed. Very much like
12 the viaduct removal (indecipherable) created an opening,
13 a connection between the city improvements of the
14 waterfront. And it was a primary access into the city.
15 Probably not to unlike Seneca was to the degree of the
16 viaduct.

17 So the City was obligated to perform a
18 transportation study alternative to get traffic in and
19 out of the city.

20 So, really, the main impetus of that -- again,
21 it's not too much unlike the viaduct -- in that the --
22 the viaduct improvement structure, known as the
23 Embarcadero, were removed and they came up with a new
24 transportation corridor.

25 What ensued was a park that basically went along

1 after the -- those improvements were in place.

2 Q. So how did the net -- how does the net
3 improvement in San Francisco compare with the net
4 improvement here if you assume removal of a viaduct and
5 completion of all of the baseline restoration projects
6 in the before condition?

7 A. I think this one -- I think the Embarcadero's
8 were substantial. It really -- it really did separate
9 from the waterfront.

10 The Seattle waterfront already had, you know,
11 the tourist attractions, things like that.

12 This section of the -- of the waterfront via
13 Embarcadero/San Francisco, was still very industrial and
14 in use. This is a much more dramatic change than
15 removal of the viaduct.

16 Q. And on page 8, which is the next page.

17 What is that a picture of?

18 A. That's the millennial -- Millennium Park example
19 that was used in the ABS appraisal. 50 million --
20 \$500 million project paid through taxpayers and private
21 donors.

22 Former rail yard and parking lot. And that was
23 completely transformed into a -- a park.

24 I wonder if there's a description for the park.

25 But it was a very substantial park that you could see --

1 the very dramatic improvement compared to what it was.

2 Q. And do you know if view enhancement was taken
3 into account when -- in this case study?

4 A. Well, I note that -- to think this answer to the
5 question.

6 The study -- there was a study done by the City
7 of Chicago that talked about increases in values from
8 better views.

9 And so, I guess, where I'm going with this, is
10 there did not appear to be any substantive financial
11 analysis out of this study reported in the ABS report
12 that talked about value increases other than that
13 develop/redevelopment was occurring, and then there's
14 the study that's referenced. But citing that the views
15 were really the main impetus for the development.

16 Q. And then turning to page 9, you have some
17 analysis of Southeast False Creek conceptual plan
18 Stanley Park in Vancouver.

19 Is this also in the final study?

20 A. Yes.

21 Q. And can you describe the scope of this
22 improvement?

23 A. Again, very substantial. What -- what was an
24 old industrial neighborhood was -- was rezoned,
25 reorganized and redeveloped into the 2010 Vancouver

1 Olympic and Paralympic Village. It's a massive
2 redevelopment of an area that -- it's more of a
3 revitalization program than it is a specific project,
4 because they basically took -- you can see on page 9,
5 this is a bunch of older warehouses. But on page 10,
6 they just completely re -- they completely reconfigured
7 and allowed and zoned for a mixed-use residential
8 community. It's something completely of a different
9 scale and magnitude than the LID improvements.

10 Q. So, in your opinion, do any of these case
11 studies provide a basis for concluding the properties in
12 the LID will specially benefit from the waterfront LID
13 improvements?

14 A. No, not to the definitive level in particular
15 that are opined in the ABS appraisal.

16 Q. Do you know if Mr. Macaulay relied on any
17 comparable parks in Seattle or any case studies in
18 Seattle?

19 A. Well, again -- I mean, his report is his work.
20 His work file is different than his report.

21 And in his report he talks about the Olympic
22 Sculpture Park which is just up the street, so that's
23 one he references.

24 Q. Do you know why Mr. Macaulay decided not to use
25 the Olympic Sculpture Park as a comparable park?

1 A. No, I'm not really sure. Because there were no
2 implied increases in property values reported in the
3 study. You know, he basically -- he basically
4 concluded -- I should say the statements in the report
5 imply that, you know, there's -- the park is a benefit
6 to the area, but there was no real monetary
7 (indecipherable) anyway. Talking about occupancies
8 being -- help stabilize occupancies and things like
9 that. But I have no idea why that was not a park that
10 would have studied.

11 Q. Some -- I want to read from Exhibit 3, which is
12 the final study. Page 58.

13 I think it's page 58 after you have passed all
14 of the spreadsheets. Which is 164 of the 237-page
15 document.

16 But I guess that's not the --

17 So it says -- and I'll read this for you -- "It
18 should be noted that the Olympic Sculpture Park is not
19 directly comparable to the park-like LID improvements.
20 Creating the sculpture park transformed an undesirable
21 negative sight into a positive open space amenity,
22 whereas the LID project involves enhancement of an
23 already established area."

24 Does that reasoning, in your opinion, apply to
25 any of the other case studies that you analyzed?

1 A. You mean that were analyzed in the ABS report?

2 Q. Yes. Sorry.

3 A. Basically, it sounds like it is kind of the same
4 condition, frankly. It's a -- a park -- I remember it,
5 of course. It's an old brown field that was just open
6 space and it's been converted into a very nice
7 attractive park. Not to some -- not to somewhere at all
8 from the other comparison case studies using the ABS
9 report.

10 Q. Except that this one is in Seattle, so it's
11 potentially even more comparable?

12 A. I would think so, yes.

13 Q. Aside from these case studies, does the final
14 study report rely on any other market data for its
15 conclusion that proximity to parks result in higher
16 property value?

17 A. There's the economic studies that were used in
18 the report.

19 Q. Okay. Let's talk about the economic studies.

20 MS. LIN: And just ask, are we going to go
21 until 5:00?

22 HEARING EXAMINER VANCIL: Yes.

23 BY MS. LIN:

24 Q. So on page 11 of your supplement, you start with
25 the decision of the HR&A economic study.

1 Can you briefly describe this study?

2 A. Yes. It's actually a study that speaks to the
3 economic benefit of the amenity...

4 Q. Can you actually start over again?

5 A. That's fine. I saw your hand and I was looking
6 down.

7 HEARING EXAMINER VANCIL: All right. So
8 Mr. Shorett is going to restart. And just for reference
9 in the record, we're referring to Exhibit 49 and
10 page 11.

11 MS. LIN: Yes.

12 And from now I'll -- I'll state the number.

13 HEARING EXAMINER VANCIL: If you can, that
14 will be helpful. Thank you.

15 MR. SHORETT: So the economic -- and Megan,
16 if you scooted a little closer to the Hearing Examiner,
17 I can see you. There you go.

18 The economic age -- or in the economic study
19 is a citywide study focusing on what appears to be the
20 waterfront -- the greater waterfront project in general
21 as a whole. And it does not appear to be to a granular
22 level, I guess is a way of saying of measuring any
23 difference before and after the LID improvements. In
24 other words, it's just a general economic study of -- of
25 the entire waterfront project to the City.

1 And I just lost Megan. She's not in view.
2 The camera defaulted back to where it started.

3 HEARING EXAMINER VANCIL: I was curious on
4 how that would work.

5 Learning more about these systems than we
6 ever want to know.

7 MS. LIN: It is just automatically moving
8 back that way?

9 HEARING EXAMINER VANCIL: It has a feature
10 that ostensibly turns to the speaker, which happens
11 about one out of every 500 times somebody speaks.

12 MS. LIN: That's a neat feature.

13 HEARING EXAMINER VANCIL: It would be, if it
14 worked. Mostly just goes to one spot and stays there.

15 All right. Thank you --

16 MS. LIN: I'll try to speak loudly.

17 HEARING EXAMINER VANCIL: -- for
18 accommodating the interruption.

19 BY MS. LIN:

20 Q. Apologies for that distraction.

21 And when you say it's an economic study, what
22 exactly was it looking for or looking at?

23 A. Well, what they're talking about -- and I
24 just -- I just wrote down a few notes. And they are
25 referenced in the ABS report.

1 It's talking about new visitors, new net
2 visitors, you know, visitor revenue, among other
3 statistics created from the waterfront, in general.

4 So it's basically -- the economic benefit -- I
5 mean, it makes -- it makes sense that if you have
6 something that's -- that's an attraction, an amenity
7 like the waterfront, that it would be -- there would be
8 some level of -- of definable economic benefit.

9 Q. And is it a LID study or a general study of the
10 larger waterfront project?

11 A. It has nothing to do with the LID. It is more
12 of a general study for the waterfront in the greater
13 Seattle community.

14 Q. Based on your review, does the HR&A study
15 provide sufficient support for the special assessments?

16 A. It's misleading.

17 Q. Sorry. Go ahead and answer one more time,
18 please.

19 A. Can you hear me now?

20 Q. Yes.

21 A. No, it does not provide any support for the
22 benefit study, in my opinion.

23 Q. Does the final study look at any other -- rely
24 on any other studies?

25 A. There's the one from New York City which we

1 talked about in the previous Exhibit 1, which focuses on
2 retail. And then there's another one that's been
3 referred to as Crompton, which is referenced in the ABS
4 report.

5 Q. Okay. And we won't repeat your testimony about
6 the New York study here, because we're incorporating
7 that testimony.

8 But we will delve a little bit into the Crompton
9 study, because you provided additional analysis here on
10 page 11 of Exhibit 49.

11 So can you briefly describe Professor Crompton's
12 study?

13 A. Yes. And I -- I do not pretend to be an
14 economist such as he is. But I did review -- there's
15 actually three (indecipherable).

16 Q. Sorry. Can you just start with --

17 A. Start again?

18 Q. Yeah.

19 A. There's actually -- there's actually three
20 studies that are involved in the Crompton analysis was
21 done in 2011; that's referenced in the appraisal. And
22 then that was updated in 2014.

23 There's another one not referenced in his
24 appraisal, but I'm presuming from the mathematics of
25 his -- or the numbers in his text that he's referring to

1 a report that was completed in 2004, the approximate
2 principle, blah, blah, blah.

3 And I just want to -- just still looking on it
4 as simple terms. Because the ABS report does state
5 specifically that values -- the 75 percent of the value
6 of a park improvement is captured in the first 500 feet
7 of proximity to the park with the remaining 75 -- I'm
8 sorry, the remaining 25 percent captured over the last
9 1,500 feet.

10 I'm not -- I'm only bringing this particular
11 study to the Hearing Examiner's attention because it is
12 a study relied on in the ABS report. And if it is being
13 relied on in the ABS report, it is important to
14 understand what all that means. And then if you -- can
15 I keep going on with my explanation?

16 Q. Well, you talked about 75 percent -- that
17 Mr. Crompton found that in his study -- was that study
18 based in Seattle?

19 A. No. No, it wasn't. And, in fact, it was out of
20 the area. I believe it was in Texas.

21 Q. Do you know if the study had -- involved the
22 waterfront?

23 A. No, it did not.

24 Q. And you testified that that study found that
25 75 percent of a benefit due to a park improvement will

1 occur -- will accrue properties within the first
2 500 feet or three blocks. And then 25 percent
3 between -- will accrue -- of the benefit will accrue to
4 properties within the next 1,500 feet or three tall
5 blocks; is that right?

6 A. Yes. It's also -- it's also important to
7 understand, too, that the study is -- only addresses
8 residential uses. It has nothing to do with office
9 property. It has nothing to do with hotels or retails
10 or special purpose.

11 All it is really analyzing are single -- it
12 starts off talking about single family homes, and then
13 it later goes on to talk about townhouses and things
14 like that.

15 So it's -- you just need to be aware that it's
16 focusing on residential only.

17 Q. Okay. And do you know how the final study
18 applied this 75 percent/25 split in its analysis of
19 special benefits?

20 A. I didn't study exactly how it was -- you know,
21 what the dispersion was.

22 But what I think is important to learn out of
23 the study, is that the benefit declines exponentially
24 the further you're from the park improvement.

25 Q. Is that in this final study or in Crompton's

1 study?

2 A. In Crompton's study.

3 Q. And so in Crompton's study, the benefit is
4 declining exponentially; is that correct?

5 A. Correct.

6 Q. Okay. And then in the final -- in the final
7 special benefit study, how is the benefit declining?

8 A. Well, put it this way. We'll be later talking
9 about two residential condominium projects that were --
10 or that I've provided -- or that I will provide
11 testimony to.

12 Basically, those are properties that the
13 appraiser assigned that's of -- I believe 2 -- I'm
14 sorry, 3 and 2.7 percent.

15 If you were to use the Crompton analysis as it
16 was intended to be used, it appears that the rates would
17 be much less, 1 percent or even less than that.

18 So that -- that's the point. I do not look at
19 it at a granular level of every property, I just looked
20 at it in these two properties.

21 Q. And do you know whether Mr. Crompton in his
22 study was referring -- when he's referring to "blocks,"
23 first 75 percent within three blocks.

24 Do you know what the size of those blocks were
25 in his study?

1 A. I forget the size that he was referring to. But
2 he also references "feet," which is really more the
3 intended, I think, linear definition. So --

4 Q. So if you apply those --

5 A. -- I think the best way of putting it is that
6 you can adjust his model and use the foot analysis as
7 equally as you can the block.

8 Q. Okay. That makes sense.

9 So if you apply those feet -- then 500 feet and
10 then 1,500 feet to six Seattle city blocks, how many
11 blocks are we talking about?

12 A. Oh, gosh, I should know that, six blocks, I
13 think. Six -- about six blocks.

14 Q. And that six blocks at 15 -- at 2,000 feet?

15 A. That's 2,000 -- six blocks are about 2,000 feet
16 total, plus or minus. Because the Seattle block sizes
17 are different and there's angled streets and alleys and
18 things like that.

19 Q. And so the Crompton study, if you were to apply
20 Crompton, you would be seeing an exponential decrease in
21 special benefit out to six blocks -- six Seattle city
22 blocks?

23 A. Right. In simple terms -- and I'm not -- don't
24 hold me to the exact dimensions -- but that would
25 basically mean anything -- any residential condominium

1 projects or anything residential beyond Sixth Avenue to
2 the east would have no value -- would receive no
3 benefit.

4 Q. And you mentioned that this study doesn't
5 even -- doesn't look at anything other than
6 residential; is that correct?

7 A. Yes. That's correct.

8 Q. So Crompton's study also provides a grading
9 system for parks. I think you might have included it
10 here.

11 So the grading system for parks -- it rates
12 parks above average -- or sorry, excellent, above
13 average, average; is that correct?

14 A. Yes.

15 Q. Do you know what the final study concludes
16 before condition to be?

17 A. I wanted to say that it was average. I think
18 that's correct.

19 Q. And then do you know what the final study
20 concludes the after condition to be?

21 A. I think it was excellent.

22 Q. And do you know, when we're talking about
23 parks -- because this is a grading system for parks.

24 Do you know what the final study is -- which
25 components of the -- which LID component the final study

1 is looking at, because there -- there are six components
2 of this LID improvement.

3 A. Yes. I don't -- I don't know -- recalling the
4 park --

5 Q. Oh, sorry. Go ahead.

6 A. Yeah, I don't know if I understand really...

7 Q. Sorry. Can you repeat again?

8 A. Airplane interference.

9 I don't know what the LID is really defining as
10 a park. Because they don't really necessarily say the
11 park. Because a lot of the improvements that are being
12 provided by the LID are not part of the park.

13 I define the park as being along the waterfront.

14 Q. So --

15 A. Basically.

16 Q. So --

17 A. (Indecipherable) something like that. 59.

18 Q. So would Crompton's grading system make sense as
19 applied to, let's say, the Pike/Pine street
20 improvements?

21 A. I don't think so. Because they are not the same
22 grade of a park quality that Crompton is talking about.

23 Q. Is there -- in your opinion -- in your review,
24 is there sufficient analysis and evidence in the final
25 studies to support the conclusion that the before

1 condition is an average park?

2 A. No.

3 Q. And why not?

4 A. It's better than an average park.

5 Q. And what evidence would you be looking at in
6 order to determine what -- what the grading of a park
7 would be?

8 A. Well -- and Crompton does have his analysis.
9 But remember his park is more for a large -- an
10 acreage-size park.

11 I'm -- I'm -- maybe I'm just oversimplifying it.
12 I look at what's -- what is being assumed hypothetically
13 in the before scenario and completed and comparing that
14 with the after the LID improvement scenario. And I
15 don't see the gradation -- the immeasurable gradation
16 between the difference of those two parks or of those
17 two scenarios.

18 Q. And I'm going to ask my question again, because
19 it is a little more targeted.

20 I'm asking what evidence is actually in the
21 final study to support the conclusion that the before
22 condition is an average park?

23 A. I didn't see any real discussion in there about
24 it.

25 Q. So based on your review, does the Crompton study

1 provide sufficient support for the conclusion that the
2 LID improvements will result in property value increases
3 within the LID boundary?

4 A. I think Crompton's report is talking about a
5 completely different park-type setting and -- and really
6 different residential uses, I don't see this being
7 supportive of -- supportive documentation or evidence to
8 show that the values have increased because of the LID
9 improvements.

10 HEARING EXAMINER VANCIL: All right. We've
11 reached five o'clock.

12 How do objectors plan to proceed? Were you
13 just going to call Mr. Shorett again in the morning?

14 MS. LIN: Well, Mr. Shorett is also going to
15 be providing property-specific testimony for a number of
16 properties that we're about to open cases for -- or
17 present on. And so he will be -- he will be appearing
18 tomorrow.

19 We're pretty -- we're pretty close to being
20 done with this general testimony, and so I don't imagine
21 more than, I think, 20 minutes or so.

22 HEARING EXAMINER VANCIL: And you're just
23 going to tack that onto the front of when he starts the
24 individual property presentations?

25 MS. LIN: Yeah, we'll start -- we'll start

1 with finishing the general --

2 HEARING EXAMINER VANCIL: Okay. Is he your
3 first witness you're calling tomorrow?

4 MS. LIN: Yes.

5 HEARING EXAMINER VANCIL: Okay. And just so
6 I can get an overview of where we're going tomorrow,
7 what other -- who other -- what other witnesses do you
8 plan?

9 MS. LIN: So tomorrow we've got -- we'll do
10 Peter Shorett general testimony, then we'll do
11 our quadruple -- actually, you probably want the CWF --
12 I'm sorry, the case numbers.

13 HEARING EXAMINER VANCIL: No, that's okay.
14 We can do that at the beginning. I'm just getting an
15 overview of where we're going.

16 MR. STILLWELL: So Brian Madsen will be
17 testifying on 430 and 431. Which is -- be Quadruple R.

18 And then we will have Greg Vik testifying on
19 437, which is Sun Vista Properties. And then --

20 MS. LIN: Then if we have time, we'll do
21 United Way Building, which is 417, and David Brown will
22 be testifying.

23 And Peter Shorett is the expert for all of
24 these properties.

25 HEARING EXAMINER VANCIL: Okay.

1 MS. LIN: So I don't know if it just makes
2 sense to have him do his presentation for all of them in
3 one go.

4 HEARING EXAMINER VANCIL: Probably. Yeah.
5 I mean, less interruption. We can get into a single
6 cadence with one witness getting used to getting skipped
7 over in the Skype, et cetera.

8 So if we can proceed with Mr. Shorett, that
9 would be ideal. And then we can get into the
10 property-specific witnesses from there. All right.

11 And are all those appearing by Skype? Was
12 that arranged?

13 MS. LIN: Everyone is set.

14 HEARING EXAMINER VANCIL: All right. I very
15 much appreciate your efforts to make that happen. I'm
16 sure the witnesses do as well.

17 With that, we'll adjourn for the day and
18 return tomorrow at 9:00 a.m. Thank you.

19 MS. LIN: Thank you, Peter.

20 We're going to adjourn now.

21 MR. SHORETT: Okay.

22

23

24

25

C E R T I F I C A T E

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

STATE OF WASHINGTON)
) ss.
COUNTY OF KITSAP)

I, CRYSTAL R. McAULIFFE, a Certified Court Reporter in and for the State of Washington, do hereby certify that the foregoing transcript of the proceeding before the Hearing Examiner on MARCH 11, 2020, is true and accurate to the best of my knowledge, skill, and ability.

IN WITNESS WHEREOF, I have hereunto set my hand and seal this 30th day of March, 2020.

Crystal McAuliffe



CRYSTAL R. McAULIFFE, RPR, CCR #2121