Seattle Waterfront LID Assessment Hearing

Seattle LID Hearing

April 13, 2020

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SEATTLE WATERFRONT LID ASSESSMENT HEARING

BEFORE

HEARING EXAMINER RYAN VANCIL

[Stenographically transcribed via audio/video recording.]

DATE: APRIL 13, 2020

TRANSCRIBED BY: CARISA KITSELMAN, RPR, CCR 2018

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EXHIBIT INDEX

April 13, 2020

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HEARING EXAMINER VANCIL: (audio starts) ... will continue to be heard for the hearing examiner for case numbers CWF-0233, 318, and 409 through 441. We'll take a break approximately about 10 a.m. Lunch will be approximately noon for about an hour and a half. And then we'll take a break at 3 p.m. Make sure that your cell phones are turned off, that there's not any background noise.

I'm going to go over our protocol today. And I apologize that I have a desk that has our image up here and then my -- my notes are off to the side. So if I'm not looking at you, it's because I'm looking at notes and exhibits.

I want to go over briefly some of our protocols for a remote hearing. Please keep in mind that it is recorded. And so speaking one at a time is essential. Anybody who can't really follow that is going to have to get muted so that we can make sure we have a clear record.

When speaking, always identify yourself before continuing. If you're not participating, either prepared as a means of cross-examination or objection or working with a witness or if you're not the witness, please make sure your microphone is muted.

Please keep your eyes on the video when you are able to speak and participate. It makes sure that we -- you know that if someone is signaling you and you can't be heard.

If anybody participating sees a speaker that is not able -- their video is breaking up or they can't be heard, simply raise your hand so that it's clear, it's a signal they can't be heard. And we'll try to address that in due course.

If you're not immediately participating either as a witness or cross-examining or direct counsel, it isn't necessarily necessary that you be heard. So we'll just have to deal with those issues as they come up. But ideally, each witness needs to be perfectly audible.

If you have a technical or general procedural request during this, you can use the chat with Mr. Edlund-Cho to ask questions.

Each witness should be called by name by the representative -- their respective representatives.

Before testifying, each witness will be asked to state and spell their name for the record and to take an oath or affirmation to tell the truth.

In providing testimony, a witness should enunciate and speak clearly. It may be necessary to slow the cadence of your presentation to ensure that you can be heard. Sometimes the electronic transfer is a bit off. So if you slow down a bit, it's easier to hear you and better for the recording.

Again, please keep your eyes on the camera when you're testifying as a witness unless you have to look off to the side at notes so that if does someone does signal that you can't be heard, you're aware that you're being stopped as soon as possible.

Cross-examination will be allowed as each party presents a witness.

For objections, representatives, state your objections clearly and accompany your verbal objection with a raised hand gesture so that I immediately can see that you are raising an objection. State the objection and the basis thereof. Don't just say "objection." Opposing counsel should be prepared to respond to the objection and withdraw a question -- or withdraw a question being asked.

Witnesses, if an objection is raised, if an attorney raises his hand and indicates objection, stop speaking immediately and do not respond to a question when an objection has been raised. You'll be signaled when or if you can proceed.

This is a continuing hearing so we have about two, three days left for these objectors represented by Perkins Coie to go. We are ready to proceed with the presentation from objectors. I did receive a motion in -- from objectors. I believe it was on Friday. The attachment with the motion was unopenable. So I don't know what the motion was. There was some indication that objectors might want to try to address that today.

Otherwise, are there any other procedural issues or items that need to be addressed before we proceed?

MS. LIN: I'm sorry. I spoke with -- or I communicated with Mr. Edlund-Cho who said that he was able to open all of the attachments related to the motion. Is that -- is that not correct?

HEARING EXAMINER VANCIL: I'm sure he was. But he's not the hearing examiner. So that didn't help me.

MS. LIN: Okay. Okay.

HEARING EXAMINER VANCIL: I have all of the exhibits that were submitted for today. And I was able to open those. But the zip -- the compressed drive for the motion was not openable by the hearing examiner. And Mr. Edlund-Cho maybe was able to open that on his end. But what got forwarded to me did not open. And, of course, it was late on Friday when I got it. And we're starting up now.

So there wasn't much time to review what I got anyway.

MS. LIN: Okay. I will go ahead and resend that today. And maybe I'll send it in a different format to hopefully enable you to open it. And I'll take care of that during the break.

HEARING EXAMINER VANCIL: Okay.

Is there anything that either objectors or City need addressed in light of the hearing examiner's order for continuance raised that was issued on Friday?

Any questions?

UNIDENTIFIED MALE: None.

HEARING EXAMINER VANCIL: All right.

Anything further from objector on the motion?

MS. LIN: Did -- and maybe this is something that can be addressed later as well.

We did -- to the extent it would be helpful to the hearing examiner, we did offer to dedicate a portion of our April 16th hearing allotted time for oral argument on the motion. And, of course, that's up to the hearing examiner. But just wanted to raise that as a procedural --

HEARING EXAMINER VANCIL: Well, why don't you fill me in on the nature of it. It was filed on Friday. Typically a written motion, the opposing party has a chance to respond to it. And if you argue Thursday, that's not going to happen. So why don't you let me know the nature of the motion so I can have some idea to as whether that's appropriate or not.

MS. LIN: Sure. And actually the motion was filed on Wednesday, April 8th. We sent it. And we believe -- we did receive confirmation from Mr. Edlund-Cho that it was received. And I apology -- apologies -- we actually sent it three or four different times just to make sure it was received.

And we did so in order to allow full -- the seven days' response time for the City to be -- so that the City could respond within seven days on April 15th, which is this Wednesday, in advance of our April 16th hearing date. And the nature of the motion is it's a motion to exclude the testimony and final study of Robert J. Macaulay as unreliable and noncredible.

HEARING EXAMINER VANCIL: Okay. I'll wait to hear more about that on Thursday when I can see it.

MS. LIN: Okay.

HEARING EXAMINER VANCIL: It doesn't sound like we need to address it right now.

All right. Are objectors ready to proceed?

MS. LIN: Yes.

HEARING EXAMINER VANCIL: Call your first witness, please.

MS. LIN: We'd like to call Mr. John Gordon as a witness for -- and we're going to start with case number CWF-0418. And this is a continuation of our -- his testimony with regard to this case on March 12th.

HEARING EXAMINER VANCIL: Mr. Gordon, you remain on oath or affirmation from earlier.

THE WITNESS: I understand.

DIRECT EXAMINATION (continued)

BY MS. LIN:

Q. So we were talking about the Renaissance Hotel. And just to -- just to catch every -- as a context, we were walking through the table sets that you provided that formed the basis for your restricted appraisal for the Renaissance Hotel. Is that correct, Mr. Gordon?

A. Yes, it is.

Q. Okay. And I believe we left off at Table 9.

A. Yes. We had -- we had gone through Tables 1 through 8, all of which relate to the preparation of our forecast of performance for the hotel.

Q. Okay.

A. The table -- the remaining tables, 9, 10, and 11, translate the performance forecast into our opinion of value.

Q. Okay. And then -- we're looking right now at

Exhibit 65, page 10. These are the table sets; is that correct?

A. Yes. Table 9 on page 10.

Q. And these form the basis of your restrictive appraisal which is Exhibit 64; is that correct?

A. Yes.

Q. And can you -- can you tell me what's on Table 9 on page 10?

A. Table 9 has two sections -- two primary sections to it, each of which is deriving an indication of value for the hotel based on our forecast of performance.

The upper section is using a method called "direct capitalization." It's labeled on the table.

The middle of the table is labeled "yield capitalization." It's a different method but it is also taking our performance forecast and using that to come up with an opinion of value, or at least an indication of value.

At the bottom of the table we reconcile the two results. We basically give weight to each one and say, well, here is the result from the direct cap, here is the result from yield cap, and we're going to conclude to that number.

So the number at the bottom of the table is our estimate of the current market value of the property as of January 1st of this year.

On Table 11, when we get to it, we divide that number between real estate value and the value of personal property.

But to stay with Table 9 for the time being, the top section I'll address first as direct capitalization.

For a stabilized hotel, this is a really simple way to value a property.

You select what you think is a capitalization rate, and that -- the cap rate, I'll probably be referring to it as the cap rate -- is the ratio of annual net operating income to value. And so you need to be able to define both of those -- you need to be able to have a forecast of net operating income that you're going to capitalize.

The top portion of the table deals with the property in its -- in its present condition and only looking at one year of income.

In this case, if the -- well, if the property were stabilized, we would take the coming years' income, capitalize it, and that would be our value indication. No fuss, no muss.

Most hotels are not stabilized because their performance goes up and down. And whatever date you value a hotel, it would just be coincidence if it turned out to be a stabilized year. Because some years are going to be good, and some years are going to be bad.

In this case, because of all the new -- because of all the new supply coming into the market, most of the hotels are showing a -- a decrease in performance in the first two years.

This was not the case with the Renaissance. If you look back to Table 8 on the previous page, we were actually projecting higher income in the first couple of years. And then it would settle down to a more stabilized level after that.

The Renaissance is kind of an unusual property in its location. It's -- it's at the south end of the downtown so it doesn't get hit as hard by new supply near the convention center.

So on Table 9, we take the -- at the top of Table 9, just to clarify, we take what we think of as the stabilized net operating income of this hotel stated in current dollars. Our -- as you may recall from the previous discussion, our analysis initially is developed in current dollars and then we apply trending factors to the future for it.

So in this case, we estimated that the hotel, if it were stabilized today, would be earning $14.7 million in net operating income for the coming year.

Based on sales of hotels in which we were able to see the relationship between the income and the sale price in those transactions, and survey data where investors are asked what cap rates are they seeing in the market, what do they think is reasonable for different types of hotels, we selected a cap -- capitalization rate of 7.25 percent for the Renaissance.

Now, the things that go into this are the cap rates that we see in sales, the survey data, the age of our property, how much risk there is of new competition coming in, how vulnerable our hotel is to things that might happen in the market.

And we concluded to 7.25 percent cap rate.

The -- pardon me just a second here.

The cap rate that was selected by -- in the Macaulay appraisal was 7.5 percent for this hotel.

So our cap rate is a quarter point lower than his. If we had the same income forecast, that means that our value conclusion would be slightly higher than his value conclusion. In point of fact, our income forecast differ widely. But I think we've already hit that on the last -- on our last session.

So -- oh.

Q. Go ahead.

A. Well, at the top of the page you can see how we're taking the 14.7 in net operating income, dividing it by the 7.25 percent cap rate. That gives us a value of 202,900,000 if stabilized today.

And, again, in the case of the Renaissance, we felt that it was going to do better than stabilize. So we're adding another 3.3 million. That number comes from Table 10. Table 10 tends to -- I didn't initially put it in all my appraisals. But I kept getting questions as to where did that number come from. So now I -- now I include -- I include Table 10.

Q. Can you just give a really quick overview of what Table 10 is showing us?

A. Well, it's -- it's related to the yield cap analysis that comes in on the center of Table 9.

But basically what I'm doing is Table 10 -- we can flip over there. It's all right.

I'm comparing the stabilized performance trended forward just at inflation, which we're estimating at two and a half percent. So I'm compare that in each future year to what I'm actually projecting that the hotel will do.

So in years one and two, 2020 and '21, I think our hotel will do better than the two -- better than the stabilized NOI for those two years.

So we have a surplus. In fact, we have a surplus in the third year. It's only in the fourth year that we get a deficit for this hotel.

Midway down Table 10, I apply discount factors to those. And that's the same theory, the time value of money theory, that we're going to apply in yield capitalization in Table 9. And it's the same yield rate.

So what we're saying in Table 10, is, yes, we're going to get a surplus in year two, for example, of a million-four. But because we have to wait until the end of year two to get it, it's not worth as much today as it would be in two years. So we discount that back. And the discount factors are calculated on Table 9, or shown on Table 9. They should be the same factors. Yeah. For year two, it would be 0.841680.

So what -- what Table 10 does then is add up the present value of all of those variations -- variances from the stabilized performance.

If this seems confusing, you're not the only ones. It usually confuses my clients, my lenders. But it actually does work.

And so we take the -- we take those discounted differences, sum them up to what -- to the line called "cumulative variance." And then we add a profit incentive. Typically I add 15 percent and it's -- it could be all over the board. It could be anywhere between 10 and 20, but 15 seems to be generally accepted.

And what we're saying there, that if somebody was to buy the hotel today, they're taking a risk that it will actually be able to achieve the performance that we're saying it will. So they deserve some sort of compensation for taking that risk.

It's the same -- the same theory that underlines the cost approach to value where we say here's the cost to build the hotel. But, oh, yes, the developer is going to need some profit on top of that or he's not going to do it. He's not going to build the hotel for -- just to break even. And in this case, somebody is not going to buy this hotel if they think they're just going to break even.

So flipping back to Table 9, we take that 3.3 million that was the sum of the discounted variances and the profit incentive. It rounds off to 3.3 million.

And we add that to the indication of value that we derived based on stabilized performance. So by the -- at the top of Table 9, what I'm saying is that the indication of value for our hotel today, using direct capitalization, is 206,200,000 for the Renaissance.

Q. Okay. So it sounds like what you've done is you've taken net operating income, in Table 9 you translated that into two potential market values using direct capitalization and yield capitalization. And then taking those two, you -- you come up with a current market value. Is that correct?

A. Yes. We would say that we're reconciling the two indications.

Q. Okay. And then this current market value, it -- it includes real estate and personal property values.

A. That's correct.

Q. Okay. And then -- and then in Table 11, on page 11, are you breaking out that personal property and real estate from -- are you showing what -- what percentages -- what part of that is due to real estate and what part of that is due to personal property?

A. Yes.

Q. Okay.

A. And I should -- I should clarify. This is tangible personal property. This is furnishings and equipment. Things that are -- the definition is it's something that's not going to -- where its normal use for life is less than the life of the building. So you'll have to replace it before you tear down the building.

Q. And why did you break that out?

A. Because in the Macaulay appraisal, he is valuing real estate. He says specifically in his study that he's excluding personal property. And we wanted to be on an apples-to-apples basis with his numbers.

Q. Did you see on his spreadsheet whether or not he also deducted the personal -- the value of personal property from his ultimate value?

A. He does not appear to. But he may have -- he may have built that into his selection of a cap rate. He says in the text of his report that he's not including personal property. But I don't see on his spreadsheet a place where he actually subtracts it the way I do.

Q. Okay. And so can you just walk us through Table 11?

A. Yeah. Table 11 is pretty -- pretty simple.

The personal property of hotels, what we do is we estimate the cost new. And then based on having seen the property and the age of the property, we deduct what we think is the accrued depreciation on it. And what's left is the residual value of the personal property and that's subtracted from the total asset value to give you the real estate value. So it's fairly simple math.

The two key features that we need to come up with are the original cost -- the cost new of the personal property. And that's usually estimated on a per-room basis. A very simple Motel 6-type property, the personal property there might cost 5,000 per room.

If you get up to a Holiday Inn Express, you might be looking at 10- or 12,000 per room because they have to build a breakfast room. They may have meeting space. They might have a pool, an indoor pool. But a pool itself is not personal property, but there are things that go around the pool that are personal property.

For a full-service hotel, personal property also includes a lot of the items in the kitchen. Anything that can be removed without causing damage to the -- to the -- to the operation of the kitchen. If something is -- is attached to where if you were to take it out like a -- the main ovens that may be all linked in with gas lines and everything, if you were to remove it, the kitchen would be damaged. Then you would turn that stove, or whatever it is, to be a fixture. And from an accounting perspective, fixtures are considered part of the real estate.

Personal property is more like a refrigerator where you can just unplug it, get a dolly in and then wheel the thing out.

So other examples of personal property for a hotel would be the beds and the dressers and the nightstands in the guest rooms. Tables and chairs in the meeting rooms. Tables and chairs in the dining room.

Q. Okay.

A. Barstools would be personal property. The bar itself would be a fixture, so it would be real estate.
Q. And after --
A. So the -- the estimate that I came up here is 20,000 per room for this hotel.
Q. And after deducting the value of personal property, you end up with 200,700,000. That is your apples-to-apples comparison with Mr. Macaulay's before LID valuation; is that correct?
A. Yes.
Q. Is there anything else on Tables 9, 10, or 11, that you would like to discuss?
A. Well, I just point out one thing on Table 11, the depreciation -- for a brand-new hotel, depreciation is zero.
Over the life of the hotel, the -- the typical life for FF&E is around ten years, sometimes 12 years. Let's say ten because it's easier.
For the first five years of the hotel's operation, we assume a straight line depreciation. So depreciation is zero when it opens. After one year it's 10 percent and then 20, 30, 40, 50.
Most hotels don't allow their equipment and furniture to remain in place to the point where the guests hate it. So instead, they will replace items

along the way as they -- as they grow old.

So once a hotel is established in the market, the depreciation ratio tends toward 50 percent because some of the things have been replaced and some have not.

So typically in my appraisals for a new hotel, I'll assume zero percent depreciation. But as it gets older, it eventually goes down to 50 percent and I leave it there.

In this case we're talking about a hotel that's not quite 40 years old, but getting there. And my presumption is that their depreciation is 50 percent.

Q. Okay. Thank you.

Is there anything else from Tables 9, 10, or 11?

A. I don't think we actually looked at the center of Table 9. That's the yield capitalization analysis. That's the second method of translating performance into value. And there, what we're doing is we're projecting out a 10 -- actually an 11-year forecast of net operating income for the hotel, discounting it back to today, the same -- same theory as the -- as the -- as in Table 10 where we're taking discount factors because that money today is -- money tomorrow is worth less than money today.

So we project out the annual NOI, discount it back to today, multiplying column one times column two.

Sum those amounts. And then at the bottom of that section, we're saying, well, at the end of ten, we assume a sale of the hotel. Every hotel does not sell after ten years. But most investors make that assumption when they're doing their forecast. But there's a holding period for a certain period of time, and it's usually more than eight years because the investors want to get their full depreciation on the FF&E.

So after eight years they may think about selling it. We assume ten years because that's what everybody assumes. That's what all the investors are assuming, and we're trying to mimic their thought pattern.

We capitalize the income for the 11th year at what's termed a reversion cap rate or a terminal cap rate. That tends to be a little bit higher than the going in rate of 7.25 that we selected in this case. And that's because the hotel is older; it doesn't have as long a remaining life. And we're trying to project its income out ten years, which is less reliable than projecting next year.

So typically, and, again, this is supported by the surveys and by the investors, typically their reversion rate is a little bit higher. The margin here is half a point. We're using a reversion rate of 7.75.

Q. I need to --
A. Oh, go ahead.
Q. Why did you do a direct capitalization and a yield capitalization? I mean, meaning -- I guess my question is, why didn't you just do a direct capitalization? What is the point of also doing a yield capitalization?
A. Well, direct capitalization by itself works if your hotel is stabilized.
If it's not stabilized, you need to adjust for the near-term surplus or shortfall as we did here. And that, as in Table 10, that surplus or shortfall is calculating -- is basically a shortened form of yield capitalization just looking at those -- at those particular years prior to stabilization.
So we needed to have support for that adjustment. And --
Q. Do you know --
A. -- a second reason is I like to try to use more than one method if I can because if you -- if you come up with indications of value using two methods and they're widely different, you probably got a mistake buried in there somewhere. And it will help you find it.
In this case, the two numbers come in very, very close. And the reconciliation is basically just hitting

a midpoint between the two.
Q. So it's a good way to also check yourself on -- on your methods --
A. Yeah.
Q. -- and your data?
A. Yes.
Q. Do you know whether Mr. Macaulay also employed different methods -- income methods like this? Do you know whether he did a direct capitalization and a yield capitalization?
A. He only did direct capitalization. And he assumed that all of the hotels were stabilized.
Q. And is that, in fact, correct?
A. Not in my view.
Q. Okay. Unless there's anything else on Table 9 -- is there anything else on Table 9 or 10?
A. No.
Q. Okay. Can we please turn to Exhibit 66 which only has one page. And that is the comparison table for the Renaissance.
A. Okay.
Q. And can you explain what this is showing?
A. What I tried to do here -- after many discussions of what were the differences between our report and the ABS report, I thought let's just lay it

out in one table for each hotel. I try to make it easy for people to -- to understand the difference in short form and not have to wade through everything.

So in this case table, there are four columns. In the first column I show the actual results of the hotel. When we did the Renaissance, we did not have access yet to the full 2019 numbers because it hadn't been -- they hadn't been finalized. So I'm showing here the 2018 numbers. My understanding is that 2019 did not -- wasn't very much different.

So that's the first set of columns is the actual results.

In the second set I show the numbers that were in Mr. Macaulay's preliminary study that came out in 2018.

In the third set I show what the numbers were in his final study that came out in November -- or the end of 2019. Yes, November 2019.

And then finally on the right-hand side, I say what we think the hotel -- how we think the hotel would perform if stabilized today. Now since Macaulay also assumed stabilization, I think this is as close a comparison as you can get between his results and ours. It's not a perfect comparison but it's -- it forms a good basis for discussion.

Now, the top of the --
Q. Okay. And --
A. I'm sorry. Go ahead.
Q. No. Go ahead.
A. The top of the table, you can just read down the left-hand side of the table as to what it is.
I'm showing the number of rooms, the available room nights, which is just the number of rooms times 365.
Q. And so --
A. As an aside, in my business there are no leap years. There are no leap years. They just go away. Everything is 365.
Q. Okay.
A. And then occupancy average rate, the -- the room revenue, all the other revenue, and those two together sum to total revenue. All the operating expenses. And what you're left with is net operating income.
Q. Okay. So looking at the last -- the furthest columns to the -- to the right, so the ABS final and the KM stabilized, when we're looking at the -- the occupancy rates don't seem that different.
But then you look down at the average room rates, and that's where you see the greatest difference. Is that correct?
A. Yes.

Q. And those differences are 300 in the ABS final. And 209 in the KM stabilized?
A. That's correct.
Q. And that translated into a room revenue that was quite different as well; is that correct?
A. Yes.
Q. And is that difference in room revenue the primary reason for the difference in net operating income?
A. Yes.
Q. And that difference in net operating income is -- is 17 million -- about 17,041,000 ABS and 14,700,000 in KM stabilized; is that correct?
A. Yes.
Q. And as you showed us in Tables 9, 10, and 11, this net operating income is very important to establishing property values because it gets capitalized into the ultimate property value; is that right?
A. Yes.
Q. And so, then, using these capitalization rates, Mr. Macaulay comes up with a current value of 227,224,000. And you come up with one -- current value of 200,700,000.
A. Yeah.
Q. So that's the difference of about 27 million; is

that right?

A. Yes.

Q. And in your opinion, which of those numbers is more accurate?

A. Mine.

Q. And is that because you used the actual data from the hotels?

A. Well, that was certainly important that we access to their actual performance, and Mr. Macaulay did not. So he had to guess how they were performing.

He used -- in his study he talks about using data from other hotels or survey data in order to estimate what experiences would be. And he appears to, at least initially, have used the rack rates of the hotel in order to estimate the average daily room rate.

Now, his estimate of occupancy at 80 percent, most of the hotels in downtown Seattle, until this year, were running pretty close to 80 percent. Some were a little higher as with the Renaissance. Some fell slightly below that. But 80 percent was a pretty good ballpark. So I have no objection to him using -- using that as his -- you know, on a stabilized basis, that the property would do that.

But when it came to the average room rate, actually, as you can see in the first column, their actual room rate -- actual average room rate in 2018 was 211. And that was prior to the downward pressure on rates that a lot of hotels saw during 2019 after the Hyatt Regency opened and there were some other additions to supply. And that was the main one.

The Renaissance has 557 rooms which makes it on the border of being a convention hotel. It has a lot of convention space, I think around 20,000 square feet. 20- or 30,000.

It's -- it's a little further from the convention center than everybody else. But it still does compete in that market.

And so for the Hyatt Regency to open, that's going to have an impact on the -- on the Renaissance.

Now, we didn't feel that it would impact its occupancy. But -- but we did think that there would be downward pressure on their room rate.

So that's why we're saying if the hotel were open -- were operating and stabilized today, we think the Renaissance would be averaging $209. And that's $2 less than they actually averaged in 2018. In the general scheme of things our numbers are not that far off from their actual numbers as compared to the $300 that Macaulay used.

Q. And because -- going back to Mr. Macaulay's spreadsheets, because he uses his before LID value to apply -- really for LID income estimates, to apply a percentage to come up with after LID income and operation expenses, does this -- does the fact that his before value use incorrect data call into question the reliability of his post LID valuation?

A. Yes.

Q. So based on your analysis using actual data from the hotels and after stabilization -- and assuming you applied the same special benefit percentage increase that Mr. Macaulay applied, what would the final assessment have been?

A. If you look at the bottom right corner of the comparison table, Exhibit 66, we're not saying that this is our estimate of what the levy should be. But we're saying that if our value conclusion was accepted and you applied the levy lift -- the value lift estimated in the ABS report, then the levy would be $393,000 and change.

Q. And why are you --

A. That would be 40 -- I'm sorry. $52,000 less than the levy shown in the ABS study.

Q. And you said you're not saying this is your opinion of the -- of what the actual final assessment amount should be.

Can you explain why not?

A. Because I don't see anything in his study that persuades me that the -- either that there is a lift or that he can estimate it.

Q. Let's talk a little bit about that.

Going to his spreadsheet, for the Renaissance -- and we talked a little bit about this already. But I'm just going to go over some -- some numbers again in order to ask you some questions about them.

So we talked about the fact that he uses these four scenarios based on high-low increases to income. And then high-low increase -- changes to cap rate.

So for the Renaissance, in the first two scenarios, he assumes that room rates and other [poor connection] increase by .15 percent in the low scenario. And .45 percent in the high scenario.

Is it [poor connection] to accurately conclude that the reason for this level of percentage increase is due to the LID improvements?

A. Not necessarily. I mean, that seems to be what he's asserting. But I don't really see how he gets from one to the other.

Q. So from your read of the final benefit study and the underlying spreadsheets, have you seen any explanation for the basis of these percentage increases?

A. No.

Q. Has the Renaissance Hotel actually raised any rates in anticipation of the LID improvements?
A. No.
Q. He also applies the same percentage increase to food and beverage revenue, parking and [poor connection].
In your opinion, will these -- will these revenue streams also increase by the same percentage amount due to the LID improvement?
A. It depends a bit on his assumptions. If he's assuming that the entire increase in revenue is coming because of higher occupancy, that there's more people coming to the hotel, and if he assumes that all of the revenue coming in for food and beverage and parking and other sources is coming from hotel guests, then he would have a consistent argument.
But neither of those is the case. All the hotels downtown get some of their food and beverage from local sources. Businesses, people who wander in at lunch to have -- you know, to have -- who wander in at noon to have lunch, rotary meetings that come and are not renting rooms so they're not counted in the occupancy but they're still generating F&B revenue.
So if -- if half or a third, say, of the food and beverage revenue was from local sources, even if the occupancy goes up by one percent, the F&B revenue does

not go up by one percent because not all of it is coming from the hotel guests.

He's also -- it's also unclear where he thinks that the room rate is going to go up or the occupancy is going to go up. He just applies these percentages to revenue.

So the mix is a little bit hard to follow between the mix of impacts that he's -- that he's anticipating.

Q. And you said it's a little unclear to tell exactly where -- where he's -- what he's assuming.

Do you in fact -- have you in fact seen any explanation for these percentage increases as applied to [poor connection] income, parking income, in your review of the final study or the spreadsheets?

A. No.

Q. In the spreadsheet it also says that the proximity to the park is 1,900 feet to the park, in parenthesis via Madison, or a 12-minute walk.

In your opinion, would being 1,900 feet to the park cause this bump in room, beverage, and food rates?

A. Well, it's not so much my opinion. It's an opinion of the managers of the hotel and the owners of the hotel. They don't think so. And I -- I'm inclined to agree with them. That's a long way to walk. If you've ever walked it, it's a -- it's a nice, easy walk down to the water. And it's a problem coming back up, at least for old people like me. But it's a -- that's a big hill.

So to get all the way down to the waterfront and then get over to where the -- the new developments are going to be, you said 1,900 feet -- I haven't measured it. But that's a --

Q. Or 12-minute --

A. -- long ways.

Q. -- walk. Yeah.

A. Or 12 -- yeah, or 12-minute walk. Maybe it's 12 minutes downhill.

Q. And then for the third and fourth scenario, Mr. Macaulay assumes that the net [poor connection] income will remain the same in the before condition, but changes the cap rate from 7.5 percent to 7.44 percent in the low scenario. Or 7.48 percent in the high scenario.

Is a cap rate change of .06 or .02 percent measurable?

A. Not in my view. I mean, that's -- he would have to be really, really good to be able to come up with something like that. I've never seen anybody shave the cap rates that narrowly in any hotel appraisal that I've reviewed.

Q. And from your read of the special -- the final special benefit study and the underlying spreadsheets, can you tell what the bases for these percentage changes are?

A. I can speculate. But I don't -- I can't tell what his intent was.

Q. In your opinion, would being 1,900 feet from the park cause this -- cause this change in cap rate?

A. I don't think the distance from the park would have any impact on the cap rate.

What the cap rate is measuring is the risk that your income forecast will not be realized. And the longevity of that forecast, how many years the hotel has left to operate.

So neither of those factors is changed by there being a park 1,900 feet away. Or even across the street. There -- there -- if there's a benefit to the park, it should be reflected in the income forecast, not in the cap rates.

So I don't know why he did this whole cap rate shaving exercise.

I would comment that what it allows him to do is to show that he has four scenarios which, perhaps, might consider to be more persuasive than having two scenarios.

But I don't think that it actually adds to the reliability of his conclusion.

Q. And then it appears he takes these four scenarios to conclude that the Renaissance hotel's property value will increase by .5 percent due to the LID improvements.

Is there any explanation of how he uses these four scenarios to -- to come up with that final .5 percent?

A. Well, the -- each -- each scenario -- in each scenario he has -- he has what he sees as an estimated value. I don't know. The short answer is no. I can't follow what he's doing. It's -- he ends up saying -- using .5 percent because his -- his -- the lift that he's estimating under is four scenarios ranging from .26 percent to .81 percent. And he takes .5 percent as a midpoint. Which is fine if those initial lifts were valued or supported. But I don't see the support for where they come from. It's -- it's just difficult to -- difficult to regard this as a credible analysis.

Q. And you've -- we talked a little bit about your table sets and why forecasting for hotel net operating income is an important part of hotel valuation.

Can we talk a little about what the impact of the coronavirus has been on the Renaissance Hotel specifically.

In particular, do you know what the current occupancy rate is?
A. I --
Q. Occupancy rate is.
A. -- I don't have the current occupancy rate for the Renaissance, no.
But the impact of the virus has been absolutely devastating. Two days ago I surveyed all 44 hotels in downtown Seattle, and that's in the CBD. Not including the -- the ones that are around South Lake Union. Of those 44 hotels, 25 have shut down. They're not open at all.
We've also been -- I've also been able to track the performance of a set of six hotels on a weekly basis. I was provided the weekly STAR reports for this set. And this set includes the -- let me -- I don't have it in front of me.
Q. I'll stop you there, Mr. Gordon. Because we are going to talk a little bit more generally about the impacts of COVID-19 later --
A. Oh, okay.
Q. -- I believe. Later.
So I just wanted to know specifically if you knew what the -- what the Renaissance hotel is operating at right now?

A. I don't know. The hotels that I've surveyed are between 10 and 20 percent, those that are still open.

Q. Would you expect the Renaissance to be around that?

A. I don't see any reason why it would not.

Q. Okay. Is there anything else you would like to add with respect to your appraisal and review of the Renaissance Hotel?

A. Only that the Renaissance is as close to plain vanilla as you get in a hotel. When we -- when we look at these other hotels, each of them has some weird quirk or feature that -- that we need to account for in addition to the standard methodology. The Renaissance is my standard methodology. There aren't -- there isn't any weird bizarre things in it. It's a nice hotel. When you go back there, it opened in 1983. It was the last hotel to open in the huge influx of supply that took place between 1980 and 1983. So they were the last guy to the party. And it took them a few years to settle in. But since then they've been pretty reliable, pretty steady. They -- they don't have any leases. They -- they don't separate out -- you know, they don't have other sources of revenue beyond what the hotel itself is generating. So it's -- this is the easiest one to understand.

And as we go through the other hotels, they all use the same methodology. So we'll basically be looking at the Renaissance methodology again and then tweaking it a little bit for each property for their own -- their own particularities.

But the Renaissance should be the -- if you understand the Renaissance, you can understand everything else.

Q. Okay. And I do think that now that we've gone through the Renaissance -- your table sets and the comparison and the spreadsheets for the Renaissance, the rest of the hotels should go a little quicker.

MS. LIN: Should we go ahead and start with the next hotel? Or did you want to take a break, Hearing Examiner Vancil?

HEARING EXAMINER VANCIL: Keep going.

MS. LIN: Okay.

BY MS. LIN:

Q. So the next one we're going to look at is the Hyatt Regency, which is case number 0413.

A. Okay.

Q. Did you perform a restricted appraisal for the Hyatt Regency?

A. Yes, I did.

Q. And is that Exhibit 67?

A. I'll take your word for it.

Q. It looks like Exhibit 67 is your restricted appraisal report for the Hyatt Regency hotel, that's the -- that's the title of it.

A. Okay. Yes, that would be my report.

Q. Okay. And can you please describe the property?

A. It's the largest hotel north of San Francisco. The owner specifically wanted to be larger than the Sheraton, which -- which has about 20 fewer rooms. The Hyatt Regency. The Hyatt Regency is located within -- within two and a half blocks of the existing convention center and within one block of the convention center expansion that's under construction.

So they built it with the expectation that their rooms would -- that their hotel would benefit greatly from proximity to the center -- convention center.

However, they also included 100,000 square feet of meeting space within the hotel so that they can attract and host mid-size groups without having to rely on the convention center at all. It's -- the hotel has got a -- two actual restaurants, Daniel's Broiler and then one that starts with an A that I forget the name of. I can never pronounce it. It's Italian. And then they also have some walk-up services where you can get coffee or snacks to go.

The owner of the -- the owner developed the entire block. He originally was going to try to put 16 or 1,700 rooms in a hotel that would occupy the entire block. But the city counsel would not allow him to vacate an L-shaped alley that carves out what we will refer to later as Lot B, which is vacant land. It's a parking lot right now. And so his development site was limited to three quarters of a block. And that's where the Hyatt Regency is. It has 1,260 guest rooms. Again, the largest north of San Francisco.

Q. You --

A. It opened -- oh, it opened in -- they opened the doors in December of 2018. But not all of the rooms were in operation by then.

By March 1st or so of 2019, the entire hotel was operating. And it had a -- it was by far the largest single increase in market supply in -- in my memory.

Q. You mentioned that it's near the convention center.

Does the proximity to the convention center, does that mean that a significant source of its market demand is going to come from that -- that convention center?

A. That's their expectation. It's mine also.

Q. What information did you rely on to prepare the restricted appraisal?

A. They provided me with their operating statement for 2019, their annual statement. Keeping in mind that some of the rooms were not actually operating in January and February.

And they provided me with STAR report for December of -- December of 2019 which shows a three-year history of performance for -- for their -- for the hotels that they considered to be their most direct competitors.

The list of those hotels shows up on Table 1 of this exhibit. Are we looking at the supplement yet or just the --

Q. We haven't -- we haven't yet. I'm going to have --

A. We haven't looked at --

Q. -- yet. I'm going to have a couple more questions and then we'll turn to those tables.

A. Okay.

Q. And did you also review Mr. Macaulay's spreadsheet for -- for his analysis for this hotel?

A. Yes. I can pull it up. But it would be on my screen. It would take me a moment to get it.

Is there something specific you wanted to know?

Q. I will be asking questions about it later. So it might make sense for you to pull that up.

A. Okay. I'm told that you'll still be able to see me when I do this.

Can you still hear me?

Q. Yes.

A. Oh, good. Okay. Macaulay. I know you just sent me these things.

HEARING EXAMINER VANCIL: Which exhibit are you looking to, Ms. Lin?

MS. LIN: Oh, actually I'm asking him to pull up the -- the underlying spread -- Mr. Macaulay's underlying spreadsheets which we are not submitting as exhibits.

HEARING EXAMINER VANCIL: Got it.

THE WITNESS: I have them all in a file. And now I'm having trouble locating it. I'll keep looking while you ask other questions, if that works.

BY MS. LIN:

Q. Sure. I will skip this for right now.

A. Okay.

Q. Okay. So your restricted appraisal concluded that the -- the estimated value of the property is 400 -- 494,800,000. Is that correct?

A. Yes.

Q. And you also prepared -- the underlying basis for your restricted appraisal were supplemental tables and these are in Exhibit 68. Is that correct?

A. Yes.

Q. If everyone could turn to Exhibit 68.

Page 2 -- page 2, Table 1, this identifies the competitive set of hotels that -- that compete with the Hyatt Regency; is that right?

A. Yes.

Q. And is there -- is there anything you'd like to highlight on this table?

A. Well, it's probably self-evident that this includes all of the -- the large hotels in downtown Seattle. Those are the ones that compete for convention business. I think all -- in general, this is a reasonable set. For reasons that aren't apparent to me, they -- the management of the hotel chose to include the Hyatt Regency in Bellevue. I realize it has the same flag. But a downtown Bellevue hotel is probably less competitive with downtown Seattle than some of the other downtown Seattle hotels would have been. They also include the Thompson. I don't know why. That's -- that's a small one.

Every time I go to a large city, I look at the -- at the comps that the hotel managers have used. And sometimes -- sometimes it looks just perfect. Sometimes it looks as though they may have left somebody out or put somebody in that I would disagree with. But overall it seems okay, which is the case here.

Sometimes it's completely off the wall. And then I order my own STR trend report.

In this case for these appeals, all of the comp -- these are competent people who are running these hotels. So I'm not trying to second-guess who they think their competition is.

But I think all of the comp sets that they selected are within the realm of reason.

Q. Okay. Anything else on Table 1?

A. No. It's just general -- general public information about these properties.

Q. And then Table 2 takes all of those properties and gives historical market supply and demand information. Is that right?

A. Yes.

Q. And this is -- this is the information one might get from public -- publicly available STAR reports -- not public but STAR reports you could purchase?

A. For a fee, yes.

Q. Yes. Okay.

And looking at Table 2, it looks like the market room rates for this set of hotels in 2017, it was $226; 2018 about $233; and 2019 it's about $217. Is that right?

A. Yes.

Q. And how does that compare with Mr. Macaulay's estimate of $365 for the Hyatt Regency?

A. Well, his -- his estimate is for the hotel alone. On this page we're looking at the average for the comp set. So they're not -- it's not really directly comparable.

But his estimate of the average room rate that the Hyatt Regency would get is more than 50 percent greater than the average for its competitors.

Q. Okay. Is there anything else you'd like to highlight on Table 2?

A. Well, the -- the occupancy and room rate both decreased over this interval. Mostly because this hotel opened, which is ironic. But the -- the average room rate was 226 -- and this is for the comp set without the Regency because they hadn't opened yet. The average room rate of the market was 226. In 2017 went up to 233 the next year. If the Regency had not been in the picture in 2019, I would fully expect rates to continue to increase. It was the normal -- that's the normal pattern.

But, in fact, the -- the Regency opened and because of the great influx in rooms, there was a lot more competition for guests. And the other hotels opted to reduce their room rates, offer more discounts.

Generally a hotel doesn't go out and say our rack rates are coming down. We're reducing all rates by 10 percent.

But what they will do is start to offer for discounts. You can get two nights for the price of one. Or come in on a weekend, we'll discount it if you -- or come in from a company that gives us a lot of business, we'll discount it.

And those discounts will start to get wider as the company tries to cope with a more stressful situation.

So in this case the market average room rate came down by 7 percent between 2018, 2019. That's all I have on that table.

Q. Okay. And if we want to go to Table 3.

A. And Table 3 just extends -- again, this is just like in the Renaissance, Table 3 extends my -- extends the historical analysis of the market forward. And this is my projection of how the market is going to behave over the next five years into --

Q. And this is for the Hyatt Regency and all of its competitors?

A. Correct.

At the top of the table there's a line that says "existing hotels." That includes the Regency and everybody else in Table 1.

The next two lines show new hotels that at the time we did this analysis, we expected these new hotels to enter the market. The -- the one that keeps changing names, it's now going to be the Lotte Hotel, L-O-T-T-E, at 5th and Madison. That -- that one -- hotel is ready to open but they've delayed for obvious reasons. I'm expecting that it's going to open in 2021. The opening has been delayed for two years. So even when somebody comes out and says we're opening really soon, I just don't initially believe them. But that's 184 rooms in that tower.

And then 245 rooms in a hotel at -- on 5th Avenue that we thought would open in 2023.

So the -- we add -- we add the top of the page down to get the total rooms in each year and multiply that by 365 to get the total -- what we would term as the market supply, the available room nights for -- for each of those five forecast years.

The rest of the table I'm projecting what I think the market occupancy rate is going to be and what the market revenue is going to be.

Again, same as -- same as we did in the Renaissance.

Q. And so on the market room rate line, it looks like it goes from $222 in 2020 and projecting out to $245 in 2024.

So it looks like room rates for this hotel and all of its competitors are not projected to reach Mr. Macaulay's estimate of $365 even all the way out to 2024; is that right?

A. Well, not on an average. The -- there might be among these 11 -- ten or 11 competitors, there might be somebody who gets a really high rate. It would be very unusual to get 300 bucks. There are only a -- less than a handful of hotels that can do that.

But, yeah, in terms of the average, we're not even approaching his number even five years out.

Q. Okay. Is there anything else you'd like to highlight on Table 3?

A. No. Again, it all -- it follows the same methodology as the Renaissance.

Q. Okay. And then on Table 4, now we're looking at just the Hyatt Regency's historical numbers. Is that right?

A. That's right.

The first column is just the month of December. So it's -- I put it in because we had the numbers. But it's fairly useless. It doesn't really tell you anything because they just opened the doors.

But for the year 2019, assuming all of their rooms were available, which they weren't technically, they would have -- they recorded a 67.8 occupancy for that year. That's below market. It's clear below the 80 percent or so that has been typical of this market.

But it's their first year of operation. And it's a hotel that depends a lot on convention business. And a lot of conventions book two and three years in advance.

So it takes a long time for a new convention hotel to actually get stabilized.

Q. So you would expect that to increase over time?

A. Yes.

Q. And then it looks like the room rate is $182 in 2018. And then $204 in 2019. Is that right?

A. Yeah. The 182, again, is just one month.

Q. Yeah.

A. And a lot of times a new hotel will give away rooms to preferred people. Or offer a five percent discount as an introductory rate, just to get people in the door. So it's not surprising for the initial month rate to be really low.

And that could carry over forward as well to -- to the 2019 rate if you don't have a lot of competition in the market if -- if the hotel is, you know, is likely to -- the hotel is likely to -- I don't know what word

I'm looking for.

Q. That's okay.

A. The room rate usually goes up in the second year as compared to the first year for a brand-new hotel.

Q. Okay. And then is there anything else on Table 4 you would like to highlight?

A. No. It's pretty short. I mean, just the fact we only had one year because they just opened. So...

Q. Okay.

A. In the other reports we have -- most of the other reports we have more historical data.

Q. And then Table 5, is this -- this hotel is projecting out from 2020 to 2024 for just the Hyatt Regency. Is that right?

A. Well, it actually compares the Hyatt Regency to its market, to its competitive set.

Q. I do see that, right.

A. But the -- the sections in Table 5 that are labeled room occupancy, room rate, room revenue. So sections three -- two, three, and four on that page, the bottom line of each of those sections is the Hyatt Regency.

Q. And so it looks like for room rate, you're projecting that room rates will increase for -- for the Hyatt Regency starting in 2020 at $211 average out to

2024 at $245. Is that right?

A. That's right. On Table 4 we showed that in their first year of operation, the average room rate at the Regency was 94 percent of the average for his comp set. That's -- that's in the middle of Table 4.

So I'm projecting that they'll get 95 percent of their comp set in the first forecast year, 2020. And that they'll increase to 100 percent of their comp set room rate after that.

And then beyond that point we're just trending forward two and a half percent.

Q. Okay. And so, again, even out to 2024, you're not projecting room rates that reach the $365 per room that Mr. Macaulay estimated?

A. No. I think we're 100 and -- his -- my year five forecast is $120 less than his current for cost -- current estimate.

Q. Do you know how -- do you know why he has such a room -- average room rate estimate?

A. No. Well, no. He says in his report that he looked at advertised rates and reviewed the market and he consulted with Mark Lukens over at WH -- LW advisors. In his -- in his initial study he estimated the rate at the Regency at 375.

And then in his final study he -- he tipped it down to 365. So maybe Mark had some influence on him. But this is just speculation. So I -- I can't say. I don't know what process he went through to get his -- his average rate estimate.

Q. Okay. Is there anything else you'd like to highlight on Table 5?

A. No.

Q. So going to Table 6. Now we're looking at the historical operating performance of the Hyatt Regency. And, again, we've only got numbers for 2019 because this is a newly opened hotel; is that right?

A. Right.

Q. These numbers appear to differ significantly from Mr. Macaulay's spreadsheet. I'm going to run through a couple of them with you --

A. Okay. I'll --

Q. -- and just ask you a couple questions.

A. I did find those spreadsheets. So I'll pull those up so that I can speak intelligently. Hyatt Regency. Why don't you go ahead.

Q. Okay. So -- so you -- these numbers that are on your Table 6, these are based on actual numbers that were provided to you from the hotel; is that right?

A. Well, they're not based on actual numbers. They are the actual numbers.

Q. Okay.
A. Well, yeah. I'm assuming that the operating statements they gave me are accurate.
Q. Okay.
A. But these numbers come directly from their operating statement.
Q. And so I'm going to run through just a couple of these differences.
The food and beverage revenue that -- the actual food and beverage revenue is 34,447,000 about. And Mr. Macaulay's estimate is 14,700,000. That's -- that's more than double what Mr. Macaulay is estimating.
Do you know what the reason for that difference is?
A. I don't know.
Q. Okay.
A. He might have been assuming that the restaurants were leased rather than owned. But he doesn't say that, so I don't know.
Q. With the room expenses, the actual room expense number is about 19 million. But Mr. Macaulay's estimate is about 39 million. That's a difference of more than 20 million.
A. Well, with rooms expenses, it's better to look at the ratio. Because if the revenue line is different,

as it is in this case, then the dollar amount will -- could justifiably be way different.

But the ratio is -- is something that's more -- more relevant.

And in this case they ran 30 percent rooms expense ratio while they were doing 68 percent occupancy.

If their occupancy rate improves to 80 percent, or wherever I stabilized it, then their room expense ratio should go down because at least half of the expenses in that department are fixed with respect to occupancy.

So normally what I would expect to see is -- as in this case, a 30 percent expense ratio in year one. But then tapering down in years two and three up until the point where the hotel stabilizes.

Q. I see.

A. So I don't -- I really tried to find this thing -- his spreadsheet to look at. But I'm not getting it.

Q. That's okay.

A. Do you -- can you tell from looking at it what ratio he's using?

Q. Yeah. He's using for the room expenses, he uses a ratio of 29 percent.

A. Okay. So that's -- that's probably not outrageous.

Q. Yeah. I thought you were actually looking at it?

A. Oh. I was looking at my stabilized -- my historical number.

Q. And so he uses a food and -- well --

A. Okay. I've got him now. I have the spreadsheet now.

Q. Okay. So for total undistributed expenses, his number is about 49,350,000.

A. Right.

Q. And your number is 22,700,000.

Again, this is just a huge difference. I'm just wondering, is there -- do you know why the -- where there would be that very large difference?

A. Well, the -- what he refers to as total undistributed expenses, he's actually including items that I have further down the page.

Q. Okay.

A. So if you took the top two lines there where he says admin, marketing, utilities, maintenance, insurance. Well, insurance is further down the page too. I don't think we can draw a direct --

Q. Okay.

A. -- comparison.

But what you can do is look at total operating expenses. That's probably more -- more helpful. He's got -- he's at $104 million in total operating expenses. Their actual -- I have to jump ahead one table.

My figure for total operating expenses is 83,500,000. So his operating expense estimate is actually higher than mine.

Q. Is there anything else you want to highlight about Table 7?

A. Well, seven we hadn't actually --

Q. Sorry. Table 6. I jumped ahead.

A. Okay.

No. It's all -- these numbers don't look out of line for first-year operation for this hotel. Their food and beverage revenue is really quite good. And I think partly that's because they have so much in-house meeting space that they're bringing in a lot of -- where they were bringing in a lot of meetings that aren't reflected in the room occupancy room rate because people aren't sleeping there. But they're still generating a lot of food and beverage revenue.

Just as a footnote, this hotel is now closed. And they don't -- they do not have a reopening date.

Q. So moving on to Table 7, this is looking at the Hyatt Regency's stabilized operating performance. Is that right?

A. Here is how I think it will perform in a stabilized year stated in current dollars.

Q. Okay. Is there anything you'd like to highlight?

A. 76 percent occupancy, slightly lower than what -- than what's estimated in Macaulay's study.

$222 average room rate is way lower than what's estimated in his study.

And I'm projecting NOI at 36 million. He's projecting it at 53 million. Those are -- those are the most salient differences, I think.

Q. Right. And that difference in NOI, it's -- do you -- is it your opinion that that's driven primarily because of this difference in room rate?

A. Well, yes. And partly because my -- I'm projecting higher -- I'm projecting lower expenses than he is.

Q. Okay.

A. So if that was the only difference, you'd expect me to be coming up with a higher value.

But it's really this revenue line where it's -- it just seems to be completely unsupported.

Q. Anything else in Table 7?

A. Nope.

Q. All right. Table 8. This is looking at the Hyatt Regency's projected operating performance out to 2024. Is that right?

A. Yeah. This is -- this is just an extension forward taking the stabilized year in current dollars, adjusting for what we're projecting in the way of occupancy and room rate. And applying it -- a trending adjustment, inflation, two and a half percent.

Q. Okay.

A. The only -- really relevant thing to note on here is the occupancy growth. 71 percent in 2020, 74.6, 76.6. Because there's a new competitor that opens in 2023, I had the Regency's occupancy tipping down just a hair. And then hitting 76 percent even in 2024.

Some appraisers would argue that the property will really be stabilized in 2022 because there's exceeding the -- the 76 percent stabilized occupancy rate. It wouldn't -- that would not have a material impact on my conclusion. But, you know, you can -- you can make that argument that they -- that it will only take them three years to get stable.

Q. And then when you look at the bottom line, that's the net operating income. And it looks like you're projecting for 2020, it's 29,500,000 about, 600,000.

A. Right.
Q. And then out to 2024, it's about 39,950,000.
A. Right.
Q. So it looks like even out to 2024, you're not projecting a net operating income that's comparable to Mr. Macaulay's estimate of 53,140,000; is that right?
A. That's right. We -- our forecast was the same as in the Renaissance. Our forecast for the last year, 2024, is the same NOI as in the stabilized year in Table 7, adjusted for inflation. That's -- that's the only difference between those two numbers is inflation which we're assuming will be two and a half percent.
Q. Okay. Anything else on Table 8?
A. Nope.
Q. Okay. And Table 9, this is where you go from the -- you translate the net operating income into a -- an opinion of value for the Hyatt Regency; is that right?
A. Right. And we're using the same two methods that we used with the Renaissance. Direct cap at the top of the page, yield cap in the middle of the page. And then we reconcile to a number that gives weight to both of those results.
The -- in this case, the adjustment in the direct cap analysis is negative because the hotel is expected to perform at less than its stabilized level

for -- for at least the next two years. And then get one good year and then they get a weak year and then they stabilize.

The indications of value are 509,000 through direct cap. 505,000 through yield cap. And we reconciled to 507,000 -- 507 million. Sorry. It's a big hotel. $507,400,000 as the before value of the hotel. And, again, that figure includes real estate and personal property.

Q. Okay. And then on Table 11, which is on the next page, is where you break out the value of personal property and --

A. Right.

Q. -- real estate?

A. We assume -- again, we assume 20,000 per room is the cost new for furnishings for this type of hotel. And that once it hits stabilization, the depreciation ratio would remain at 50 percent.

Right now its depreciation ratio would be much lower because it's only a year lower. But this -- but Table 11 applies to an assumption of stabilized performance.

Q. And so your ultimate conclusion of that real estate value for the Hyatt Regency is 494,800,000. Is that right?

A. That's right. You know, I think I just misspoke. That's our conclusion of current value.

So the depreciation ratio should actually only be 10 percent.

So I -- I apologize for that. That would -- that actually increases the value of the personal property and reduces the value of the real estate. But I can't -- I can't do those in my head. So I -- I can let you know later what the impact would be on the real estate value.

The real estate value will come down slightly.

Q. Okay. Yeah, it would be good maybe during the break we'll update that number and get the current number?

HEARING EXAMINER VANCIL: Submit and revise Exhibit 68.

MS. LIN: That would be -- yes. We would like to do that.

HEARING EXAMINER VANCIL: Okay.

THE WITNESS: It would only affect Table 11 in that exhibit.

BY MS. LIN:

Q. And these tables form the basis of your restrictive appraisal which is Exhibit 67; is that right?

A. Yes.

Q. Okay. So because Mr. Macaulay used his -- his pre-LID estimates as a basis for calculating his post-LID estimates through application of the percentage increase, does that call into question the reliability of his post-LID evaluation?
A. Yes.
Q. And is it because he did not use actual data from the hotels?
A. I would phrase it that he did not have access to actual data.
Q. So let's look at Exhibit 69, which is the comparison table.
A. Okay.
Q. Based on your analysis using actual data from the hotels and after stabilization, assuming you applied the same special benefit percentage increase that Mr. Macaulay applied, what would the final assessment have been?
A. 944,303.
Q. And you testified earlier that that wouldn't actually be your recommended special assessment amount. Is that true for this property as well?
A. That's true for all the properties, yeah. This is just a mathematical exercise.
Q. And then looking at this comparison table, is

the primary driver of the difference between your valuation and Mr. Macaulay's valuation the difference in average room rate?

A. Yes.

Q. And this resulted in a very large difference in net operating income, 53,140,000 for Mr. Macaulay, and 36,190,000 for you; is that right?

A. Yes.

Q. And the ultimate current valuation that he comes up with is 732,952,000. And your ultimate, before LID valuation, is 494,800,000; is that right?

A. Yes.

Q. So that's larger than a 200-million increase -- the difference?

A. Yes.

Q. Is this one of the largest differences you've seen?

A. It's the largest hotel. So, yeah. On a percentage basis, I haven't gone back to compare how the percentage differences are.

But just in terms of the scale, you know, as I say, this is the largest hotel in the state. So if you make a -- if you -- if you have a difference of opinion in one area or another, the impact on dollars is going to be quite great.

Q. And is one of the reasons why there's this big difference the fact that this is such a new hotel?

A. No, I don't -- I don't think so. I mean, there's a little bit of that because we do have the ramp-up over the next couple years in occupancy.

So if the hotel -- if we were expecting the hotel to be stabilized now, then our number would be closer -- you know, our number would be higher than it is. It still would not be where his number is because the average room rate is so different.

Q. Is there anything else on the comparison table you would like to highlight?

A. No. It's the same. All the same material as -- as in the Renaissance.

Q. Okay. Now I'm turning to now the spreadsheet which takes these before values and applies percentage increases to come up with an after -- an after value.

A. Talking about his spreadsheet?

Q. Yes.

A. Okay.

Q. So for the Hyatt Regency, in the first -- did he apply the same four-scenario methodology that he did for the Renaissance?

A. Yes.

Q. And for the first two scenarios, he assumes that the room rate will increase by .2 percent in the low scenario and .45 percent in the high scenario. Is that right?

A. Could you point me to the row or the --

Q. Yeah --

A. -- oh, there at the top. Yes.

Q. Yeah.

A. Yes, that's correct.

Q. Is it possible to accurately conclude that the reason for this level of percentage increase is due to the LID improvements?

A. I don't think it's possible.

Q. And from your read of the special -- and from your read of the final special benefit study, and this underlying spreadsheet, has Mr. Macaulay explained the bases for these percentage increases?

A. Not to my satisfaction. But, you know, he's not trying to satisfy me.

Q. Has the Hyatt Regency raised any rates in anticipation of the LID improvements?

A. No.

Q. Any explanation of why the food and beverage revenue and other income will also increase by these percentage -- by these percentage amounts?

A. No. And I would raise the same -- the same concern that I -- that I raised for the Renaissance about there being other sources beyond hotel guests.

Q. Is that particularly true here because there are the two restaurants as well?

A. Well, all the hotels have restaurants. I mean, this is a lot of rooms. So I would expect them to have a couple of restaurants.

But it's the mix. It's the mix of business that's important between whether you have local people or -- or hotel guests. And Macaulay's assumption seems to be that everything is going to the guests.

Q. And Mr. Macaulay's spreadsheet states also that the proximity to the park for this property is 2,900 feet.

In your opinion, would this -- would -- would proximity to a -- would proximity of 2,900 feet to a park improvement cause these increases in room rate, beverage, and other income rates?

A. The managers don't think so. The managers of this hotel don't think so.

I see no reason why it would. But I -- I can't give you a certain number of feet at which point a park becomes relevant.

I don't know of a -- of a study that, you know, convincingly demonstrates that.

Q. And for the third --

A. 2,900 feet, that's a long ways. This hotel is at 8th and Howell. That means that it's eight blocks down to Pike Place Market. And then another block and a half down the hill, down the steps to get -- to actually get down to the park. That's a half mile. That's a long ways to go.

Q. So for the third and fourth scenario -- actually, backing up there.

So when you're valuing hotels, do you usually take into account the benefit from parks that are half mile away?

A. No. We're -- we're looking at how much people are willing to spend to stay in the hotel. And that's a function of a lot of different factors: The environment, the room itself, the level of service, the brand. To try to segregate out how much -- how much more people are willing to pay because there was a park, even across the street, would be extremely difficult. You'd have to interview the guests, I mean, is the only method that I know of. And I don't know of any hotel that would do that.

Q. So for the third and fourth scenarios, Mr. Macaulay assumes that the net operating income will remain the same in the before condition but changes the cap rate from 7.25 percent to 7.2 percent in the low scenario. And 7.23 percent in the high scenario.

A. Right.

Q. Is a cap rate change of .05 or .02 percent measurable?

A. It's not supportable, in my view. The same comment that I had for the Renaissance, that shaving the cap rates by such tiny amounts suggests that the -- that the goal is not to come up with a realistic cap rate. But rather to come up with a predefined answer.

Q. And from your read of the final special benefit study and the underlying spreadsheets, can you determine what the basis is for these changes in cap rate?

A. No.

Q. It then appears that Mr. Macaulay uses these four scenarios to conclude that the -- the property value for the Hyatt Regency is going to increase by .49 percent due to the LID improvements.

A. Right. That's --

Q. Any -- yeah.

Any explanation of how he comes up with that .49 percent?

A. Well, he -- it's -- it's the same as the Renaissance that he's using these four scenarios. Each scenarios comes up with a different after value. And then he reconciles the results.

Each of the after values is shown -- is carried down into the -- the bottom of the spreadsheet, bottom left portion of the spreadsheet.

He's -- he's finding the difference between his after value and his before value and defining that as the special benefit. And then saying what percentage change is that from the before value.

And because of the inputs that he's used in the four scenarios, he ends up with changes, lifts of between .28 percent and .69 percent. And he either takes a mathematical average or just reconciles them to .49 percent.

It seems like it -- I mean, the difference between that and .5 is not great. I'm sort of surprised he didn't just reconcile to .5.

But in any case, there's no support for any of these lifts.

Mathematically, they are correct. Mathematically, they match what he did in his four scenarios. But the scenarios themselves are unsupported.

Q. And it looks like he's not taking a straight average of the four scenarios.

A. It's not the average of the dollars. It's -- I think it's very close to the average of the percentages.

Let's see.

Q. Although, it looks like the average of the percentages is .51. And then he ends up with .49. Is that right?

A. I have to -- let me double-check.

Q. Oh, he might be taking --

A. No. He gets -- I get .49.

Q. Okay. So you mentioned that the Hyatt Regency is currently closed. So the -- does that mean the occupancy rate currently is zero?

A. Yes.

Q. Does the impacts from the coronavirus raise doubts as to Mr. Macaulay's estimated special benefit for this hotel?

A. It's really unrelated to the special benefit. The -- the coronavirus, I mean, you'll -- obviously get different opinions from different appraisers about what the ultimate impact is going to be of the virus. But my -- my personal view is that it -- is that it will be felt for two years. And that by 2022 or 2023, the hotel industry is going to be -- should be back to normal. And because both Macaulay and ourselves were estimating for -- for stabilized year, future stabilized year in current dollars, the virus itself shouldn't have any impact on the values that we would have estimated -- his value date was October 1st. Our value date is January 1.

If we were to value them April 1, we would be in an entirely different ballpark.

Q. And just so -- we'll get into this a little bit later.

But your projection that the hotels are going to be recovered in two years, that's assuming that we -- that we are back to quote/unquote normal in another month and a half or so.

A. That's right. It's assuming that the arc of the disease is three to four months long. But by the end of May the health issue is beginning to recede or has begun to recede. And that business starts to return to the hotels in June, July. The business travel, I think -- and I've said this, I've written a short article on our website on this -- business travel, I think, will come back within three to six months of the end of the virus. Tourism over one year, group demand conven- [poor connection]. Because, again, they book far in advance. That means that by calendar year 2023 we should be back to where we would have been anyway if we hadn't had the virus. This presupposes that the virus does not come back or that some other tragedy didn't hit us.

Q. If you were going to perform a -- the same restrictive appraisal for the Hyatt Regency today, would -- would the value be different than it was for beginning of the year?

A. I've appraised four hotels since the virus became serious, since people started to understand what was going on. So basically since the beginning of March of the year.

In all four of those hotels, the impact on revenue during the first year was between 40 and 50 percent. That is, that the hotels on an annual basis were going to lose between 40 and 50 percent of their revenue in the first year. And then a slice of revenue in the second year depending how much group business they had.

I also anticipated that room prices would remain flat. That there would be no -- no trending during 2020. Whereas in my forecast for this study, for the Regency, I had assumed -- back in January I was assuming that we would get two and a half percent increases in -- in market room rates.

Q. And so taking those reduced revenues due to COVID-19, would you expect to see a lower current market value for the Hyatt Regency if you were to perform the appraisal to date?

A. Well, the current -- the current market values of the four hotels that I did appraise, they went down between 10 and 15 percent from not having the virus to -- I mean, for with and without the virus, the difference was between 10 and 15 percent in value, negative. There was no impact on the value at stabilization. Because by that time, in each case, the virus was assumed to be gone and the market would have recovered.

But the current value, which translates to the before value in this study, that would -- that would be negatively impacted by a significant margin.

Q. Okay. I think that's all the questions I have for the Hyatt Regency.

Is there anything else you would like to say about the Hyatt Regency?

A. No. I hope they open again soon.

HEARING EXAMINER VANCIL: Ms. Lin, do you have some exhibits that you're seeing to introduce or have admitted?

MS. LIN: Yes. We would like to admit exhibits -- so I think we already -- we already admitted 64 and 65.

So it's just 66, 67, 68, and 69.

HEARING EXAMINER VANCIL: And 68 we're going to get a revision for.

So we're just talking about 66, 67, and 69 for now.

BY MS. LIN:
Q. And, actually, John, if you're changing that number because of the -- the Table 11 in 68, does that mean you also have to change that number in your restrictive appraisal.
A. Yes.
MS. LIN: Okay. So you're going to get a revised 67 and 68. So apologies. It's really only 66 that we are -- 66 and 69?
HEARING EXAMINER VANCIL: Okay. Any objection to 66 and 69 being admitted?
MS. THOMPSON: No objection.
HEARING EXAMINER VANCIL: 66 and 69 are admitted. We'll keep the record open for 67 and 68.
And what's the timing for getting those revised documents submitted?
THE WITNESS: Oh, I'll do them -- I'll do them right now. I'll have them before we resume.
HEARING EXAMINER VANCIL: Okay. All right. We will take a short break and resume at 11 a.m. Thank you.
(Exhibit Nos. 66 and 69 admitted.)
(A break was taken.)
MS. LIN: So I just sent exhibits corrected --

corrected Exhibits 67, 68, and 69. It actually turns out that one number in 69 also needed to be corrected.

And we would like to -- we would like to have those exhibits be part of the record. I believe I sent them to -- Hearing Examiner Vancil, when I e-mail LID hearing, is that you?

HEARING EXAMINER VANCIL: No.

MS. LIN: No.

HEARING EXAMINER VANCIL: Mm-hmm.

MS. LIN: So I e-mailed them to Galen and then --

HEARING EXAMINER VANCIL: -- set up for it, just the public to communicate with. If you're sending things to me, it needs to go through my legal assistant.

MS. LIN: Okay. So I sent it to Galen who hopefully received it. And is right now a good time just to go over the one small change to each of those exhibits? And then --

MR. EDLUND-CHO: I'm sorry to interrupt. Ms. Lin, I'm off the VPN network. So there may be a delay on my end. Let's see. Let me restart Outlook and see if the e-mail has appeared.

HEARING EXAMINER VANCIL: Let's wait and do that later in the hearing then.

MS. LIN: Okay.

HEARING EXAMINER VANCIL: You can go ahead and proceed with the next --

MS. LIN: Okay. So we are -- we are continuing with Mr. Gordon as our witness. And we're going to be talking about the Hyatt at the Olive 8 which is case number 0429.

BY MS. LIN:

Q. Mr. Gordon, did you perform a restricted appraisal for the Hyatt at Olive 8?

A. Yes, I did.

Q. And that restricted appraisal is Exhibit 70.

A. Okay.

Q. Can you please describe that property?

A. It's -- it's a nice hotel, 346 rooms. It's -- the only unusual factor about it is that it's part of a mixed-used building. The building has a hotel as one part of it and residential condominiums as the other part of it.

So each of the residential condominiums is its own tax parcel. And the hotel is another tax parcel. And the hotel portion is the only portion that we studied or were concerned with.

It has a restaurant. It has meeting space. I've been to meetings there. It's about a block from the Hyatt Regency. It's -- the three Hyatts, the Grand

Hyatt, the Hyatt Regency, and the Hyatt Olive 8 are all within a couple blocks of each other and they're all the same ownership -- or related party ownership.

Q. So if it's within a block of the Hyatt Regency, does it also see a lot of -- a lot of it's -- a lot of guests from the convention center?

A. It sees some. All the hotels in that area will see some. But the -- Olive 8 only has 12,000 square feet of meeting space. And so it didn't have the capacity -- the reason that's important for attracting convention business, we know that the convention center is where a lot of the meetings are going to take place. But many groups also want to be able to have breakout events in their home hotel, in the host hotel.

And there's also small events that the hotel brings in that are unrelated to the convention center.

So those factors, that's why hotels near the convention center will still have their own meeting space. I'm not sure that was a question you asked, though.

Q. I was just wondering more what -- what is the Hyatt at Olive 8's general operating strategy within the market? Are they seeing a lot -- a lot of convention center guests? Business guests?

A. They would have a higher mix of business travelers as opposed to groups when you compare them to the Hyatt Regency or the Sheraton or the Westin.

The mid-size hotels, the 3- to 400-room hotels, can still get convention business. But they really focus on business travel. And the Hyatt Olive 8 in particular focuses on the upper-tier business travel. We're not talking the Four Seasons. But still, people who are willing to pay pretty good -- pretty good prices to stay there.

Q. And what information did you rely on to prepare your restricted appraisal?

A. We have access to their STAR reports and their historical operating statements.

Q. And did you also prepare a table set of -- were there also a set of table sets that informed your restricted appraisal?

A. Yes.

Q. And those are Exhibit 71.

A. Okay.

Q. So if we can just walk through these.

A. Okay. And this -- they're the same as the other two. And so I'll probably go fairly quickly through them.

Table 1 is the list of the competitive set. And these are the hotels that were identified by the owners and managers of the Hyatt at Olive 8 as being their primary competition. It includes some properties we haven't mentioned previously. The Pan Pacific that's over on Denny and Westlake. The Marriott down on the water. The W, that's a very similar hotel to the Hyatt at Olive 8. The Hilton is included. I might not have included it, but they did. Doesn't matter. This is what the managers felt were their competitive set. So we've got six hotels in here. Total of 1,990 guest rooms in the set.

Table 2, we look at the historical performance of this set. The annual occupants -- market occupancy rate has ranged from 78.7 percent in 2016. It hit a peak of 86.2 percent in 2018. And then occupancy fell off in 2019 when they got the new competition from the Regency because of all the rooms added -- entered the market then.

Now, market demand -- demand within this set actually decreased as well. And what that suggests is the Regency took away some of their guests. It wasn't -- I mean, the market wasn't collapsing in -- the economy wasn't collapsing in 2019. So the fact that the market demand for this set of six hotels went down suggests that they lost business to a new competitor, which, you know, was the Regency which is owned by the same people. So they probably were not too concerned.

Notice too, that the market average room rate went up every year right up until 2019. And that's when the new competition comes in. There's more pressure on rates. Room prices for this set went down by 7 percent.

Turning to Table 3, do you want me to just --

Q. Can I ask just one question about Table 2.

So it looks like for this competitive set, then, the number -- the room rate numbers are in the 200s again. We're looking at 231 to 246. But Mr. Macaulay's room rate estimate for the Hyatt at Olive 8 is 335.

So is it -- so his room -- his estimated room rate is significantly more than this competitive set historically?

A. That's correct.

Q. By a -- by about $100 in some cases?

A. Yes. And this -- and this particular hotel, the average room rate that they achieved is almost identical to the average for the competitive set.

Q. Okay. You can continue.

A. Okay. Table 3, again, we're extending our market -- the market results forward. Again, we're projecting two new hotels to enter. The same two hotels that we included in the Regency analysis.

We're expecting that the market occupancy rate for this set will decline in 2021 when we get the first new hotel. And it will come back up. And then it will decline again. And then it will come back up.

So each time we get a new competitor, our occupant -- the market occupancy rate goes down a bit. But then it recovers in the following year.

By 2024 I show this market at 80 percent market occupancy. And that's where I stabilize it going forward.

Looking at room prices increasing two and a half percent a year.

Q. And for the room prices, it goes to 220 -- sorry, $279 in 2024; is that right?

A. That's correct.

Q. And that's still less than Mr. Macaulay's estimated room rate for the Hyatt at Olive 8, which was --

A. Yes.

Q. -- 335?

A. More than $50, yes.

Q. Can I ask a question about that $279 estimate --

A. Sure.

Q. -- for projection.

So that's your [poor connection] for this competitive set. That's the average room rate for this competitive set in 2024; is that right?

A. Correct.

Q. When you -- when you come up with that number, did you take into account the LID improvements?

A. No.

Q. And that's not something you would typically take into account in performing this type of appraisal?

A. No.

Q. Okay. That's all.

A. Table 4 is a -- showing the historical position of the -- of the Hyatt at Olive 8. And, actually, I misspoke. Their average room rate was lower than the -- than the average for -- oh, I see. Yeah.

Their average room rate in 2018 was 246 which matches the $246 average rate that the market did in 2019. But they weren't the same year.

And then in 2019, the average rate at the Hyatt at Olive 8 came down to 227.

So its actual --

Q. So there's --

A. -- its actual rate in 227 -- it's actual rate in 2019 was $227 as compared to the ABS estimate of 335. So it's over $100 less.

Q. And it looks like this hotel is, the actual room rates are slightly less than the average room rate of its competitors, correct?

A. Correct.

Q. And then significantly less than the estimate that Mr. Macaulay provided.

A. That's correct. The room rate index, the ratio of our room rate to the market room rate ranged from 91 percent to 94 percent. I stabilized it at 93 percent going forward. It's not an occupancy rate. That's just a ratio of saying how much -- how much lower our room rate -- do I expect our room rate to be as compared to the market.

Q. But even if you had assumed that the Olive -- that the Hyatt at Olive 8 was just performing at 100 percent of the market rate, meaning it was just hitting the average of all of its competitors, that room rate would have been significantly less than Mr. Macaulay's estimate?

A. Yeah. It would have been 253. And his estimate is 335.

So --

Q. Wait. Where's 253?

A. It's in the -- it's the market -- market average room rate that I'm projecting for 2020.

Q. Okay. I see that. And that's on Table 5.

A. Yeah. All of the estimates are basically in

2020. His conclusion and my stabilized conclusion.

Q. Okay.

A. The occupancy index of the -- of the Olive 8 has been between 101 percent and 108 percent. They're doing -- they tend to get an occupancy rate that's slightly higher than their competitive set. I'm projecting them at five -- at 105 percent of their competitive set. So I have them stabilizing at 84 percent occupancy.

Macaulay has them stabilizing at 80 percent.

Q. And just to be clear, everyone, we are on Table 5 right now.

A. Yes.

And jumping ahead to Table 6.

This is two years of historical results for the Hyatt at Olive 8. Again, we did not have the 2019 numbers yet because it was too early in the year.

Highlights are that their occupancy -- their historical appearance was pretty darn high, 868 and 871. This is before the Hyatt Regency opened and knocked everybody's occupancy rates down. Same with the average room rates, they were running 246 in 2018 and they lost $20 the following year.

They get a significant amount of food and beverage revenue. But the amount that they get per occupied room is less than the Regency. That suggests that the -- it suggests that the restaurant at the Olive 8 has less general appeal, less neighborhood appeal than Daniel's Broiler would have at the Hyatt Regency. That isn't really surprising. The restaurant at Olive 8 is nice. It's what you expect if you're staying in a hotel. But you probably wouldn't go out of your way to eat there if you were out for a night on the town.

Room's expenses are a lower ratio, 26 percent. Lower ratio than we saw at the Regency. But these guys are getting a higher occupancy rate, so you would expect to see a lower expense ratio.

And that's -- I mean, the numbers are here to look at. There's nothing else I would jump in and highlight.

Moving on.

Q. Let me -- let me just quickly look at my notes here. Yeah, I think it's -- yeah, go ahead.

A. So Table 7 is my estimate of how this hotel will perform on a stabilized basis. Already talked about the occupancy at 84 percent for a future stabilized year. It will take us a few years to get there.

Total expenses are 75 percent of total revenue in this forecast. That's right in line with what would be typical for a full-service hotel. The so 25 percent net operating income.

The NOI for the stable year is 8.676 million. The 8,676,000 and change.

Q. And do you know that net operating income, Mr. Macaulay comes up with a net operating income of 14,057,000?

A. Right.

Q. Do you know what the primary driver for that difference was?

A. It's his room rate. His expense ratio is a little light. He's at 67 percent. Their actual expense ratio is 75, which is the same as what I'm projecting. But the room rate is the real driver in the difference.

Table 8. Again, with Table 8, we're just doing a forecast, taking the stabilized -- the stabilizing year in current dollars and then adjusting it for differences in occupancy and revenue over the next five years.

By 2024 we're looking at a $260 average rate at 84 percent occupancy. That's -- that's the stabilized year in future dollars.

In current dollars, ABS was estimating stabilized occupancy at 80 percent and an average room rate of 335. So his -- his room revenue was about 34 million. I'm projecting room revenue for that year at about 28 million. And that $6 million difference also flows down to the -- to total revenue. It's close to in total -- I guess we're off by -- he's high by 5 million in total revenue.

For the NOI in my -- in the fifth year of operation, I'm projecting the NOI at 9.6 million versus his 14 million.

Q. And so as with the other hotels, you're seeing -- and 24,957,000 in your analysis; is that right?

A. We're predicting a higher occupancy than they are. I mean, a slightly higher occupancy, four points. But a much lower average room rate. And the net impact on room revenue is negative.

Q. And then you end up with -- with the net operating income in the final study of 14,057,491. And then from the actual numbers from the hotel, the stabilized net operating income is 8,676,502 -- so 502.

A. Yeah. That's my -- that's my projection for a future stabilized year. Their actual -- for 2018, their actual was 9,400,000. But their NOI went down in 20 -- no, that was for 2018. As I understand, their NOI went down in 2019. But I have not seen the numbers.

Q. So that's a difference of over 5 million?

A. Yes.

Q. Which is an -- which is over a 50 percent difference?

A. Yes.

Q. Based on your analysis using actual data from the hotel and after stabilization, assuming you apply the same special benefit percentage increase that Mr. Macaulay applied, what would the -- what would the final assessment have been?

A. 463,015.

Q. And what was the one that Mr. Macaulay suggested?

A. He says 733,883.

So his is, again, about 50 percent higher than ours.

Q. And you testified before that this is not actually your opinion -- this is not actually what you suggest the final assessment should be; is that right?

A. Yes.

Q. And is it for all the reasons you've stated before?

A. Yes. Same logic.

Q. Is there anything else in the comparison table you would like to highlight?

A. No. This one is pretty straightforward.

Q. I think that's it for the Hyatt at Olive 8.

MS. LIN: We would like to move for Exhibits 70, 71, and 72 to become part of the record.

HEARING EXAMINER VANCIL: Any objection to 70, 71, and 72?

MS. THOMPSON: No objection.

HEARING EXAMINER VANCIL: 70, 71, and 72 are admitted.

(Exhibit Nos. 71-72 admitted.)

MS. LIN: All right. We're next going to move to talk about the Grand Hyatt, which is case numbers CWF-0437 and 0436.

BY MS. LIN:

Q. Did you perform a restricted appraisal for the Grand Hyatt?

A. Yes, I did.

Q. And can you briefly describe this property?

A. Grand Hyatt is a little interesting. You'll recall I said each hotel has got some quirks to it.

With the Grand Hyatt, for -- I suppose for financing reasons but I don't know for sure -- when it was built, the ownership of the hotel was divided between the common areas of the hotel and the tower that did the guest rooms.

So those are why there are two different tax parcels and two different case numbers on this -- on the Grand Hyatt.

We treated it as a single hotel -- we treated it -- we just came up with one number on it. And I believe that's the same as what Macaulay does, to treat it as a single consolidated entity.

I should add that the building also includes a parking garage and retail space which is a third tax parcel. That's separate from the hotel. And we're not talking about it in this section of the testimony. So I'm just -- just talking about the hotel itself.

It's got 457 guest rooms. There's a Ruth's Chris Steak House on the main floor which is currently closed.

They have a Starbucks and some other retail on the first floor. But the retail is not part of the hotel. That's right.

It's -- it's really similar to the Hyatt at Olive 8. It's the closest hotel to the convention center. And, in fact, I think that there's an interior corridor where you can get into the northern part of the convention center, at least on a service basis. I don't know if the public can get in through there.

I don't know what else --

Q. So --

A. Oh, it opened -- this one had the distinction of opening a month after 9/11 so talk about your bad timing.

And it's still open. They're still renting rooms at the Grand Hyatt. For how long, I don't know.

Q. And you mentioned that the closest hotel that the convention center -- so it's pretty close to the -- to the Hyatt Regency and the Hyatt at Olive 8?

A. Yeah. They're all within a block or two of each other.

Q. Okay. And does it derive a lot of its clientele from the convention -- convention center?

A. I don't have access to their precise mix. My assumption would be that they do a significant volume through the convention center. It's probably pretty close to their business -- business travelers. We tend to -- we usually segment the demands -- hotel guest demand into business, leisure, and group, for the most common delineations.

Q. And do you know for this -- you mentioned that the Hyatt at Olive 8 has quite a few business guests. Is that the same -- is the same true for the Grand Hyatt?

A. Yes.

Q. And what information did you rely on to perform the restricted appraisal for the Grand Hyatt?

A. I was provided with their historical operating statements and their STAR reports.

As with all of these hotels, I also relied on general industry survey data. So really used that as a test to see how reasonable their historical numbers looked.

Q. Did you rely at all on Mr. Macaulay's spreadsheet to come up with your valuation?

A. No. I don't think I'd seen it when I was coming up with my valuation.

Q. If you -- if you had had access to it, is that something you would have relied on?

A. Nope.

Q. Why is that?

A. Because that's his opinion. And I'm trying to come up with my own. I'll look at historical numbers. I'll look at sale data. I'll look at more operating statements. But I don't want to look at somebody else's speculation.

Q. And you also -- there's also a set of tables that informed your restricted appraisal; is that correct?

A. Yes.

Q. Those are exhibit -- I'm sorry. I probably -- so the restricted appraisal itself is Exhibit 73; is that correct?

A. I -- you have exhibits numbers. I don't have exhibit numbers.

Q. Oh. So Exhibit 73, the title is?

A. Restricted appraisal. Hyatt --
Q. Restricted appraisal report, Grand Hyatt Hotel.
A. Yes. That -- that would -- that's my restricted appraisal.
Q. Okay. And then Exhibit 74 are the supplemental tables for this restricted appraisal.
A. Okay. Yes.
Q. Can you walk us through these supplemental tables?
A. Yep. They look an awful lot like the last three sets. Table 1 is the comp set for the Grand Hyatt. The managers there felt that they competed with pretty much everybody at the upper end of the tier. They also threw in Loews Hotel 1000 which is a luxury boutique which is probably overly optimistic that they would compete at that level.
There's 4,234 guest rooms in this set.
On Table 2 I show the historical occupancy for this set of hotels. It's been consistently above 80 percent last five years, really strong performers. Room prices were going up between three and five percent a year right up until the opening of the Regency in 2019. And so this -- this set took a 6 percent hit in average room rate, which I think was the same percentage increase in the last set, the Regency's for the Olive 8 -- Olive

8's comp set.

Q. But it still looks like -- so on the market room rate, it looks like we're similar to market room rates we looked at for the other competitive sets. I realize some of these hotels are overlapping. But we're looking at generally room rates in the low 200s; is that right?

A. Yes.

Q. And sometimes it will reach into the high 200s, but we haven't seen anything in the 300s; is that right?

A. There's only two hotels that I know of that -- that -- one that I know of gets over 300 and one that I suspect gets over 300.

But, yeah, typically rates are in that 200 to 250 range.

Q. And so these are nowhere close to Mr. Macaulay's assumed room rate for the Grand Hyatt which was $355?

A. Yeah. He -- he assumed 355.

Q. Okay. Continue your discussion of the tables.

A. The projection for the market, I'm really not anticipating a lot of change. I do show two -- the same two hotels entering the market. The 5th and Madison and the one on 5th Avenue. So the market supply goes up by about 400 rooms, 400-plus rooms.

But there's also growth and demand over this period. Occupancy rate fluctuates up and down within a very narrow rank, between 82 and 84 percent. I stabilize them at 83 percent. I grow the average -- market average room rate at two and a half as I've done in the other reports. So not a lot of surprises in Table 3.

Q. And, again, those room rates, even after 2024 do not come close to Mr. Macaulay's estimate of 355?

A. Correct.

On Table 4, the -- we can see the historical position of the Grand Hyatt. The occupancy index for the hotel, midway on the page, was 104 percent. 104, 103, 103. And then dropped down to 100 percent in 2019. So even with the Regency opening, the Grand Hyatt still got its fair share of the business.

And the -- the fair share that we talk about, the supply ratio, is how many rooms do we have versus how many rooms are in the market. If everybody in the market gets the same occupancy rate, our occupancy index should be 100 percent. If we match the market, our occupancy index is 100 percent.

In terms of average room rate, the Grand Hyatt has consistently gotten a higher rate than the market. The room rate index rank from 105 percent to 108 percent. The average room rate of the hotel in 2019 was $234. Mr. Macaulay's estimate for -- that was 2019.

Mr. Macaulay's estimate for 2020 is $355.

So he is more than 50 percent higher in -- in his room rate estimate.

We turn to page -- to Table 5 on page 6. This is my forecast. I'm projecting, based on the most recent occupancy index at the Grand Hyatt, at 100 percent -- and I don't see the Hyatt Regency going away. So I think the impact of that hotel is going to remain in place.

So I'm projecting that the Grand Hyatt will get 101 percent -- an occupancy index of 101 percent, which means that by the time we get to a stabilized year, our occupancy rate is 84 percent. That's -- that's what I think would be stable for this property. And it really hasn't varied very much and I don't expect it to vary very much.

The average room -- the room rate index I'm projecting at 105 percent which is right in line with the position that the hotel has held historically.

So stated in current dollars, I think they would do $240 average rate for -- in the year 2020, $240 average rate.

Q. Again, is nowhere near the 300 --

A. Yeah.

Q. The $355 that Mr. Macaulay is estimating.

A. Yep.

Table 6 shows the historical operating

performance of the hotel. It really doesn't -- there's really nothing to point out on here. It's -- they do very well. They were making operating profit of 17 million bucks in each of the last two years are -- over 17 million.

Operating profit is different than net operating income because it doesn't reflect management fees or capital replacement. But it's a good measure of comparison between hotels.

And, particularly, this level of stability is pretty unusual. I'm projecting that their occupancy will come down because of the Regency because of there being higher supply.

But I'm projecting increase in their average room rate. So in terms of room revenue, kind of netting those two out, they were making 36 million and change last -- in 2018, I have them at 33.6 million in a stabilized year in 20 -- stabilized year in current dollars.

Q. We're on Table 7 right now.

A. Yes.

And because they're virtually stabilized now, that's -- their stabilized performance is very similar to what I'm projecting for the first forecast year, 2020.

And some of these hotels, when I say

"stabilized," I mean they'll be stabilized someday. And this is what the income they would have if they were stabilized now. In this case, this is a real stable hotel.

Table 8, again, as I said before, this is just the -- the extension out five years of my forecast taking into account differences in occupancy, the variable and fixed components of each expense and inflation.

Q. The net -- can you explain why the net operating income is going up from 12.4 million to 13.6 million between 2020 and 2024?

A. Well, since there's almost no change in occupancy, it's entirely because of the average room rate.

Q. Okay.

A. Because I'm trending all the numbers forward at two and a half percent a year for inflation.

Q. Okay. And this net operating income between 2020 and 2024, it goes from 12.4 million to 13.6 million. And this is still significantly less than what Mr. Macaulay is estimating at 17.35 million?

A. That's correct. Yeah. Our -- his estimate is, again, about 50 percent higher than ours. And it's entirely due to the average room rate.

Q. Okay.

A. Table 9, it's the same as the other Table 9s. We're doing a direct cap at the top of the page, and a yield cap in the middle of the page. Those two numbers are reconciled to a current market value at the bottom of the page. Now, in this case there was a very slight shortfall, half million dollars. But when you're talking about a $200 million hotel, that's not much. This is a very stable property. And I expect it to remain so once we get past the current health issues.

Anything that you want me to point out on that page? I mean, it looks a lot like the Hyatt at Olive 8 because their performance is similar, same location, same parameters.

Q. No, I think -- I think -- I think I did want to ask a question that -- I think you might have already touched on this earlier.

But the difference -- the reason for the difference -- can you explain quickly the reason for the difference in the cap rate between your direct capitalization and your yield capitalization analysis?

A. Well, the -- the capitalization rate is the ratio of income to value. At the top of the page we're talking about the ratio in a -- in year five in this forecast, in a stabilized year.

The cap rate that we use for the reversion toward the bottom of the page is 7.4 percent. That's higher because the hotel will be lower -- will be older in ten years and there's more risk involved in doing the projection.

The yield rate of 9 percent is totally different. That's a -- that's a discount rate. That's not cap rate.

Q. Right. Okay.

A. Table 10 is just showing you where I got my half-million-dollar adjustment in the direct cap analysis.

And, again, Table 11 is looking at the -- is splitting out the value of personal property, again, assuming a 50 percent depreciation ratio because the hotel has been in operation for many years and they're cycling items in -- in and out. So my estimate of the real estate value -- current real estate value, the before value for this hotel, is 168,400,000. That compares to Mr. Macaulay's estimate of 239-million-293. So, again, we're about -- he's about 50 percent higher than we are.

Q. And, again, similar with the other hotels, this difference is primarily by this -- the use of an inflated average room rate?

A. The use of a higher average room rate, yes.

Q. Whereas you're using actual data from the hotels?

A. Well, I'm estimating the rate for a future stabilized year in current dollars. But it's really close to how they actually performed.

Q. And this -- this number is the concluded value in your -- this number, 168,400,000, is the concluded value in -- in your restricted appraisal for the Grand Hyatt?

A. Yes. It's the -- it's my current -- estimate of current value or before value of the real estate.

Q. And consistent with your prior testimony, this value would be less if you were doing it today?

A. Yes.

In fact, I ran -- I did run a test on the Grand Hyatt. And it -- it was in that range of 10 to 15 percent less if we assumed away the virus. Or if we have -- with the virus, it comes in 10 or 15 percent below -- below where it did in this -- in this study -- in my appraisal.

Q. Can you explain how you ran that test?

A. I -- I probably can't do it in one minute.

The -- what I did is I looked at the segmentation of the hotel -- or the segmentation of the market based on the STAR reports. And assumed that the business segment of demand would come back within six months, phased in over that period. The tourism would come back over a year. And the group demand would come back over two years. And reran the market numbers under those assumptions so that I calculated a percentage decrease for the -- for each calendar year. And what -- what would be the decrease in market revenue. And during 2020, it looks to me like the annual revenue generated in these markets is going to decrease by 45 to 50 percent.

So they're going to lose about half their income -- about half their revenue basically. And all their net income. They're going to be out -- the hotels, if they choose to operate, they'll operate at a loss until occupancy comes back to a point where they break even.

But by 2022 or '23, we should be -- things should be okay again.

Q. Okay.

A. That's me crossing my fingers.

Q. Yeah. And we discussed this a little bit before, but this is based on an assumption that there's a three- to four-month curve and we're close to the end of that.

A. Right.

Q. Okay.

A. Did you want to ask about the LID levy implied by the --

Q. I did. But I'm actually going to walk through -- first I'm going to walk through Mr. Macaulay's spreadsheet. Do you have it open for this property?

A. I will open it.

MS. LIN: And, Mr. Examiner, would you like us to continue?

HEARING EXAMINER VANCIL: Yes. I'll let you know when we're taking breaks.

MS. LIN: Okay.

HEARING EXAMINER VANCIL: 10 a.m., noon, and 3 p.m. are estimates. Typically break takes -- happens any time between 10:00 and 10:30. Lunch any time between noon and 12:30. Same, 3:00 -- sometime between 3:00 and 3:30. It's based on where the witnesses are, and I let you know.

MS. LIN: Okay.

THE WITNESS: I have the spreadsheet up.

BY MS. LIN:

Q. Okay. So did Mr. Macaulay apply the same methodology he did with -- that he did with the Renaissance Hotel?

A. Yes, he did.

Q. And those are the four scenarios based on

changes to income and cap rate?
A. Yes.
Q. For the Grand Hyatt, the first two scenarios assume room rates will increase by .6 percent in the low range. And 1.2 percent in the high scenario.
A. That's right.
Q. Is it possible that the accurate -- sorry.
Is it possible to accurately conclude that the reason for this incremental percentage increase is due to the LID improvements?
A. No.
Q. And is there any explanation of why these percentages differ from -- let's say, for example, the Hyatt at Olive 8?
A. No. No explanation.
Q. And you've testified that this hotel is actually pretty similar to the Hyatt at Olive 8; is that right?
A. Yes.
Q. And so would you have expected -- if there was any increase, for those increases to be the same?
A. I -- I don't -- I don't think that there would be a supportable increase.
But, yeah, I don't see any reason why they'd be different.
Q. This range also seems a little larger than for

the other hotels.
So, for example, for the Hyatt Regency, the difference between the high/low was only .25 percent. Whereas the difference between .6 and 1.2 is .6. So it's -- it's more than double the range.
Why would there be a difference in that range?
A. I have no idea.
Q. So from your read of the special -- the final special benefit study and the underlying spreadsheet, you cannot determine a basis for these percentage increase --
A. No.
Q. -- increases.
And similar question as before.
But the -- has the Grand Hyatt been able to raise any rates in anticipation of the LID improvements?
A. No.
Q. And it looks like he similarly applies these percentage increases to food and beverage revenue, parking and other income. Is that right?
A. It is. But just as a caution, most of the -- the food and beverage for this hotel is in the other parcel, in the retail portion. They're a big restaurant, you know. Ruth's Chris is leased. And it's not part of this appraisal.
So this 5 million is just sort of miscellaneous

money that's coming into the -- to the hotel. I'm not -- I'm not sure, he doesn't specify, you know, what his assumptions are as far as where they're getting this food and beverage revenue. It could be room service. It could be maybe the rental of meeting space. It could be meeting room fees. But -- but because the restaurants themselves are off-site, it's -- you know, it shouldn't be a very big number.

Q. And similarly, his spreadsheets states that the proximity to the park is about 2,300 feet to the park.

In your opinion, would this be a basis for the percentage increase?

A. Not any more than it would be for any of the -- the hotels we've talked about already. All three Hyatts, as I say, are very close to each other. They're all about half mile from the park. I don't see anything in his study that suggests that a park a half a mile away will have any, you know, observable or measurable impact on room prices.

Q. The spreadsheet also says that it fronts Pike and Pine.

Would that be a reason -- and are you aware that the LID improvements include improvements -- street improvements to Pike/Pine -- Pike and Pine?

A. Yes.

Q. Would these improvements be a reason for these increased percentages -- percentages in room rates and food and beverage income?

A. They might be. That might be what he's thinking, that if you plant some trees on the street, people will pay more. And it would be nice. I'm not saying that it won't be nice to have street improvements or a park.

I just don't see any -- any support in his appraisal for these specific lifts that he's anticipating in room rate or value.

Q. For the third and fourth scenarios, Mr. Macaulay assumes the net operating income is going to remain the same as in the before condition but changes the cap rate from 7.25 percent to 7.11 percent in the low scenario, and 7.17 percent in the high scenario.

Is a cap rate change of .14 or .08 percent measurable?

A. Same answer as before. I would say it's not. Not supportable. I would phrase it that way. Not that it's -- you can measure anything. But it's the -- it's whether or not you can support it as being valid and credible.

Q. And when you say "not supportable," are you saying that there's nothing in the study or the spreadsheets that would explain these changes?

A. Correct.

Q. And then it appears Mr. Macaulay stated to conclude that the Grand Hyatt's property value is going to increase by 1.5 percent due to the LID improvements. Is that right?

A. That's -- that section. Yeah. It's one and a half percent.

Q. And with the others, is -- property value increase of this percentage, 1.5 percent, within the margin of error for appraisers?

A. Yes. It would be considered within a typical margin of error.

Q. If we can look at Exhibit 75, which is the comparison table.

A. I have it.

Q. So, again, we're looking at the columns of the furthest to the right. And these compare Mr. Macaulay's analysis of the Grand Hyatt with your appraisal analysis. Is that right?

A. Yes, that's correct.

Q. And you've testified that the driver behind some of the -- sorry. That the driver behind the differences in valuations are primarily the average room rate. And that is $355 in the final study versus $240 based on your analysis. Is that right?

A. That's correct. In the first column of this table, of this exhibit, we show a 2018 performance of the Grand Hyatt where they have an average room rate of $250.

The following year, 2019, their average room rate went 20 down to 234. And in my forecast for 2020, I am increasing that back up to 240.

Q. And which of these numbers do you believe is more accurate?

A. I think -- I think mine is more consistent with the historical performance.

Q. And then these average room rates translated to a net operating income of 17,349,884 -- in the final -- and $12,359,989 in your analysis. Is that right?

A. That's right.

Q. And so that's a difference of $5 million?

A. Yep.

Q. And that's an almost a 50 percent difference?

A. Yes.

Q. And then the concluded current valuation in the final study was 239,293,000. And then your analysis, it was 168,400,000. Is that right?

A. That's right.

Q. So based on your analysis using after data from the hotels and after stabilization, assuming you apply the same special benefit percentage increase that Mr. Macaulay applied, what would the final assessment have been?

A. $991,186.

Q. And is that less than Mr. Macaulay's suggested LID assessment?

A. Yes. His assess -- his assessment was 1.4 million.

Q. So almost 500,000, then? Or, actually, 400,000 -- a little over 400,000?

A. 400,000 difference, yeah.

Q. And consistent with your prior testimony, this is -- this is not -- this is not your suggested final assessment amount?

A. Right. My -- right. This is just a math exercise to say what if we use the same ratio that he did.

Q. All right. Is there anything else you would like to add with regard -- regarding the Grand Hyatt?

A. No.

Q. All right. All right. So the next one we're -- the next property we're going to discuss --

HEARING EXAMINER VANCIL: And we'll take a break for lunch before we get to that one.

Did you want to introduce exhibits relative to the last one?

MS. LIN: Yes, please.

HEARING EXAMINER VANCIL: Can you identify those exhibits that you want admitted?

MS. LIN: So we have -- apologies. You cut off right there. What did you say?

HEARING EXAMINER VANCIL: Are you going to identify the exhibits that you want admitted?

MS. LIN: Yes. So we are going to submit -- are we talking about the corrected ones from before? Or just the ones from right now?

HEARING EXAMINER VANCIL: The corrected ones have also not been admitted yet.

MS. LIN: Okay. So we'll do the ones for the Grand Hyatt. We would like to submit to the record Exhibits 73, 74, and 75.

HEARING EXAMINER VANCIL: Any objection to those exhibits?

MS. THOMPSON: No objection.

HEARING EXAMINER VANCIL: 73, 74, and 75 are admitted.

(Exhibit No. 73-75 admitted.)

MS. LIN: And then, in addition, we would like to submit Exhibits 67 and 68, which are corrected exhibits from prior -- prior exhibits that were not submitted.

And then Exhibit 69, which is a corrected exhibit to an exhibit that had been previously submitted.

So 67 is the restricted appraisal report for the Hyatt Regency hotel. And it contains one difference, the concluded value is 484,700,000 as opposed to 494,800,000.

And if Mr. Gordon just wants to quickly explain the -- the reason for that difference -- and actually, I'll go ahead and note the difference in the other -- in the others as well. And if Mr. Gordon just quickly explain the reason for that difference.

Exhibit 68 are the supplemental tables that underlie Mr. Gordon's restricted appraisal for the Hyatt Regency. The change made was to Table 11. And the depreciation percentage is 10 percent instead of 50 percent which results in a real estate value of 484,700,000, whereas before it was 494,800,000.

And then, finally, Exhibit 69, which we did previously submit but we'd like to replace with this corrected version, the difference is the current value under [poor connection] stabilized to the right, is 484,700,000 instead of 494,800,000.

BY MS. LIN:

Q. And Mr. Gordon, if you want to explain the reason for the difference.

A. Well, because I made a mistake the first time around. The hotel is only one year old. So its accrued depreciation should only be 10 percent. And that I had used too high of a depreciation ratio. The methodology for splitting value between -- allocating value between real estate and personal property is to value the overall hotel first, subtract off the personal property. And whatever is left is the real estate.

So since the personal property is not as depreciated as I initially said, its value is higher, the depreciated value is higher than it was before, which means that the net real estate value is lower than it was before.

I'd also point out this does carry over to the -- the special benefit levy. You know, that mathematical exercise that we do in the last column, at the bottom of it -- at the bottom of the last column.

Q. And that number now is what, Mr. Gordon?

A. It went down just a hair.

I'm sorry. Which hotel is this, the Regency?

Q. Yeah. It looks like it is now $925,028; is that correct?

A. Yes.

Q. And previously it was 944,303?

A. Yeah. So it went down a little bit.
Q. Okay.
MS. LIN: All right. So we would like to submit these exhibits as 67, 68, and 69 to the record.
HEARING EXAMINER VANCIL: Any objection to 67 and 68, and resubmitting -- supplementing the record with a new version of 69?
MS. THOMPSON: No objection.
HEARING EXAMINER VANCIL: 67 and 68 are admitted. And the new version of 69 is also admitted.
(Exhibit Nos. 67-68 and 69 new version admitted.)
HEARING EXAMINER VANCIL: With that, we'll take a break for lunch. And we'll return at 1:30. Thank you.
(A luncheon recess was taken.)
HEARING EXAMINER VANCIL: Continue.
MS. LIN: Hi. We'd like to continue with the testimony of Mr. Gordon. And we're going to start our presentation with respect to case number CWF-0438.
BY MS. LIN:
Q. Mr. Gordon, have you reviewed Mr. Macaulay's special benefit analysis? And I'm talking about the spreadsheets for this property?

A. I think you identified it by case number.

Q. Yeah.

This is the parking and retail unit for the Grand Hyatt.

A. Yes. I'm sorry. Yes. I have -- I have looked at his -- at his spreadsheet on that.

Q. And can you briefly describe -- I'm sorry. I'm going to just stop right here for one moment. I can barely hear anybody. I don't know if that's something to do with -- I'm just going to -- hello. John, Mr. Gordon, can you say something?

A. Yeah. I'm right here. We're just testing. Just saying some things.

Q. I guess -- yeah. I -- I can hear -- I can hear okay. It's very, very light. That's okay, though.

Let's just proceed.

Can you briefly describe this property?

A. This is -- it's -- this is a complicated property because it's part of the Grand Hyatt hotel and it's not part of the Grand Hyatt hotel.

From a physical structural standpoint, it's the hotel parking garage and the restaurants and the street retail space. Which to the observer from the street would look like it's part of the hotel.

But from a legal and assessor standpoint, it's separate. So it's defined as a separate tax parcel. Effectively it's a condominium that includes a portion but not all of the structure.

This portion includes the garage, which is quite big. It's 950 stalls. It has at least two full-service restaurants plus a Starbucks plus some smaller shops and retailers.

It opened at the same time as the hotel, so it's about almost 20 years old. It's 19 years old at this point. 18 and a half years old.

The -- from the point of view of the hotel guests, it -- it would appear to be part of the hotel. There are -- the -- the meeting space, for example, that's in the hotel, food and beverage service for those spaces can be provided by the restaurants or by in-house kitchen facilities from the hotel, either one.

Q. And Mr. Macaulay's spreadsheet says that his analysis assumes that the Grand Hyatt is leasing stalls for hotel operations with the remainder utilized for monthly parking.

Is that accurate?

A. I don't know if they have formal leases in place. But I would say one thing that's apparent in looking at his -- his analysis, he's projecting revenue on the assumption that the hotel collects $46 a day for every -- for every stall that's -- that's leased -- that's occupied by a hotel guest, or potentially occupied by a hotel guest.

The hotel has 457 rooms in it. And if they got $46 per day for 457 stalls, that comes out to the $6 million in revenue.

But in point of fact, hotels in downtown Seattle don't -- you don't rent -- you don't rent one space for every guest room. Only between 20 and 30 percent of the guests who come to a hotel downtown are even going to arrive with a car. Most of those would want a space.

But even at that, it's not 30 percent of 457 rooms. It's 30 percent of 457 rooms times the occupancy rate.

So the number of stalls that the hotel actually could utilize for hotel guests is something less than that. We don't have an exact number. But we would -- hypothetically, or conceivably, it would be about 20 percent of the total stalls in the place. Or perhaps 200 stalls.

That means that the rest of the stalls would be available for daily or monthly parking to nonguests. And in Macaulay's -- in Macaulay's analysis, he assumes that the nonguests would be paying an average of -- where is it? Well, that the nonguests are paying an average of

$320 a month. Which is probably reasonable for downtown hotel parking space right now.

But he only applies that to 468 of the stalls so that the rest of the stalls, he assumes, are being rented at a very high rate charged to hotel guests of 46 bucks a day. 320 a month is roughly 30 -- is roughly $10 a day for the -- the long-term parking. But the daily parking, they get 46 bucks a day. And it's obviously preferable to do that. In his forecast, he assumes that 457 stalls are -- are leased at that high rate. When, in fact, the majority of stalls are going to be leased at the monthly rate of 320.

The upshot is that he over -- his revenue forecast is overstated in there.

Q. And so just to summarize, because he's -- because he's assuming that -- that hotel -- all the hotel guests will be all paying for -- for parking stalls at a higher rate than -- than someone who might be paying for a monthly stall would pay, this resulted in higher revenue than what is actually being realized?

A. That's right. It just -- it told me that he didn't understand how hotels work downtown, just in general. Because that's -- that's pretty basic that you don't assume everybody is going to have a car.

Q. What information did you rely on to -- to review his -- his work?

A. Well, I looked at of -- at prior appraisals that we had done of parking garages in downtown Seattle and retail space. Looked at what the asking rents were in those cases.

Our company -- I have not personally appraised these other parking garages, but our company had. So I had access to the -- to the resources that we have, is you know, within our database.

I concluded, you know, despite the higher revenue, what I would regard as an overstatement of the revenue, I concluded that the value that Macaulay came up with for this component of the property was not far off at all.

And the reason is that he -- because he was assuming that most of the parking stalls were being used by hotel guests, he capitalized the parking lot -- parking garage income at a hotel cap rate. The same rates that he was using for the other hotels in the -- that he was studying. So in that seven, seven and a half range. Here, I can tell you which -- what rate he used.

He used seven and a quarter cap rate.

(Telephone rings.)

Oh, for Pete's sake. I have to mute this here. That's my home -- my wife will get that. Carol?

It's her sister calling and her sister has had a cough for ten days. So we're keeping an eye on her sister.

Where was I? Okay. So he used a cap rate of 7 and a quarter and applied it to his estimate of the -- of the net operating income from the garage component.

But in the prior garage work that our company had done, cap rates of four and four and a half percent were much more common. So I tested and said, well, suppose we used a four cap on our estimate of income, our lower estimate of income because we're not assuming that all hotel guests rent spaces. And even though his revenue was off from what I think is reasonable and his cap rate was way off from what is reasonable, we thought they offset. And I ended up coming in with a number that was really close to where he was. And that -- at that point, we stopped work.

So we never did a restricted appraisal of the garage component.

Q. Okay. So let's talk a little bit about the special benefit analysis, then.

You said you did review Mr. Macaulay's spreadsheet?

A. Yes. I have it in front of me.

Q. Okay. And he uses the same methodology he used with the Renaissance and the rest of the hotels you looked at?

A. He does. Obviously the operating -- operating performance is different because this is a garage, not a hotel.

But his bottom line number, his use of the capitalization rate, assuming stabilized operation, and his use of four scenarios to develop his after value are the same.

Q. Okay. And so for this property in the first two scenarios, he's assuming that parking and other income will increase by 1.4 percent in the low scenario. And 1.6 percent in the high scenario. Is that correct?

A. That's correct.

Q. From your read of the special benefit study and the underlying spreadsheets, is there any basis for this percentage increase?

A. I did not see anything that supported it.

Q. And you mentioned that this property is actually -- if you were a regular person walking around Seattle, this property would look like it was just part of the Grand Hyatt; is that right?

A. Yes.

Q. And that there are these two restaurants and some other retail that are part of this parcel but that look for -- that look like they're part of the Grand

Hyatt.
A. That's correct.
Q. And so, for the Grand Hyatt, those percentage increases were .6 percent and 1.2 percent. Is that correct?
A. As I recall, yes.
Q. Okay. And so, these are pretty big differences from -- well, given how small these percentages start out, these are big differences. Does the -- does the difference make sense? And I guess I'm wondering because for some of the other hotels that have restaurants within them, it looked like Mr. Macaulay applied the same percentage increase to restaurant income as he did to room rate income. Is that right?
A. That's what he did, yes.
Q. Okay. And so if this parcel had actually been part of the Grand Hyatt, then Mr. Macaulay applying his methodology would have applied that same percentage increase that he applied to the hotel to the restaurant income.
A. That's what I would expect.
Q. And the parking income.
A. Yes.
Q. And all other income, because that's what he did with each of the hotels?

A. Yes. And the -- the income from the restaurants and retail is lease income. Which means there's no reason to expect that the leases would be adjusted upward.

But that, in fact, is what he does in these scenarios.

Q. And so, the only reason you see a difference in the percentage increase between the Grand Hyatt hotel and the Grand Hyatt retail and parking unit, is because these happen to be separate parcels?

A. I don't know what his -- what his reasoning was. As I say, I don't -- I didn't see anything that supported any of these percentage increases in his -- in his first two scenarios.

Q. Yeah. I guess phrase it differently.

Based on your review of his methodology so far, if these had been -- if the hotel and the restaurants and the retail had been one parcel, Mr. Macaulay likely would have applied that same percentage to all of the income no matter where it came from. If it came from the restaurants, he would have applied that same percentage increase. If it came from the --

A. Yeah --

Q. -- the parking --

A. I understand the question.

Yeah. And if -- if we assumed that he would have been consistent among the different hotels, then, yes, these increases should have been the same as -- as -- or I would have expected them to have been the same as he applied to the hotel parcels.

Q. And, in fact, they are not.

A. No.

Q. Do you know if the property has, in fact, increased parking rates in anticipation of the LID improvements?

A. I -- I don't know if they have or not. I didn't ask that question.

Q. Is there any explanation of why he believes the retail income is going -- that the retail rent -- rental income is going to increase by that same percentage?

A. No. He just applies it across the board.

Q. So for the third and fourth scenario, Mr. Macaulay assumes that the net operating income is going to remain the same in the before condition but then changes the cap rate from 7.25 percent to 7.13 percent in the low scenario. And 7.15 percent in the high scenario. Is that correct?

A. That's correct.

Q. And as I've asked you before, does it change in cap rate of .12 percent or .1 percent typical?

A. No. It's quite --

Q. Or supported?

A. It's far more precise than we could justify in this profession.

Q. And from your read of the final special benefit study and the underlying spreadsheets, can you spell the basis for these changes?

A. No. I could not.

Q. And, again, comparing with the Grand Hyatt hotel, these percentage changes are different, correct?

A. I don't have those in front of me now. But as I recall, they are.

Q. And I believe that the percentage changes he applied for the Grand Hyatt were [poor connection] scenario and 7.17 percent in the high scenario.

If he had been applying the same --

HEARING EXAMINER VANCIL: Your question was breaking up. You'll need to repeat it.

MS. LIN: Oh, okay. Apologies.

BY MS. LIN:

Q. So with respect to the Grand Hyatt, he applied cap rate changes of 7.11 percent in the low scenario -- sorry. He applied cap rate changes from 7.25 to 7.11 in the low scenario and 7.17 in the high scenario. If he were applying the same methodology he did for the other hotels, would you have expected him to apply these percentages to this parking and retail and restaurant income?

A. Well, I would expect him to have applied the same percentages to all the components. But they -- he might -- if he had actually included the restaurant and the retail and parking in his analysis of the hotel, the cap rate in that -- for that component might have changed as well.

So if -- if you accept his premise that these are reasonable cap rate ranges, both for the garage and for the hotel, then a reasonable range that combines the garage and hotel might be somewhere in between. But the differences are so minute that it's -- you know, it's almost a moot point. They -- these are -- these are tiny, tiny increments that he's changing the cap rate.

Q. And then it appears that Mr. Macaulay uses these four scenarios to conclude that the property value will increase by 1.49 percent due to the LID improvements. Correct?

A. Correct.

Q. And is that within the margin of error for appraisers?

A. Yeah. We -- we can't -- we can't be that precise.

Q. Do you know if these restaurants are still open?

A. No, they're not. They're -- they may be doing take-out. But all the restaurants in downtown Seattle had to -- had to stop accepting in-person guests.

Q. And do you know whether COVID-19 has had any impact on the income from retail or parking at this property?

A. It depends if they are being held to their leases. It would certainly have had an effect on the parking income because those are month-to-month leases typically. And people would not be renewing. I just canceled my parking permit for the same reason.

The -- the restaurant leases and retail leases, on paper, the tenant is obligated to pay regardless.

But in -- in practice, I suspect that the owners will cut them some slack on -- on how much they have to pay in making of lease payments which would end up reducing the income to the hotel owners -- to the owners of the hotel during the current.

Q. And is there anything else that you would like to discuss or highlight with respect to this property?

A. Well, it's -- it's a pretty -- if you look at it by itself, it's a pretty traditional garage and retail operation. The retail space is leased, the garage space is partly hotel guests, partly public. So it's really not that complicated a piece of property even though it feels complicated because it's integrated in with the hotel.

But, no, nothing else specific to raise.

Q. Okay. We are going to move on to case number CWF-0414. And this is with respect to Lot B which is at 9th and Howell.

A. Okay.

Q. And did you review Mr. Macaulay's special benefit analysis for this empty lot at 9th and Howell?

A. I read it. It -- I didn't do a thorough review and we did not do an appraisal of this property.

Q. Did you review his spreadsheet?

A. I did, yes. Let me pull that up. Lot B. There. Okay. I have that here.

Q. So, can you please describe this property?

A. It's a rectangular lot, corner lot at 9th and Howell. I believe I mentioned in the morning testimony that originally it was to be part of the Hyatt Regency development. The owner had planned to include the entire block and develop an even larger hotel. Those plans did not come to fruition.

So the owners are left with a corner parcel that's presently being used as a surface parking lot just as, you know, minimal interim income. But its true value is as a development site.

The owner has discussed building a 400-room hotel on that remaining parcel so that the block would end up having two hotels on it. But nothing has moved forward in that direction. And I don't expect to -- I don't expect it to move forward in the near term.

Q. And what information did you rely on to review Mr. Macaulay's analysis?

A. Well, I read what he said. And then I looked at some research we had done recently on land sales in the area. Land values had gone up rapidly over the last three years. Downtown Seattle is highly valuable any way. But the-- the fact that the convention center actually started to get underway and there's also a new office building that's going up next to it, has really pumped up the land right in the area of Lot B. And so Macaulay felt that it was -- as of October 1st, he felt it was worth $1,750 a square foot. I remember a time when people joked about land being worth $1,000 a square foot, but it's not a joke anymore. And we didn't -- after looking at the sales that have taken place in the area, I didn't see any cause to dispute his -- cause to dispute his estimate.

Q. And so looking at his special benefit analysis, it looks like from his spreadsheet he adds a special

benefit of $7 per square foot.
A. That's what he does, yeah.
Q. From your review of the special benefit study and the underlying spreadsheets, what's -- can you tell the basis for this $7 increase?
A. No. There's nothing evident about where he came up with seven bucks. I don't know why he used a dollar amount here instead of a percentage as he did in the others. It looks to me as though it would be about, let's see, half a percent or less.
Q. Yeah. I think it's .4 percent. That's an increase of .4 percent.
A. So, again, very precise.
Q. Which and he comes up with a special benefit amount of $188,000 by multiplying $7 per square foot by the number of square feet; is that right?
A. That's right.
Q. And the spreadsheet also says that the proximity to the project is about 2,900 feet to the park.
Would that be a basis for assigning $7 per square foot increase in value?
A. Well, it's the same -- roughly the same distance as the Hyatt Regency which is on the same block. And the fact that it's -- that it's a certain number of square -- of feet from the park, I -- I don't see how that

translates into a specific dollar amount or a specific percentage adjustment. He does not explain how he came up with those numbers. He just presents them as a [indecipherable].

Q. Is this .4 increase to -- to the dollar -- to the dollar per square foot, is that within a margin of error?

A. It's a rounding error. I mean, it's nothing. Yes, it is within the margin of error.

Q. Okay. Do you have anything else to add with respect to Lot B?

A. Well, it's one of the most valuable pieces of land in downtown Seattle. Or it was until two months ago.

It's -- I do think that -- that there's high value there and eventually we'll see a new hotel or some other structure on the site.

Q. Because it's already such a high-value piece of property, would you expect a park, then, to impact that value even less just because you might not -- yeah.

Well, what effect would that have on your -- on your opinion, the fact that it's already such a high-value piece of property?

A. I don't think -- in this -- talking about these ranges of dollars and this tiny little increase, I don't -- I don't think it would have a discernible impact.

Q. Okay. Anything else with respect to Lot B?

A. No.

MS. LIN: And with that, I believe we are done with the -- with the Hyatt parcels.

Just to clarify with examiner, we plan to submit our property owner declarations on April 16th. Is that --

HEARING EXAMINER VANCIL: That was the deadline set, yes.

MS. LIN: Okay. So we're just going to continue with Mr. Gordon on -- on another hotel.

We're going to be turning to the Alexis Hotel which is CWF-0318.

BY MS. LIN:

Q. And did you perform a restricted appraisal for the Alexis Hotel?

A. Yes, I did.

Q. And it looks like that appraisal is Exhibit 76 entitled Restricted Appraisal Report, Kimpton Alexis Hotel?

A. That's correct.

HEARING EXAMINER VANCIL: Before we move on to the Alexis, did we get all of the exhibits in for --

that you relied on for the Grand Hyatt?

MS. LIN: I believe we did that in the morning session. And I have not looked at any other -- I have not relied on any other exhibits in the afternoon yet.

HEARING EXAMINER VANCIL: Okay. So we've got 75 admitted?

MS. LIN: If we haven't, then we would like 75 to be admitted.

HEARING EXAMINER VANCIL: I'll double-check with Mr. Edlund-Cho. He's keeping track of what's been admitted and what hasn't.

What exhibit are we admitted up to, Mr. Edlund-Cho?

MR. EDLUND-CHO: 75.

HEARING EXAMINER VANCIL: Okay. Then we're covered for what we had for the Grand Hyatt.

MS. LIN: Okay.

BY MS. LIN:

Q. And did your colleague, Peter Shorett also perform an appraisal review for the Alexis Hotel?

A. Yes, he did.

Q. And is that appraisal review, does that contain an Exhibit 1 that is identical to the rest of his appraisal reviews that he prepared for the properties for which Perkins Coie is counsel?

A. Yes. It's -- Exhibit 1 is identical among all the hotels.

Q. And is that appraisal review, Exhibit 77, entitled Appraisal Review, Waterfront Seattle Project Special Benefit Study, Kimpton Alexis Hotel?

A. Yes.

Q. We will not be asking you any questions about Exhibit 77. But we will -- we will ask that it be made part of the record.

Going back to your restricted appraisal, you also -- you also prepared tables that informed your restricted appraisal; is that right?

A. Yes.

Q. Actually, let's back up a little bit.

Can you please describe the Alexis Hotel?

A. The Alexis is a really interesting property. It's -- it was built in -- around 1900 as a hotel. And then probably during the depression it was converted to a garage and it was used as a parking garage up until the late 1970s when it was purchased and then converted back to a hotel. And it operated, I think, with 52 guest rooms for the first few years of its operation.

And then the apartment building next door was purchased by the owners to the hotels and merged into the hotel. And it was renovated and reconfigured. And so now the hotel has 121 guest rooms in operation, including both of these structures. They're both vintage building. From the outside you can tell where the dividing line was between them. But they're operated all as one.

In addition to the guest rooms, the hotel has a restaurant. They used to have two restaurants but they shut down one of them. They have street retail space all up and down First Avenue. It's at First and Madison is where this hotel is. It's on the northwest corner of First and Madison.

There's street retail space. And then they have meeting space that they created by closing one of the restaurants. And then there's a space on the -- on the downhill side of -- of the building on -- let's see. Madison -- Spring Street where there's a daycare center that's effectively in the basement of the hotel but you owner it from Spring. And it's, you know, little kids daycare center.

So there -- they have a lot of space leased. I don't recall there being any vacant spaces in their retail.

Their restaurant is -- it looks a lot like a bar but they do serve three meals there.

The -- when the Alexis first opened, it was regarded, with the Olympic Hotel, as being one of the two finest hotels in Seattle. Hotel reputations come and go. But the Alexis maintained a very high, very strong reputation consistently for its -- up until now. I mean, it's always been thought of as one of Seattle's really finest hotels.

When the Four Seasons opened, the Alexis lost its status of also being one of the highest-priced hotels because the Four Seasons is a very expensive place to stay.

But it's still really high quality. The level of service is excellent. It's a really nice place.

Q. And what information did you rely on to prepare your restricted appraisal?

A. They provided us with STAR reports and annual operating statements. And we also had access to general market data that we use as support.

Q. Okay. And you prepared supplemental tables that informed your -- your restricted appraisal; is that right?

A. That's right.

Q. And those are Exhibit 78.

A. Okay. Yes.

Q. Can you walk us through these tables?

A. Sure. They look a lot like the last three sets, four sets of tables.

Table 1 on page 2 lists the hotels that the -- that the Alexis management regarded as their primary competitors. Notice they're not including the Four Seasons in there. But I think this is actually a very good set that they picked, very relevant to their -- to their level of quality.

The Loews Hotel 1000 that's mentioned on that page is directly across the street from the Alexis.

Other than that, there's nothing special in Table 1.

Table 2, again, we're showing the historical performance of this specific competitive set. The occupancy trend looks a lot like we saw in previous sets. High occupancy for four years and then a drop-off in 2019. I was frankly surprised to see how -- that this market dropped as much as it did because I would have thought some of these hotels would have been pretty immune to the Regency opening. But as it turns out, the whole market had basically the same experience, the whole downtown market.

Again, in park he -- in the market room rate, it went up and then it dropped off by 6 percent in 2019 when the competitive pressures increased. Very similar performance to what we saw in the other -- in the other markets.

Q. And those historical room rates, they do -- because the Alexis Hotel is a higher-end hotel, these room rates are a little bit more than the room rates we looked at with respect to some of the Hyatt parcels. But they still are -- looks like ranging from 240 -- $238 to $253, so we're in the sort of mid 250 range?

A. That's right. Some of these hotels do better than that; some did worse. But the -- the average for this set -- this is a pretty -- this is a pretty high-end set of hotels.

Q. Okay.

A. Table 3 is my forecast of how the market is going to go. In this case, I'm including only one new hotel. The details for the hotel on 5th Avenue haven't really been finalized and we haven't seen drawings on it. We haven't seen somebody in the news describing exactly how the hotel is going -- is going to develop. But my best guess for that hotel is it's going to look a lot more like Motif or maybe the Paramount. I don't think it's going to be a super top-tier property. And so for this analysis, I did not include them as a -- as an increase in supply.

The property at 5th and Madison I do think will be a competitor of the Alexis because it's -- it's going to be very high end and the buyer just paid 175 million bucks for it. So that's a -- that's going to be a really -- I think a high-end property if they ever get it open. Which I'm assuming will happen in 2021. We won't know for sure until they open the doors.

But with that hotel coming on line, we're expecting the occupancy rate of this set to decline in the near term and then recover back up to 80 percent for market occupancy. That's the same -- that's the same level of occupancy that ABS is anticipating for the -- for the subject hotel, the Alexis. And it's also, I think, a pretty good typical long-term number for downtown Seattle.

Again, room prices are projected to increase with inflation.

Q. And you're projecting for these market -- for this competitive set, it's going to go, it looks like for 2020, $244 out to $276 in 2025?

A. That's right.

Q. And that's still significantly less than Mr. Macaulay's estimate of $360 for the Alexis Hotel?

A. That's correct.

Table 4, we're back to the historical position of the Alexis Hotel. The occupancy index for the property was pretty close to 100 percent for four years.

And then dropped through the floor in 2019. Their occupancy index went down to 82 percent. Their occupancy rate went down to 66. Now, this is a much steeper decline than what we saw at the other hotels but there's a reason for it. The reason is that they were under renovation early in 2019. So they had blocks of rooms that were taken out of service so that they could be fixed up. And when those are taken out, they can't be rented by hotel guests. So even on days -- Tuesdays and Wednesdays are the biggest days downtown, the most busiest days for downtown hotels, they didn't have those rooms available to rent so they couldn't achieve the same level of occupancy that they -- that they had in prior years.

Q. Why are Tuesdays and Wednesdays high days for hotels?

A. That's just the busiest days for business travelers. And business travelers are the majority of guests in downtown. Hotel -- leisure travelers do come in on weekends but not to the volume -- during the summer everything is busy. So, you know, you're just going to run full. That's the way it is.

But in the other nine months of the year, weekends are usually pretty soft. Sundays are really soft. If you ever want to stay in a hotel somewhere and you don't really care what day you go, go on a Sunday because you pay way less to stay there than you would another day. Tuesdays I would -- you know, again speculating, but it might be that business travelers are more present Tuesday and Wednesday than they are on Monday and Thursday because there's some -- some guests who don't want to come in on the weekend. They don't want to come in Sunday night or early Monday morning. They want to wait until -- until later so that maybe they just don't -- that's just -- it is. It's busier Tuesday and Wednesday than it is any other day.

Q. Okay.

A. Okay. So historical position, then, it looks as though this hotel normally was running about -- about even with the market in terms of occupancy. And the fact that their position went down in 2019, I attribute more to the renovation than to what happened in the market. The market occupancy rate went down. And so even if we were matching the market occupancy rate, our occupancy would have gone down too but probably not as much as it showed up here. The 66 percent is an aberration and I wouldn't put a lot of stock into it going forward.

In terms of room prices, they average about four percent higher than their market -- than their competitive set in room rates. So in -- let's say in

2018, the competitive set average was 254. Our hotel -- the Alexis Hotel ran 260. So a little bit higher, not dramatically. But as I said, it was a pretty good -- it's a pretty good competitive set for drawing comparisons because they're getting pretty similar room rates.

Table 5 --

Q. Actually, can I just stop you there? So it looks -- so going back to this room rate.

So in 2018, the Alexis had a room rate -- an average room rate of 260.

A. Right.

Q. And then in 2019, they had an average room rate of 248.

A. Most of the hotels, you know, reduce their rates. Remember the average decrease was 6 percent.

Q. Right.

A. In 2019. So they're -- they're coming in actually right on that, that decrease.

Q. Okay. And both of these numbers are $100 less than Mr. Macaulay's estimate of 360?

A. Yes. And if I could point out one -- one more thing about his number, the 360 was in his final report, his final study done in 2019.

In his preliminary study that he finished one year earlier, he estimated the Alexis's average rate at $515. Which would be double what they actually did.

Q. Does any hotel in downtown Seattle have an average room rate of 500 -- above $500?

A. I -- I -- I have to decline to say.

Q. Okay. That's fine.

All right. So can you walk us through Table 5?

A. Yeah. This is -- my forecast for the Alexis, projecting out the occupancy index and the average room rate index, with the renovation, I felt that their room rates would come up some. So I bumped their room rate index up from the 104 percent that they were getting on average to 110 percent going forward. Because they put money into the place and there ought to be some compensation for that, being able to raise your rates.

For the occupancy index, I had them at a relatively low index in the first year as they come out of the renovation because you have to let your guests know that you're renovated. And it takes a little while for this -- the message to get across and for guests to start showing up in the numbers that you would like, particularly when you're raising your rates by 5 percent.

But beyond that, I'm projecting their occupancy index at 110 percent. So I think this property is going to do very well.

For the coming year, for 2020, I'm estimating their average rate at $269. That compares to the $360 that was estimated by Macaulay.

And my ABR estimate for the stabilized year in current dollars is the same as the 2020 rate.

Q. And it looks like you've projected all the way out to 2025 for this hotel. And in 2025 you've got a -- an average room rate of $304.

A. Yes.

Q. And still significantly less than the 360?

A. Yeah. And that's five years later.

Q. Do you know why Mr. Macaulay went from $515 in his preliminary study to $360 in his final study?

A. I don't know. He doesn't reference the earlier study numbers in the final study. It's probably unfair to, you know, throw that in his face.

I would just point out that in between the two studies is the period that he said he received consultation help from LW Hospitality which is a very reputable hotel consulting firm. And the likelihood is that they saw the 515 and said, whoa, Nelly, let's -- let's come back to reality.

Q. Okay. You can continue with the tables, please.

A. Table 6 is the actual operating results for the Alexis from -- its full name is the Kimpton Alexis Hotel, but I've always known it as the Alexis. So I get stuck on that.

These are results for 2018 and 2019. By the time we did the Alexis analysis, the 2019 numbers were ready, so we were able to use those.

You can see that they ran 88 percent occupancy in 2018 and 66 percent occupancy in 2019. Again, that's because of the renovation.

The average room rate dropped from 260 to 248 but that's primarily because of the greater competition. And we know that because the percentage decrease in their average rate basically matched the percentage decrease in the rates of hotels that were not under renovation.

So this was the market-wide change.

Their annual revenue -- total revenue including food and beverage was 14 million in 2018 and just under 11 million in 2019.

Their net operating income went from 4.3 million in 2018 to 1.8 million in 2019.

I -- I only point those out to reinforce we shouldn't give a lot of -- put a lot of weight on how they performed in 2019. When you're under renovation, you can't expect to have a good year.

But now that the property is renovated, I expect they will have a lot of good years.

Q. Aside from -- we've talked a lot about room rates. But it looks like some of his other numbers are also quite different from actual -- Mr. Macaulay's numbers are quite different from actual numbers. And these might -- as you've explained, these might end up canceling each other out.

But I do just kind of want to ask a couple questions.

For example, taking from 2018, the food and beverage expenses, in the actual numbers from Table 6, it looks like it's $2,366,412. And then in Mr. Macaulay's, it's 1,236,620. So it's -- it's about half. And I'm just wondering why that difference. And when you started getting these different numbers plugged in different areas, does it start decreasing the reliability of the valuation?

A. Well, let me clarify something first.

And I may have misheard you.

The -- in his schedule, in his -- his performance estimates, food and beverage revenue is 1,236,620. Food and beverage expenses are 976,930.

Q. Oh, right.

A. Which is about a 75 percent ratio, 80 percent ratio. There. It said 79 percent ratio.

Their actual expenses in 2018 were 91 percent of food and beverage revenue. And their food and beverage revenue was quite a bit higher, which those two changes seem to be contradictory. If you've got higher revenue, you're supposed to get a lower expense ratio.

But in this case, even at 2.6 million in 2018, their expense ratio was 91 percent.

In 2019, during the renovation, there's fewer people in the hotel. They get less money through food and beverage, lower revenue. Their operating expense ratio for food and beverage went up to 98 percent. In other words, they broke even -- on their food and beverage operation.

Now, why would a hotel do that? They do it because if you have a restaurant in your hotel, you might be able to [indecipherable].

So even if you break even or lose a little money in food and beverage, you may want to still keep your outlets open for that purpose.

His estimates, of course, he did not have access to the -- to the actual results. But he was estimating food and beverage revenue at $35 per occupied room night. Their actual volume of revenue is $67 per occupied room night.

So he was way underestimating the volume of revenue that would come through their restaurants.

Q. And so aside from room rates -- and you've testified regarding this with respect to other properties as well -- it sounds like he -- his numbers on other line items in the spreadsheets can vary drastically from actual numbers. Sometimes, as you've testified, that ends up canceling itself out and you end up with a -- like a net operating income that more accurately reflects the actual numbers. But not because you've -- not because you have correct numbers, but because the incorrect numbers in between cancel each other out.

When that happens, does that decrease the reliability of the methods?

A. Well, the --

Q. So even if you end up with the right outcome, are you -- do you question the methodology?

A. No. His methodology is acceptable for using the --

Q. Oh.

A. -- for coming up with his before value.

The problem is in the inputs. If your methodology for calculating room revenue is to multiply the occupancy times the room rate times 365. But if you've got the room rate in there or the wrong occupancy rate, the methodology can be fine but the result will be wrong.

And, yes, sometimes you can have multiple wrong results that cancel each other out. And you get to the bottom line and you think you're fine. But really you've got errors -- offsetting errors in the upper parts of the analysis.

Q. Okay.

A. So that was Table 6.

Anything else for Table 6?

Q. No. Would you -- could you -- yeah, please keep walking us through these tables.

A. All right.

Table 7 is my estimate stabilized performance for the Alexis.

And this was a hotel where their occupancy rate has been so strong that I really felt they should -- that they would be able to stabilize at a high level, that's partly why I took them out five years.

But I have them stabilizing at 88 percent occupancy. Average rate of 269 in current dollars. Obviously it rose past then.

I put their food and beverage ratio at 90 percent based on how they actually performed during 2018. That is a relatively high ratio for F&B. But it's hard to argue with the historical results. And it may be that you're bringing in 3 million in revenue. It's just hard to cover all your fixed costs. So you end up with a higher ratio.

The rest of the line items are pretty consistent with how they've been performing.

I think I cut back on their maintenance from the historical. Because when you're doing a renovation, a lot of times extra costs get run through the maintenance department. You didn't hear that from me. But it may affect your federal income taxes.

But the -- the net operating income for this -- for future stabilized year in current dollars, I have it just over 4 million -- $4 million.

Their operating profit I'm projecting at 5.2 million. Their actual operating profit in 2018 was 4.3. So I'm projecting $900,000 more in operating profit than they actually achieved in 2018. And, again, we're ignoring 2019 because of that renovation.

Going on to Table 8, my multiyear forecast -- we've seen this before, several times -- all this is is the stabilized forecast adjusted for changes -- annual changes in occupancy and for inflation.

Table 9 --

Q. Well, actually, can we -- can we just talk quickly on Table 8 you've got the net operating income as the bottom line of the table.

A. Correct.

Q. And for 2020, it starts at $36,220,121. And then you've got it projected out to 2025 at 4,557,128.

Mr. Macaulay's estimate, I believe, is 5,371,358. So it exceeds even -- even the projections out to 2025; is that right?

A. That's correct.

Q. Okay. You want to continue with --

A. Okay. Table 9, again, same methodology we've used before. The direct cap analysis is at the top of the page. The Alexis is such a stabilized hotel, such a strong reputation, and it's been able to sustain that for close to 40 years, that I felt that a -- and it's just been renovated, that I felt that the risk of investment in the Alexis should be lower than what I would see in most other hotels. So I'm capitalizing their stabilized income at an overall rate at 6 percent. In the ABS appraisal, they use 7.25 percent as a cap rate, which is basically matching it with what he's used for a lot of other hotels.

But I'm at 6 percent. So with my income of -- projected income of 4 million, that puts their current value -- their value as it's stabilized -- at 67.1 million.

From Table 10, I get the -- the near-term income variance, the adjustment for the near-term shortfall is a negative million-three. And that brings me to an indicated value by direct capitalization of 658.

The value by yield capitalization -- and, again, the yield rate is low because the risk of investment is low. All of the rates tend to move in tandem. The cap rate -- the going in cap rate, the reversion cap rate, and the yield rate should be going up and down at about the same margins.

So since I used a very low overall rate, I also used a very low yield rate.

The yield analysis suggests a value of sixty-six-one, and I reconciled to a value of 66 million.

In Table 11, I allocate that 66 million between the real estate and the personal property. I'm only depreciating the personal property by 10 percent because they just renovated. So that's 3.3 million in depreciated value. Deducting that from the 66 million, I end up with a value of 62,700,000. That's my estimate of the current market value, or the before value, for the real estate.

Q. So the -- this value, this 62,700,000 is your ultimate concluded before LID evaluation for the Alexis Hotel?

A. Yes.

Q. And if you were to value the Alexis Hotel today, consistent with your prior testimony that hotel valuations had dropped about 5 to 15 percent, would you expect this value to be less?

A. 10 to 15 percent --

Q. 10 to --

A. -- and, yes, I would expect it to be less.

Q. Let's turn now to Mr. Macaulay's spreadsheets for the Alexis Hotel.

A. Okay. I have it here.

Q. So it looks like Mr. Macaulay's spreadsheets offer -- well, did Mr. Macaulay apply the same methodology using changes to income and changes to cap rate that he did for the Renaissance hotel?

A. Yes.

Q. And for the Alexis Hotel, it looks like in the first two scenarios, he assumes that room rates will increase by 1.35 percent in the low scenario and 1.75 percent in the high scenario. Is that right?

A. Yes.

Q. Is it possible to accurately conclude that the reason for this level of percentage increase is due to the LID improvements?

A. Well, I can't say what was his in head. There's nothing in the -- in the report that I saw that would --

that specifically addresses these ratios. I would point out that the Alexis is on First Avenue. So it's physically closer to the waterfront than some of the other hotels we've talked about.

Q. And so when you say it's closer to the waterfront than some of the other hotels, you're talking about some of the Hyatt hotels that are much further from the park improvements?

A. Yes.

Q. And are you surmising that this -- these percentage increases, which are slightly more than the percentage increases we saw for the Hyatts, could be due to their proximity to the waterfront?

A. That's --

Q. To the --

A. -- that's my -- that's my supposition. But I'm -- I'm not supposing that proximity to the waterfront would justify these specific numbers. Only that that would be consistent with Macaulay's analysis for other properties that -- those that were closer to the water seem to have higher adjustments applied.

Q. And it looks like as with the other hotels, Mr. Macaulay applied the same percentage increases to food and beverage revenue and parking and other income revenue; is that right?

A. That's right.
Q. Any explanation for why these also received that same percentage increase?
A. No.
Q. And in the third and fourth scenario, Mr. Macaulay assumes that the net operating income remains the same as in the before condition. But changes the cap rate from 7.25 percent to 7.1 percent in the low scenario, and 7.03 percent in the high scenario; is that right?
A. That's correct.
Q. Is this cap rate change of .15 or .22 percent typical --
A. No.
Q. -- or supportable. Sorry?
A. No. None of this is typical. I don't think that -- that a change in that -- that small a margin would be supportable in the sense of finding objective evidence for it. I would have found it more convincing if for the high scenario he said seven percent so it was just 7.1 and 7.0. You could find precedent appraisal for people going, you know, for 10 basis points one way or another.
To shave it down to three basis points or seven basis points just seems to me to be going a little bit

beyond what's realistic.

Q. And then it appeared Mr. Macaulay uses this data to conclude that the -- that the Alexis's property value increased 2.65 percent due to the LID improvements. Is that right?

A. That's what he alleges, yeah.

Q. This is a little bit -- again, this seems a little bit more than the percentages we've seen with respect to some of the other hotels; is that right?

A. Yes.

Q. Do you -- in your opinion, will the Alexis Hotel benefit more from the LID improvements than the other hotels we've discussed?

A. My -- you know, my primary role here was to value the property as is, not to try to speculate on how well the -- what kind of impact the park would have.

I have heard discussion from the hotels that are closer to the water, the Alexis and the Four Seasons, that they -- they're not sure that the impact will be positive. They're concerned that the impact may well be negative on -- on their hotels. But the fact remains that they'll be closer to the park than the other hotels.

Q. Can you explain what you've heard in your -- in those conversations?

A. They're worried about the problem of

homelessness, people sleeping in the streets. Of panhandling out in front of their hotel. The Alexis pointed out that they've had to have their security people remove people from the doorways of their retail stores so that the places can do business.

And when you're talking about, you know, hotels that are running 250 bucks and up in rate, the guests who are staying there are not expecting to have to run a gauntlet in order to get in the door of the hotel.

It -- if everybody who came to the new park treated it nicely, then maybe we won't have that -- that kind of a negative impact.

But I was here when Westlake Park was being proposed. And there was a -- you know, a thought that, well, we should put in a lot of grass, and it will be a really comfortable place for people to -- to come and stay. And some days it is.

But nighttime, not so much. I -- I hope that doesn't happen with the waterfront park, if indeed it gets built.

Q. And so, let's actually turn to your comparison table for the Alexis, which is Exhibit 79.

A. Okay.

Q. And so this is a comparison of the -- of Mr. Macaulay's analysis with your analysis. And we're looking at the right two-hand columns -- the columns furthest to the right. And we just want to walk through a few of those numbers.

It looks like, again, the driver for the difference in valuation was primarily the average room rate. In the final study it was $360. And then -- and the stabilized rate in your analysis is 269; is that right?

A. That's correct.

Q. So that's a difference of over of [poor connection] percent?

A. Yeah. In this case it's not quite as clear cut with the Alexis because while they did overstate the room rate by a great deal, they, in my view, understated the stabilized occupancy. I think that this hotel in particular, partly because of its size but also its reputation history, can do a stronger average room rate than the 80 percent that ABS gave it.

And if you couple that with the higher ancillary revenue that they're generating higher than what he estimated, my total -- my estimate of total revenue is only slightly below where -- where he was. I think I'm 3 percent less than what his estimate was.

Now, he overestimated the revenue slightly and underestimated the expenses if we compare them to the actual expenses of the property.

And the -- the net of those two comes out to a net operating income that's -- that's, oh, shall we say 30 percent higher than mine.

Q. And so we're looking at the net operating income right now. And you're looking at the fact that the final study came to a concluded net operating income of $5,371,358. And your analysis came to a net operating income of 4,027,837; is that right?

A. That's correct.

Q. Okay.

A. And then the NOIs are capitalized, of course. And because I'm using a lower cap rate, I'm actually -- the difference between our value conclusion is -- conclusions is narrower than the difference between our NOI estimates. He concluded to 74 million -- 74.1 million and I concluded to 62.7.

So we're -- I think he's high, but he's not -- it's not like a 50 percent thing like we saw in a couple of the other hotels.

Q. Because he is -- because he is high and specifically because the room -- the room rates were significantly higher, does that call into question the reliability of his post-LID evaluation given he just applied a percentage increase to the pre-LID evaluation?

A. Yes. If it's -- if it's bad going in, it's bad coming out.

Q. So based on your analysis using actual data from the Alexis Hotel and after stabilization, assuming you applied the same special benefit percentage increase that Mr. Macaulay applied, what would the final assessment have been?

A. $651,226.

Q. And that's lower than Mr. Macaulay's estimate at 769,147?

A. Correct.

Q. And consistent with your prior testimony, is that your opinion that this should be the final assessment amount?

A. No. Only that it -- that's the number you get if you multiply certain things together.

Q. Is there any explanation of why -- strike that.

Is there anything else that you'd like to add about the Alexis Hotel?

A. It's a real nice place. Level of service there is exceptionally high.

Q. Okay.

A. Oh, they're still open. They're the only Kimpton hotel that's still open downtown. The other three Kimptons are closed right now.

Q. And do you know what their current occupancy rates are?

A. No. I haven't seen their numbers. They're probably running, you know, like everybody else who was mentioned, that they're probably running in that 10 to 20 percent range.

Q. Okay. I have no further questions regarding Alexis Hotel.

Do you have anything else, Mr. Gordon?

A. No.

MS. LIN: Just to let the hearing examiner know, I had planned to go through one more topic with Mr. Gordon, which would probably takes us around 3:00, maybe a little bit later.

And then Mr. Stillwell is planning to call in at that point and finish the day with Mr. Gordon as his witness.

HEARING EXAMINER VANCIL: Okay. We'll be ending a bit early today at 4:30.

MS. LIN: Okay.

HEARING EXAMINER VANCIL: So we have that time through then. We'll probably take a break at 3:15 or so.

MS. LIN: Okay. I will let Mr. Stillwell know that that's the case.

BY MS. LIN:

Q. So, Mr. Gordon, I would like to ask you a few questions about the impact of COVID-19 on the hotel properties. And this testimony is going to be -- is going to apply to all of the -- all of the properties for which Mr. Gordon and Mr. Shorett are experts. I believe we enumerated all of those at the outset of Mr. Shorett's testimony. But would you like me to repeat them here? No? Okay.

So what information have you reviewed related to the impact of COVID-19 on the hospitality industry?

A. Well, we've been -- I mean, everybody has been following everything that they can find about it. The Seattle Downtown Association came out with a -- they had surveyed hotel guests downtown and found that 19 were closed because of the virus.

I did a survey two weeks ago where I found 13 of the downtown hotels were closed. I updated the survey two days ago and found 25 were closed. There's a total of 44 downtown so this is more than half have shut down.

The owner of the -- of one of the downtown hotels was kind enough to share his weekly STAR reports, not every hotel gets weekly reports from -- for STAR. But he shared -- he shared his reports with me. His competitive set has six hotels in it, all upscale, full-service hotels. Some of the ones we've talked about today are included in his set.

Two weeks ago that set, the average occupancy rate in that set, was 7 percent.

Last week it was 6 percent.

Now that averages in the properties that are closed. So the ones that are open are doing better than that. But if half the hotels are closed, on average, you would expect the market occupancy rate, if the overall rate is 7 percent, then the rate for the open hotels might be double that, 14, 15, 16 percent.

All of the hotels have had to shut down public service to their restaurants. Most of them are still offering bag lunches, or takeout orders for their hotel guests. The swimming pools are closed. The exercise rooms are closed.

Of those three segments of demand, all three segments, business, leisure, and group, have been designated by this. The largest source of business travel downtown is Amazon. And they told all their people to stay home, so they're not traveling.

The same is true of Microsoft. Boeing, I -- I've lost track now of whether Boeing is fully shut down or about to be.

So hotels that normally rely on business travel for 50 or 60 or even 70 percent of their guests, those people aren't there.

The tourists are gone. There are no tourists. There is no leisure travel. There are no groups because all of the group events were canceled. So who is staying in the hotels now is first responders, government officials who are babysitting the virus, members of the press. And a few airline crews because the airlines are still flying, at least some of their planes. And those crews need to have a place to stay. So even though there's a virus, and even though nobody wants to go to a hotel, they gotta.

I was at the Sheraton, which this was two weeks ago -- I was at the Sheraton and the only guest that I saw there were airline crews. And they didn't look happy.

The whole -- the whole -- the whole impact is so much more than anybody in my profession ever expected was possible.

Q. Can you compare to what typical -- typical occupancy with what you're seeing right now?

A. Well, typical occupancy in downtown Seattle is 80 percent thereabouts. So if we're running -- a true occupancy rate is 6 percent and an occupancy of the open hotels of 15 or 20, that's -- that's just -- it's beyond what any -- it's beyond even being able to conceptualize. Remember, hotels' operating expenses, just the ongoing expenses of running the place, are more than half the revenue. So if you suddenly lose 60 or 80 percent of your revenue, there's nothing to pay the bills. You're not -- it's not a question of a debt service. That's not even on the table. You're wondering whether you can pay your maids. It's whether you can pay the person that's checking people in, if there is anybody to check in.

Q. You mentioned that this is beyond anything you've seen.

Have you ever seen occupancy rates this slow?

A. No. I was here for the recession in 1983. It was really a hospitality recession more than anything because of overbuilding. The lowest the downtown market occupancy rate ever got was 58-point-something percent.

After the recession, the so-called great recession of 2008, occupancy came down 5 to 10 percent from where it was. But it never got below 70. It did for individual hotels, but not for the market as a whole.

So another appraiser and I have a running bet going that if it goes below 70, he owes me a bottle of wine. And if it does not dip below 70, I owe him a bottle of wine. That bet was obviously made before this year.

He -- I'm sorry. I --

Q. Oh, so is the fact --

A. -- it's just -- it -- you cannot imagine the degree of severity that this thing has caused.

Q. We've talked a lot about room rates and room revenue.

This obviously impacts room revenue and net operating income drastically. And, therefore, I imagine also it impacts valuation.

A. Yes. Now, as you saw in Table 9 of our analysis of each of those hotels, one of the ways that we do a valuation is to project out a series of years and discount those years back to today.

So today's value is affected by how we'll perform in 2020, 2021, 2022, and on there -- and on from there.

I am holding fast to the good hope that the virus will go away later this year, hopefully in the late spring, early summer. And that business will start to come back. The business travelers will return first. As soon as Amazon turns on the spigot, there's going to be more business travel in downtown.

The tourists will come back late this year and probably into next summer.

And the groups will come back over two years or so because they book so far in advance.

But all of that is predicated on the notion that the virus goes away.

Under that assumption, as I think I've mentioned already, I've appraised for hotels taking into account the virus, and in each case the decrease of the current value was in the range of 10 to 15 percent.

Q. And when you were doing these appraisals for the hotels, did you have to make any extraordinary assumptions or hypothetical conditions in relation to the virus?

A. No. I'm -- I'm making a projection, as we always do, as to how the market will perform. But I'm not specifically assuming that -- I'm not assuming away the virus.

There was -- when this whole business got started, there was a temptation on the part of appraisers, including myself, is to assume away the virus. To say we have not considered the impact of the virus, here is the value of the hotel without the virus. And we'll leave it at that.

Well, the lenders came back and said we can't live with that. And the government overseeing agency said the same thing. The appraisal foundation and the appraisal institute came out and said, no, you can't use an extraordinary assumption or a hypothetical condition to get rid of the virus. It's here and we need to deal with it.

And so every appraiser, every hotel appraiser, is trying to figure out how to do that. And as I said, I've only done four appraisals in the last month that involved hotels. Incidentally none of these hotels that we're talking about in this LID appeal, none of them were in downtown Seattle. There's one in Bellevue, one in Portland, and two in the suburbs.

But -- I lost my train of thought. I'm sorry.

Q. That's fine. And in conducting these four appraisals, taking into account the impact of COVID-19, you concluded values that were about 10 to 15 percent lower than they would have been without the virus?

A. Correct.

Q. And would you expect -- would you expect anything different for any of the hotel properties you've appraised for us?

A. No. Not really. They -- the hotels that are most dependent on group business will take the longest to recover.

So in that sense, the Hyatt Regency is probably more at risk of a deeper reduction in value. They might be more in that 15 percent, 16 percent range. As opposed to a hotel like the Alexis or the Edgewater where -- where you're more dependent on leisure travel, business travel. And that, I think, will recover sooner.

There's a great deal of speculation, of course, on this. And I haven't seen any -- I've asked some of my peers in hotel appraisal if they would like to share how they're coping with this. And I haven't seen any of their methodology yet. I think mine is one valid methodology. It's certainly not the only one.

Q. And let's talk about -- well, walk through some of these exhibits.

So, Exhibit 80 is --

A. I'm sorry. We're losing you.

Q. -- a study -- oh, can you hear me now?

A. Yes.

Q. Okay.

A. Don't turn your head.

Q. Okay. Exhibit 80 is a study done by -- it's Oxford Economic Study. And it is -- there is the American Hotel and Lodging Association logo on it as well. And it's showing figures showing that the potential impact of COVID-19 far exceeds revenue losses experienced in 2001 as a result of 9/11 and 2007 to 2009 as a result of recessions.

You talked a little bit about this. Has that been your observation in Seattle? And could you explain?

A. Well, yes. When -- back in 11, after 9/11 came, there was the immediate reduction in overseas travel. But there was not as severe a reduction in travel domestically. And so the -- the hotels in downtown Seattle, while they did see a reduction in revenue, it was primarily in the tourist -- in the leisure travel segment and some group business.

But by and large, those -- that business was recovered by early 2002. So this was not a prolonged -- you know, a prolonged shock to the system.

Now, I think that this shock -- I'm hoping that this shock is also only a couple years in effect. But the initial drop is so much deeper that the impact will be far greater -- the impact on current values will be far greater than it was in 2001.

In 2008, the recession lasted longer. There you were talking a couple years to the trough.

But what happened in downtown Seattle is the hotels reduced their room rates by an average of 15 percent. And they were able to hold on to a lot of their occupancy. People who had been staying at the airport or in Bellevue or in Lynnwood because it was cheaper, discovered, hey, it's not that expensive to stay downtown. So I'm going to do that.

So the downtown hotels were able to suck some business out of the suburbs and hold on to it downtown. Now, the revenue did suffer. Not saying it didn't. But, again, the initial shock and the recovery -- the initial shock in the -- in the recession, although it was a gradual -- a more gradual decline and a more gradual recovery, it was not nearly as deep as what we've seen now.

Q. And could the --

A. This isn't just unusual. It's unprecedented.

Q. And could the hotels do something similar here with where they just lower room rates in order to boost occupancy or employ some other methods in order to maintain revenue in response to COVID?

A. Well, I've been sending memos out every Monday, cleverly called a Monday memo -- and actually, I'm supposed to send one out tonight -- offering helpful hints and ideas and suggestions and anything that I can think of that might help the hotels.

One thing that I emphasized to them is that cutting room rates is not going to help your bottom line. People who are afraid to come to stay in a hotel, afraid to get on a plane because they might die, are not going to do so if you say, aw, but the room rate is 20 percent cheaper than it was before.

You can't -- this is a purely inelastic demand from an economic standpoint. You lower the price, you get no increase in volume. You raise the price, you probably don't get any reduction in volume because the people coming are -- the only people coming are the ones who have to be here.

So what I'm anticipating is that most hotels eventually will decide that they're going to hold their room prices constant.

Now, I saw yesterday that the Hilton, for one, was charging -- is renting rooms for $87. The -- I forget who the other hotel was that I checked. But the room prices are just absurdly low. That's what you pay to stay in Tacoma -- no offense to Tacoma. But that's what you pay to stay in a softer market under normal circumstances.

But I think all that's going to happen is they're going to reduce their revenue by cutting their room rates. Instead of having five people in their hotel paying $200 a night, they'll have five people paying 87 a night.

So within a short period of time, I expect that these ridiculous discounts are going to go away and we're going to come back to -- to the point where the average room rate is similar to what it was last year.

Q. You've talked a little bit about these Monday e-mails and some other studies that you've done -- you've circulated and prepared.

Why don't we turn to Exhibit 81 which is an article entitled The Hotel Market and COVID-19 --

A. Yes. I wrote that --

Q. -- that --

A. -- March 16th.

Q. What was the purpose of this article?

A. We were all just trying to react to what we were seeing in the paper.

I was trying to do two things. One is to give people a little bit of hope that this isn't the end of the world, that we'll -- we'll come out of this eventually and tried to outline what I felt about the business travelers, the leisure travelers, and groups that I mentioned earlier.

The second half of the article, I gave them some suggestions of things to do. If you have to lay off your staff, try to keep paying their medical insurance so that they don't end up having to get sick and not be able to do anything about it.

Trying to make sure that they're welcome to come back when you restart.

Q. You talk a little about, as you said -- fingers crossed, assuming that the virus runs its course, is over within the next month or so, what -- how you see sort of that impact on hotels lessening over -- could you explain kind of what you describe in this article as, like, the [poor connection] group and -- I'm sorry. Can you hear me?

A. It's spotty.

Q. Oh. I'm getting messages on my end saying that my connection is stable.

Can you hear me now?

A. Yes and no. We get every other syllable.

Q. Okay.

A. But you just want me to elaborate about COVID-19?

Q. No. I want -- I would like you to talk a little about when the virus does abate, how do you project clients will return to the hotels? You describe this in your article a little bit about group events, leisure tourists. So could you please explain that?

A. Well, if I -- my sense is -- and this is -- there are no hard numbers yet as to how the recovery is going to go because we haven't recovered.

But my sense is that business travelers, the Amazon people in particular downtown, but most businesses, are going to be quicker to react to a recovery. As soon as they see that their employees and visitors are not at risk, they're going to reopen the doors and say, okay, now you can travel. It's okay to get on a plane and go do something.

And it will probably surge and then settle back to a normal level. Because I expect that there's a lot of pent-up meetings that haven't taken place.

I'm making the best guess I can that the recovery in the business segment is going to take six months. That six months from the time that the virus is considered defeated, or at least relegated to the -- to page 2.

So if that recovery is in effect by June, then sometime October, November, we should be back to normal in the business segment.

So what I do in my forecast, what I've done in these four appraisals I've done so far, is ramped down the impact of the virus within each segment. And in particular for the business segment, I'm saying that now, since there are a few people still traveling and a few people still staying in hotels who I would lump them all in the business segment, I say that the current impact of the virus in that segment is 90 percent. So I calculate out how much demand normally with -- would there be in business travel and downtown.

And then multiply that by 90 percent, subtract that off. We're only getting 10 percent of what we -- what we would have normally expected to get in the business segment.

Q. What about recovery in leisure travel?

A. Same -- same idea. Although I think it will take a longer time.

Keep in mind that people do tend to plan ahead for their summer vacations.

So even if the virus is gone in June or July, it's too late for somebody to decide, oh, we're going to spend three weeks, you know, on the coast. Or we're going to go rent a cabin somewhere. There will certainly be some recovery during this summer season. But it will be the weakest summer season that we've seen in a long time.

And then leisure travel naturally falls off in the late fall and winter and starts to come back around the spring.

The bulk of your tourism is between Memorial Day and Labor Day.

And by Memorial Day of 2021, I sure as heck hope that we're back to normal.

So what I do in my forecast is I say, okay, getting back to business travel, it's 90 percent -- the impact is 90 percent right now for the month of, say, June -- say July is 90 percent and then I'm going to come down to 70 percent, 50, 30, 10 and then zero after that. So that the business segment ramps down. The impact of the virus ramps down over six months.

Q. Are you talking about leisure travel or business?

A. That was business.

But I do the same thing with leisure travel, only I ramp it down over a year.

Q. Okay.

A. Right now the impact on leisure travel is 100 percent. We're not getting any leisure travel.

But that 100 percent is going to come down to 90 to 80 to 70 to 60. Now, we obviously can't be precise on this. We can't know for sure. This is just best guess territory.

Q. Yeah.

A. But I think that by the summer of 2021, unless the virus comes back, leisure travel should be back where it was -- where we would have expected it to be.

The reason that I delayed the groups two years rather than one is because so many of those events are booked out two years ahead. Conventions don't decide on Wednesday that they want to hold their convention on

Friday. They need to -- they need to plan way ahead, both to get the facilities lined up and also to make sure that their membership knows and can plan ahead on their personal schedule, so that they can plan ahead to be available at those times.

So for the group demand, I expect that it won't fully ramp down until mid-2022.

In -- so I took all these monthly percentages of the impact and averaged them out for the calendar years. And the average drop in total -- in revenue, for all three segments combined, the average drop in revenue during 2020, was around 45 percent because we're getting -- we got good revenue January and February. We're getting no revenue now. But later in the year we should get some.

So for the calendar year, 45 percent reduction in room -- in revenue.

Q. Would you expect it could be any different for the hotels you appraised for us with respect to these cases?

A. No. I ran a test on the Grand Hyatt just to kind of see how it would -- how it came out. And it came out with about a 12 percent reduction in value. And about 45 percent reduction in revenue.

And you would expect it to be about the same because I'm -- I'm applying the same ramp down ratios -- the same monthly ratios of the -- the decreasing impact of the virus. I've applied the same ratios in different markets. Who knows if they'll be -- you know, if it will turn out to be correct.

Q. Let's now turn to the next exhibit, which is Exhibit 82. And this is the STAR -- a STAR report. And it's titled Top 25 STR RevPAR Falls Off a Cliff.

A. Okay. I'm not -- let me see if I -- is that what I got from -- from the --

Q. John, I'll send that to you right now.

A. Okay.

Q. I think I did send it to you before.

A. You probably did. I just -- let me -- I do have some files kind of saved in one spot. Let me take a look and see if I've got -- got that in there.

Is it the April 6th article?

Q. It's the week ending -- ending March 14th. If you have an April 6th one that might be -- but I just sent it to you.

A. It has to get all the way to my house, though. It will take a second. There we go. Oh, there's two articles here.

Q. Yeah. So could you look at the -- the first one is Exhibit 82. It's a STAR --

A. Yes. I see that here.
Q. Okay.
A. I got it. It's --
Q. Have you seen this before?
A. I remember when you sent it to me originally.
Yeah. It's a -- it's comparing different cities. And it's showing Seattle, as of March 14th, Seattle was in the worst shape of anybody that we --
Q. Actually, let's start from the beginning. Can you just explain -- it says RevPAR Falls Off a Cliff. RevPAR, you've already explained what that is. Can you just give a quick definition?
A. It's the product of the occupancy rate and the average room rate. It tries to blend those two things together. And RevPAR is usually what hotel owners are most interested in because you can lower your rates and increase your occupancy. Or you can raise your rates and see your occupancy fall. But what you're really interested in is revenue, how much money are you going to end up with.
And what this is -- this is dividing RevPAR between two segments. The group segment, which is the same as what I've been talking about in groups. And the transient segment which combines business and leisure travel.

I am not quite sure what point they're trying to make in this table. Because we see that the RevPAR is higher for the group segment than it is for transient. But it's not showing us a longitudinal comparison. It's not saying things are lower than they were last week. Although --

Q. So just -- so RevPAR refers to revenue per available room, correct?

A. Yes.

Q. And so you were saying this shows that Seattle -- Seattle group RevPAR, it looks like, is down by 90 percent.

A. Oh, okay. I see. Yeah. Yeah. If you looked way down at the bottom of the table is where the grid is to show the percentages. And this shows that the revenue being generated by groups have fallen by 93 percent, something like that.

Q. And is that consistent with what you found?

A. Yeah. They're all stopped. There is no group business right now. If you did this a week later, it would be 100 percent.

For transient, they say that it didn't fall quite so much in that particular week. There is that residual transient business that I mentioned that's still staying in hotels. But it's -- it's pretty thin. So here their transient business is down 80 percent. Their group business is down 93, maybe.

And that's -- the other cities weren't as badly affected as of March 14th.

But every city is going to go through its own three- or four-month arc. We just got to be first.

So, yeah.

Q. And this is about -- this data is now about a month old.

Have you seen any updated numbers like this? And, if so, how do they compare?

A. I didn't -- I haven't seen a table like that. But the operator of one of the downtown hotel guests did share their STAR reports. I mentioned those earlier in the day. Let me pull up the numbers so that I can read straight off his table.

This would be for the week ending March 28th. And this is comparing to the -- is it last year or the week of? I believe it's comparing to the prior -- prior week. Revenue for this set of six hotels was down 91 percent. They were running an occupancy rate of 7.9 percent if you include all the hotels that were closed because some of the ones in this set had probably shut down by then.

And then the following week -- closing that tab, open this -- this is the week ending April 4th. The same set of hotels, their occupancy was down to 6.2 percent. And I believe the change is year-over-year change. That for this week, ending April 4th, is business was down 92 percent from the same period in the prior year. So whatever this first week in April would have been in 2019 we've lost 92 percent of that revenue.

Q. Okay.

A. I'm sorry. 92 percent of that occupancy. It's 96 percent of the revenue.

Q. And let's turn to Exhibit 83 now, which I sent you as well, John, and which you sent me.

This is market trends published by Kidder Mathews and your name is on the bottom of it --

A. Yeah. I wrote it.

Q. -- for first quarter 2020.

What was the purpose of this article?

A. Well, I put this out every quart -- well, I was putting it out every half year. Our office asked if I would do a first quarter report this year because -- because things are so bizarre.

So I went ahead and put this one together.

What this is showing is -- is a combination of hotel performance, hotel sales, and hotel development. Just showing what's happened recently in the market.

So at the bottom of the first page, I'm showing what the annual occupancy rate was in different markets in 2019. And what I expect it to be in 2020.

As you can see, there's quite a difference in there.

For all of downtown Seattle, I'm projecting the annual occupancy rate for this year at 44.6 percent. Somewhere between 40 and 50 is probably why it will come in.

The average room rates, I was probably optimistic here. I thought everybody would take my advice and not cut their rates. But it seems I'm not that persuasive. And so some of the hotels are cutting rates, which means that the average room rate will actually be lower in 2020 than it was in 2019.

RevPAR is cut in half, 46 percent decrease in downtown Seattle.

The comp set that I used -- these aren't all the hotels in all of these markets. They're the ones that I happen to know about, or the ones that I've studied.

For downtown Seattle, it's the comp set for the Grand Hyatt is -- that's what these numbers are.

Q. Okay. Is there anything else -- else on this article that you would like to highlight? I think we've gone over most of the content?

A. Yeah. In this article, I restated most of what I've said in previous testimony and also what I said in my Monday memos.

I just -- you know, I start to run out of words at some point. How often can you say "extreme" or "severe" or "unprecedented"?

I would point out on the second page where I list recent hotel sales, I -- I try to list every hotel sale that's occurred in the three county area, King, Pierce, Snohomish counties, with a price over $2 million. So far this year there was only one, and it took place before the virus really got going. I haven't seen your sale activity since then. Everybody is on the sidelines; they're all waiting.

The bottom half of page 2 where I list all of the hotels that are under construction, a lot of these projects are stopped. Or they're slowing down or they've extended their opening date. Or they just don't want to say when they're going to open.

So even though it says opening in 2020, the actual increase in supply won't be that great for 2020 because a lot of these projects will be put off.

I don't think any will be cancelled. These are things that are actually underway; they're out of the ground. The Candlewood down in Sumner is almost ready to open. People are being very cautious. And it's understandable. We don't -- nobody knows what's going to happen.

Q. And can I ask you a couple questions about the shelf life of an appraisal.

So if you prepare an appraisal, for how long is it typical for users to rely on -- on that appraisal?

A. Well, there's two questions there.

One is how long is the value valid.

And one is how long is the appraisal valid or usable.

The value is only effective on the date of value you listed in the appraisal. So we can say we valued all of these -- these LID hotels for -- as of January 1st. But on January 2nd, if we got hit with a virus or a war or a recession or something, all bets are off. It doesn't mean that we're going to go back and change -- change our number as of January 1 because we value it with the information available on that date.

If we were to revalue the appraisals, if we were to revalue the properties now, we'd be taking into account the information that we have today, which is a lot more than what we had in January 1 as far as virus is concerned.

Now, the second --

Q. I guess my question -- yeah.
A. -- the second aspect to the question is how long is an appraisal usable. Generally when we do appraisals for lenders, if an appraisal -- and often they'll pass it to another lender. The second lender may say, well, how old is the appraisal before they accept it? If it's within six months, they'll say that's fine.
If it's six months to a year, it kind of depends on the lender and the market and how much change they think there might have been.
If the appraisal is over a year old, it's generally not usable.
Q. And if someone was going to rely on -- let's say a lender was going to rely on an appraisal within a six-month period but there had been some huge intervening event like COVID-19, would the lender typically request an updated appraisal?
A. We would hope they would. Not just because it gives us more business but because it's a responsible thing to do.
We've offered -- and I'm sure other appraisals have covered as well -- to go back and look at properties that we valued last year or very early this year and, say, well, now what's it worth? Sometimes lenders don't want to know that because on their books it's a

legitimate loan. And if we come back with a new appraisal that says, oh, by the way, you just lost 15 percent of your value, your collateral is no longer secured, that creates a lot of headaches. So some of the lenders would prefer that we not revalue the properties yet. They just want to wait it out and hope that the borrowers continue to make their debt service payments. Or that they can negotiate -- renegotiate some extension of the loan. And hope that everything goes away before they have to write off the loan or foreclose.

The absolute last thing that lenders want to do is become owners of hotels.

Q. And is the fact -- is it fair to say that the fact that Mr. Macaulay's valuation is happening five years before the LID improvements are to be built leads -- leads to a risk that a number of intervening market forces might affect that before valuation, including something like COVID-19?

A. Well, sure. Any -- I mean, anything can happen over five years.

I mention in our talking about Table 9 in these -- in these -- in my table sets, that in the yield analysis, one component is the reversion cap rate. And that it's always higher than the going end cap rate. And one reason for that is that it's difficult to forecast out for ten years. It's difficult to know what's going to happen. It's hard to know what's going to happen next week much less ten years from now.

But at least next week we have a pretty good basis for it.

The further out you forecast, the further out an event is supposed to take place, the less -- the less reliable your current analysis becomes.

Q. And given that the before LID valuations are supposed to estimate what property values are prior to construction of the LID improvements and that is going to happen in 2024, does the impact from COVID-19 call into question the reliability of those before valuations?

A. I'm not sure that I -- that I would go quite that far. His -- he's saying if -- if the property was stabilized -- he assumes they're all stabilized and they were all -- most of them were pretty close. If the property at the hotel is stabilized as of October 1, what's the -- what would that value be.

And then how much of an impact will the park have to get to a value -- still on October 1, 2019, with the park, with the LID improvements.

So his -- he's not attempting to do a forecast five years from now. He's saying his analysis is purely hypothetical. What if we had the park today? How much of an impact would there be. And that may be all he was asked to do. I don't know the law about LIDs. So I don't know what is normal in this kind of situation.

Q. Let me ask it --

A. But I do --

Q. -- differently.

Is it inherently speculative to conduct a before evaluation five years before the improvements given that there are a number of intervening forces that -- that could affect valuation between now and then?

A. Yes. Yes. I would agree with that.

MS. LIN: I think that's all the questions I have for right now.

And it looks like it's 3:19. So if we want to go on break --

HEARING EXAMINER VANCIL: So, you mean, you say you've got -- all the questions you have for now.

Are you planning on asking more? Or was your colleague going to take over when we come back from the break as you indicated?

MS. LIN: My colleague is going to come back and he's going to take over. But he's going to be also questioning Mr. Gordon. So we're continuing with Mr. Gordon, just with a new counsel.

HEARING EXAMINER VANCIL: That's fine. I

just need to know where the cutoff is for a particular subject or something. I expect your colleague will be picking up on a different line of questioning when he returns; is that correct?

MS. LIN: Yes.

HEARING EXAMINER VANCIL: All right. We'll take a break and return at 3:35. Thank you.

THE WITNESS: All right.

MS. LIN: Thank you.

(A break was taken.)

HEARING EXAMINER VANCIL: Back on the record.

MS. LIN: Hi, yes. This is Megan Lin for objectors. And I just wanted to make sure that we submitted to the record the exhibits we discussed in the prior session. That is Exhibits 76, 77, 78, and 79 with regard to the Alexis Hotel.

HEARING EXAMINER VANCIL: Any objection to the admission of Exhibits 76 through 79?

MS. THOMPSON: I have one question about -- that I would like to voir dire the witness on for Exhibit 80.

MS. LIN: Okay.

THE WITNESS: Which one is that --

HEARING EXAMINER VANCIL: We're just doing

76 to 79.

MS. THOMPSON: Oh, excuse me. Sorry. No objection.

HEARING EXAMINER VANCIL: 76 to 79 are admitted.

(Exhibit Nos. 76-79 admitted.)

MS. LIN: And then we would also like to submit Exhibits 80, 81, 82, and 83.

HEARING EXAMINER VANCIL: Any objection 80 to 83?

MS. THOMPSON: For Exhibit 80, I would like to voir dire the witness.

HEARING EXAMINER VANCIL: Okay. Please proceed.

VOIR DIRE

BY MS. THOMPSON:

Q. So, this is Gabrielle Thompson on behalf of the City.

Good afternoon, Mr. Gordon.

A. Hi, Gabrielle.

Q. Do you have a copy of what's been marked as Exhibit 80, which is -- across the top it says Oxford Economic Study.

A. I'm looking for it now.

THE WITNESS: That -- Megan, was that one of the ones that you just e-mailed me?

MS. LIN: Yeah. I think this is one that I e-mailed you before. I'm sending it to you right now again.

THE WITNESS: Okay. Just waiting.

MS. LIN: I'm sorry. Just to explain. He had exhibits that were not marked with the numbers because we just got those. And so the numbering is -- and next -- actually -- for Jake, we should send them the numbered exhibits that Galen provided to us because it's a lot more helpful that way.

THE WITNESS: Okay. I have it in front of me now.

MS. LIN: Okay.

THE WITNESS: It's one page and it's got three tables on it, three charts.

BY MS. THOMPSON:

Q. That's correct. Yes.

So before just now, opening this on your computer, have you seen this table -- or this set of tables prior to today?

A. I probably seen it. But I -- I am not super familiar with it.

Was there something specific about it?

Q. Well, I just -- the point of my asking you questions about this right now is that you were asked on direct exact about this exhibit. And I don't believe that there was a foundation laid for your knowledge related to this exhibit. And so I -- I wanted to follow up on that. Because you were testifying earlier about the impact of these types of -- you know, the recessions and COVID-19 on the hotel market?

A. I recall that when I was testifying, I wasn't looking at the exhibit. But I was just speaking anecdotally about my own experience having been in this business in the Seattle area since 1984. And just remembering back to 9/11 and to the recession. But I didn't -- I didn't have any specific numbers that I was referencing.

MS. LIN: And if I could maybe ask him a few questions in response.

HEARING EXAMINER VANCIL: Let me -- let's make sure Ms. Thompson is done.

MS. LIN: Oh, sure.

HEARING EXAMINER VANCIL: Are you done --

MS. THOMPSON: Yeah. I would just state that my objection is there's a lack of foundation.

HEARING EXAMINER VANCIL: For?

MS. THOMPSON: For Exhibit 80 to be

introduced.

HEARING EXAMINER VANCIL: Okay. Response, Ms. Lin.

MS. LIN: Sure. If I could -- if I could lay that foundation with Mr. Gordon, have an opportunity to lay that foundation with Mr. Gordon.

HEARING EXAMINER VANCIL: I'll allow that now.

BY MS. LIN:

Q. Mr. Gordon, can you take a look at the exhibit?

A. Yes.

Q. Do you recognize this as an exhibit that I sent you a while ago regarding the -- sorry, comparing the recessions of 2001 and 2007 to 2009 and COVID-19?

A. Yes. It looks familiar.

Q. And are you familiar with the American Hotel & Lodging Association?

A. Yes.

Q. What is that?

A. As the name implies, it's the association of hotel owners and operators across the country. I -- I want to say there's 60,000 members -- 60,000 properties represented but I'm not certain if that's the correct number.

Q. And looking at these charts, on the left-hand

side you see that there's a chart depicting the recession of 2001 and 9/11; is that correct?
A. Yes.
Q. And it depicts a sharp drop and then -- and then kind of a relatively quick recovery.
Is that consistent with your testimony, that following 9/11 we saw a sharp drop in hotel occupancy? And then a relatively quick recovery as compared with the recession of 2007 to 2009?
A. Yes. It's consistent with -- with my recollections from that period.
Q. And then in the middle you see a chart depicting the drop in occupancy due to the recession of 2007 to 2009?
A. Yes.
Q. Is that consistent with your testimony that this was less drastic in terms of -- less sharp of a decline but just as significant over the course of two years?
A. Yes. And I -- I add one thing to it. If they had extended this out one more year, some markets actually declined a little bit in 2010, in early 2010, before they started their recovery. So I don't know that these figures represent the true trough after the recession.
Q. You would have -- you would have extended it out

one more year?

A. Just to see. It might have started to recover in 2010 nationally. But some -- some local markets -- for example, the unemployment rate peaked out in early 2010 as opposed to 2009.

Q. And on the right-hand side you see a chart depicting the drop of occupancy due to COVID-19; is that correct?

A. That's what it -- that's what it appears to show. But some of the dates haven't taken place yet.

Q. Oh, I guess, right. In parenthesis, it says preliminary scenario.

A. Yeah. So they're hypothesizing. They're projecting what they think will happen.

Q. And is this consistent with your testimony that the drop in occupancies we're experiencing now are unprecedented and much more drastic than those we saw in the recession of 2001 and 2007 to 2009?

A. Yes.

Q. Do you have any reason to doubt the authenticity of this -- of this exhibit?

A. No. It looks as though they -- their source for their occupancy numbers was STR, which is the same source that I use in my analysis. I don't -- I can't speak to the authenticity of the lost jobs numbers.

MS. LIN: Okay. All right. I have no further questions.

HEARING EXAMINER VANCIL: Coming back to the City, any objections remaining for Exhibits 80 -- I think it was through 82?

MS. THOMPSON: No further objection.

HEARING EXAMINER VANCIL: Exhibits 80 through 82 are admitted.

And it was through 82; is that correct? Or was the number higher?

MS. LIN: It was actually 80 through 83.

HEARING EXAMINER VANCIL: All right. And any objection to 83?

MS. THOMPSON: No objection.

HEARING EXAMINER VANCIL: 83 is admitted as well.

(Exhibit Nos. 80-83 admitted.)

HEARING EXAMINER VANCIL: Please proceed, objectors.

MS. LIN: I'll be turning it over to my colleague, Jake Stillwell.

MR. STILLWELL: Good afternoon. Jacob Stillwell on behalf of the objectors, attorney with Perkins Coie. And we'd like to begin by opening case number 0415. And as part of this, we will be beginning with direct examination of Mr. Gordon. And I would also like to introduce into the record what has been marked exhibit -- Exhibit 85, appraisal review of the Seattle Tower One.

86, the restricted appraisal of the Sound Hotel.

87, a Sound Hotel comparison.

And 88, Sound Hotel table set.

HEARING EXAMINER VANCIL: Are you seeking to have those admitted before you have them addressed by the witness?

MR. STILLWELL: I'm sorry. Not admitted. These will be the documents for ease of everyone's reference. These will be the documents that I will be referencing during Mr. Gordon's testimony.

HEARING EXAMINER VANCIL: Okay.

MR. STILLWELL: That Mr. Edlund-Cho e-mailed out earlier this afternoon.

DIRECT EXAMINATION

BY MR. STILLWELL:

Q. So to begin, Mr. Gordon, did you conduct an appraisal review of the Seattle Tower One building?

A. An appraisal review or a restricted appraisal?

Q. Appraisal review.

A. We -- our company completed one and I

participated in that.
Q. Okay. And is that appraisal review the document marked as Exhibit 85, Appraisal Review Seattle Tower One?
A. Yes.
Q. And did you say that you worked on it?
A. Yes. I -- Peter Shorett took the lead on doing the reviews. I participated in helping to format the reports, read through the analysis, checked the numbers with -- in the central part of the review. And that was about it.
Q. Okay. And is this the same format as the other appraisal of reviews produced by Kidder Mathews in the LID appeal hearings that you've been retained for?
A. Yes.
Q. Can you please describe the Seattle Tower building?
A. It's an unusual building. I said earlier in my testimony that each of these -- after we'd gotten past the Renaissance, that everything else had some weird quirk to it.
The Seattle Tower building has -- has two components. A hotel and an apartment building. But unlike most mixed-use project in downtown Seattle, they have not condominiumized the property. So everything is held under a single tax parcel, single ownership. But

two components that are generating income.

There is a small restaurant that appears to be underneath the apartments but it's considered part of the hotel from an analytic standpoint.

It's almost brand-new. The property opened in February of 2019. The apartments began leasing up right away. And by the time we did our analysis in January of 2020, they were fully leased out.

The hotel opened at the same time so the results that they provided to us for 2019 are for an 11-month partial year their first year of operation.

Q. Did the City provide a before LID value and an after LID value of the entire building?

A. Yes.

Q. And what were those numbers?

A. One moment. This is supposed to be right in front of me. There we go.

The combined market value that they came up was $301,002,000.

Q. And was that the before value?

A. Yes.

Q. And how about the after value?

A. Their after value was $302,567,000.

Q. And was there a final proposed assessment for the whole building?

A. Well, their special benefit was estimated at 1565. Their spreadsheet did not show the actual levy, which I think was 39 percent of that figure.

Q. Okay. Did the City also then also provide a valuation specifically for the Sound Hotel?

A. Yes. They -- their analysis -- the City's appraiser did a separate analysis for the hotel and the apartment building and then added the results together. That's essentially what we did as well.

Q. Okay. And did you conduct a restricted appraisal for the Sound Hotel component of the building?

A. Yes, we did.

Q. And if you have it in front of you, can you please take a look at what has been marked Exhibit 86, Sound Hotel restricted appraisal?

A. Okay.

Q. And is this document the restricted appraisal you were referring to?

A. Sound Hotel restricted appraisal.

Yes. There were a couple of versions of this appraisal. I discovered a rounding error at one point -- or an error in the -- one of the operating expenses that had to be corrected. So the most recent version is dated April 10th, dated last Friday. That date appears at the top of the transmittal letter which is actually the second sheet in the appraisal.

Q. Okay. So it appears that this version is dated March 2nd.

I would ask that if we -- if we do get to that data point in your testimony, that you note for the record where that's been updated.

A. Sure.

Q. And if need be, we can recirculate an updated version for the record?

A. Yeah. I send the updated version to Megan, I think. Or maybe to both of you.

Q. And speaking about both the updated and the version we have in front of us, what was your involvement in drafting this restricted appraisal?

A. I did the whole thing.

Q. You did the whole thing. Okay.

Can you please describe in a bit more specificity the Sound Hotel component of the building?

A. The hotel has 142 rooms. From the outside of the building, it has a slightly different appearance than the apartment, even though it's all one building, they -- they made some effort to distinguish the exterior of the hotel from the exterior of the apartments in terms of color and design.

It's, I don't know, modern-looking thing. It's, you know, obviously brand-new.

The -- I can tell you a bit about the improvements on there.

Q. That's okay. I'm wondering if it has any -- if you can speak to the operating strategy in the Seattle market for the Sound Hotel.

I understand based on what you said earlier, it's relatively new to the market.

A. Right.

Q. If you can please speak to its -- its operating strategy and its sort of sources of market demand?

A. They have a restaurant and lounge which means that they want to be sure not to miss out on the business travelers.

The full name of the hotel is the Sound Hotel Tapestry Collection by Hilton, which means that they're part of the Hilton reservation system. So some leisure travelers might book them through -- through the Hilton system or through wholesalers like Expedia. But it's going to be primarily a business hotel.

The hotel has only got 770 square feet of meeting space. It's on 4th Avenue between Lenora and what is -- whatever is north of Lenora -- Blanchard, I guess.

And so by virtue of its location, its prime source of business is Amazon. It's in the middle of Amazonia. It's near so many office buildings and apartments filled with -- with Amazon people that that's definitely going to be what it -- what it goes for.

Q. Thank you.

Now, what method of valuation did it appear in your review of these documents did Mr. Macaulay use to determine the before value of the Sound Hotel component?

A. He used direct capitalization, assuming stabilized performance in the coming year.

Q. And using that methodology, what is the before value of the hotel component, specifically?

A. According to him?

Q. Yes.

A. $69,751,000.

Q. And based on your restricted appraisal of the Sound Hotel, did you determine a before value?

A. Yes.

Q. What was that?

A. $46,700,000.

Q. Okay.

A. In both cases we're discussing just the real estate, not the personal property.

Q. Correct. Thank you.

Now, it appears -- since this was a relatively new building, does the -- the $46,700,000 figure, does that reflect the actual valuation? Or is that a stabilized figure using projections?

A. No. That's the actual -- that's what I think the current value is of the hotel.

Q. Okay. In your professional opinion, can you speak about the -- the -- the difference between the City's $69,751,000 and your much lower valuation?

A. Well, they're -- they're anticipating that the hotel, on a stabilized basis -- and they assume stabilization in the coming year, implicitly from their methodology -- they're assuming that it will have an occupancy rate of 80 percent. And an average daily room rate of $300.

In fact, during its first year of operation, which admittedly we don't -- we want to take into account that its their first year, they ran 73 percent occupancy. And their average room rate was $205.

So they were estimating that in the coming year -- well, they didn't know what the actual room rate was. They were guessing what -- what -- how the hotel would do.

But they were expecting a $300 average room rate. And, in fact, they had only done 205 last year.

Q. Are you able to opine on what occupancy rates and room rates will look like going forward for the Sound Hotel?

A. On a stabilized basis, I think they'll get up to 85 percent. They're so well located, close to Amazon offices. They're just -- and there is only 142 rooms. So it's not that hard to fill. I think that they'll just be jammed up Monday through Thursday. And then they'll try to get along on the weekends.

A lot of the Amazon folks do stay through the weekend because they're visiting the company for several weeks. So you don't lose quite as much business as you might in a purely weekday hotel.

But I -- I think that they'll stabilize at the 85. The average room rate that I estimate is achievable for them stated in dollars 2020 is 218. I don't see them being able to get anywhere close to $300.

Q. And is the occupancy rate that you discussed consistent with the pull from Amazon that you talked about earlier rather than tourists for entertainment reasons?

A. Yes. If I had to guess, I would say that they're probably going to run 80 to 90 percent business travelers.

Q. Okay.

A. Virtually no groups because they have virtually no space for groups.

Q. I would next like to draw your attention to the exhibit that's been marked 88, Sound Hotel table set.

A. Okay.

Q. And rather than go through table by table -- because I understand --

A. Thank you.

Q. -- that's been done a few times today, I'm wondering if there's anything in particular that you would like to highlight from the table sets provided in this document that you feel are relevant to the special benefit analysis?

A. The -- I'll just hit a few things.

The comp set that they -- that they've selected for the Sound Hotel, the comp set management picked out, has several hotels that we would regard as mid-price or moderately priced. They are not expecting to go up against the very high-end hotels downtown. And that kind of supports the notion that they're not getting 300 bucks a night either. But they're -- they're going to be a good quality, almost brand-new, but middle-of-the-road hotel.

In Table 3, I would point out that I'm adding the Charter Hotel as a new competitor. By virtue of its location, and also quality, I don't think the Sound Hotel is going to compete with either of the new properties that we included for the Hyatt hotels or the -- or the Alexis. But the Charter is basically a clone of the Thompson hotel. They're very, very close together. And both of those hotels are very near the Sound Hotel.

So the Charter opened in August of 2019. And I think ignoring it would -- would do a disservice to the analysis. So I include their rooms beginning in 2020 since they -- I didn't have -- they weren't included in the STAR set that was picked out by management. The Sound, because the Charter didn't exist when the Sound selected their comp set.

But now that it's open and operating, I think we need to include it in the -- in the market. So I've added that in Table 3 as a -- as an addition to supply. That brings the total market supply up to 1193. Because I'm including that new hotel in and because both it and the Sound Hotel are still in their early period of operation, I think the average occupancy rate for this set will dip in 2020. I have them in at 75.8 percent. And then bouncing back in 2021 to 83 percent. And then to 85 percent where I state -- where I level it off for the remainder of the forecast.

So very strong market, very well supported by Amazon and the other businesses.

And even though there's a short-term dip in occupancy, it's really not -- doesn't have any long-term impact.

Average room prices, the market was -- last year the market average for this set was $193. That was down 7 percent from the prior year.

So, again, we're seeing that 6 or 7 percent dip among all these different markets in response to the opening of the Hyatt Regency and the big increase in supply.

And this has nothing -- this does not reflect anything having to do with the virus. This is just all market supply issues.

Table 4 is the historical position. But keeping in mind that this was their first year of operation, the Sound Hotel ran an occupancy index of 85 percent. In other words, their occupancy rate was 85 percent of the market occupancy rate. Market occupancy was 86. Our occupancy was 73. But that's the first year. You can't put too much -- you can't worry too much about how you do the first year.

The room rate index on the other hand, was actually above market even though it was their first year. So they got an average rate in 2019 of $205, which was 6 percent higher than the average for their competitors. I thought that was -- that was a good strong performance.

The market position that I'm projecting, I think that they'll basically match the market now that they're established. They'll match the market and occupancy. And I think they'll continue to surpass the market and average rate.

It's a good little hotel. It's not -- it's not the top of the market. But not everybody has to be the top of the market.

Table 6 on page 7 of this exhibit is their actual performance for the 11 months that they were open during 2019. You can see that they lost money on their restaurant, big time. But it's their first year. And maybe they didn't care that much. Or maybe they're just using it as a loss leader to get heads and beds.

Their rooms expense ratio is almost 31 percent. That will come down as the occupancy improves.

Their marketing expense was 14 percent, which I think seems a little exorbitant. But that's what they spent. I'm projecting that that ratio will come down to around 12. But it's still a big number. But you got to advertise.

Highlighting on page -- on Table 7, again, this is the stabilized performance. I think that they'll do

85 percent assistance, an ABR of 218, RevPAR 185, and net operating income of 3.2 million in the future stabilized year stated in 2020 dollars.

Now, our actual -- the actual NOI that I'm projecting for 2020 is 2.3 million, that shows up on the bottom of Table 8.

So -- and that's because it takes three years for the hotel to ramp up. That's very common for hotels, that they -- as their occupancy improves, their room rate increases, that their performance gets better and better.

By 2022, I expect that this hotel will be stabilized, or that's what I would have expected.

Table 9 is the same as it's been in the other -- other exhibits that we have. The top of the page is direct cap, capitalizing the stabilizing -- stabilized NOI at 6.5 percent. That's a pretty low cap rate, and I pick that because it's so close to Amazon and also because it's brand-new. Investors like brand-new properties. They particularly like them with a Hilton brand and a big customer down the street.

The near-term shortfall is a million one. So net of that -- the indication of value under direct capitalization is 48-million-2.

By yield capitalization, the indication is 486, split the difference and reconcile to 484. So that's my conclusion of the overall value of the Sound Hotel as of January 1st of this year.

On -- again, Table 10 shows how I derived the shortfall that was used in Table 9.

Table 11 shows the allocation of value between real estate and personal property. Hotel is only one year old. I'm only depreciating the personal property by 10 percent.

That's all the tables.

Q. All right. And I -- I understand that you've testified previously today about the impact of COVID-19 generally.

But I do have one question specifically to the Sound Hotel with regard to COVID-19.

And that is -- because it sounds like based on your analysis of the hotel's operation, considering it's sort of its -- the fact that it came on line in February 2019 and it's still getting its legs under it, considering that it may stabilize here relatively soon after sort of its initial struggles and getting on line and increase in marketing and that sort of thing, do you see any unusually specific impacts on COVID-19 to this hotel considering now is when it's -- like it's just about to hit its stride?

A. Well, it was. It's closed now. They suspended operation because they didn't have any business.

But because of where they're located and because they're really a business-class hotel, they're going to be -- when you read a headline that says Amazon is permitting travel, this hotel will come back fast.

Q. Because of the Amazon draw?

A. Because Amazon is going to be a big chunk of their business. And business travel is going to be 85, 90 percent of their business. This is not a tourist hotel. It's not a group hotel. It's a business hotel. And their biggest source of business is Amazon.

So we sit and wait for the company, you know, to gain confident that they can reopen.

Q. Okay. Thank you.

Turning now to the -- the City's after valuation of the Sound Hotel.

Based on your previous testimony that you felt the before value was too high, how does that impact the after valuation?

A. It would be too high as well because one -- one follows from the other.

Both of the value conclusions in the City appraisal are as of October 1, 2019. So there's no trending issues. There's no issues of inflation or how long do I have to wait to get this new value. We say here is the value before and here is the value after and they both took place the same day. It's a hypothetical exercise but it's not uncommon in appraisal.

Now, I'm sorry, I lost track of the question. Could you repeat the question?

Q. Sure.

It was -- I think you answered it. It was what is the impact of the after a valuation on a before -- valuation being, in your opinion, is artificially high.

A. Oh, yeah. If the before valuation is flawed in the sense here it appears that they assumed a much higher average daily room rate than the hotel is actually achieving, though they didn't have access to the actual numbers -- but had they had access, perhaps they would have come up with a different number.

In other respects, their analysis was fairly close. They were a little bit higher than we are on -- in terms of ancillary revenue from the restaurant. And they're a little bit higher than we are on operating expenses.

But the bulk of the difference between our value and theirs has to do with the average room rate assumption that they made that this hotel would do 300 a night. Because the hotel was brand-new, you know, even our having access to their actual year one results isn't definitive. It will really take two or three years before we see how this -- this hotel performs on a long-term basis.

But based on the information available, we think that an average rate of 218 should be achievable in a current year. And they felt it would be 300.

So if their before value is flawed and all they do to get the after value is add in a lift for the impact of the LID, then their after value would contain the same flaws.

Q. And so how -- how would that impact the final assessment amount?

A. Well, it's a straight numeric calculation. There -- I've never been 100 percent clear why -- but the LID assessments are 39 percent of what the assessor says the special benefit is. The special benefit is the difference between the after value and the before value.

And I believe that has to do with how much money the City felt they needed to raise in comparing that to the aggregate values that the City's appraiser came up with.

For example, if the City had decided that we're going to hit these property owners for -- for $39 million and -- I can't do that in my head.

The -- the total that the assessor -- the total that the City's appraiser came up with, the aggregate value for the 6,000-plus parcels downtown was greater than what the City said they were going to levy as an assessment against these properties.

So I think what he did is just take a straight ratio and everybody got a discount down from -- from what their value -- from what the special benefit was estimated at so that the LID levy itself was something less.

Q. In your professional opinion, is that the proper way to determine a special benefit?

A. I -- I've never worked on a special benefit, so I don't know. If you define a special benefit as a difference between the before and after value, then it -- it just depends on whether your before value is good and whether your lifts are good. If all of those -- if those two elements can be supported, the after value should be supported as well. And the special benefit should be supported.

Q. Thank you.

I'd like to turn now to the appraisal review, which is marked as Exhibit 85. This is appraisal review Seattle Tower.

A. Yeah. We did the -- we did a review that combined the hotel and the apartments. So we just did one review for this property.

Q. And I would like to draw your attention to page -- I apologize. I'm going to have to scroll to find it here. I'm sorry. As I'm looking, can you please describe in the appraisal review, though, in addition to reviewing the whole building, did you do a review of the Sound Hotel and the apartment component?

A. No. We did separate appraisals of them but we didn't do a consol -- we only did a consolidated review.

The review itself has comments in it about both elements.

Q. I see. Okay.

And, again, I would like to draw your attention to page 7 at the bottom of the appraisal review where you begin the discussion of the Sound Hotel.

A. Okay. Yeah, I'm looking at it.

Q. Okay. Did you opine as to how much additional revenue the Sound Hotel would have to generate in order to recapture the cost of the LID assessment?

A. We did come up with estimates as to -- basically as a way to test the value lifts that were being put forward by the City's appraiser.

There were two issues that we dealt with.

One was whether or not -- whether or not the property -- the hotel in this case, the Sound Hotel, would be able to raise its room prices because of the park. That if the park was in place, would guests pay more money to stay there. We didn't have a quantitative analysis to tell us that. But what we did was talk with the owners, not just of the Sound Hotel but of the other hotels that we were dealing with in downtown Seattle, and to a person, they did not feel that there would be the opportunity to raise rates.

Partly because the park itself would be only one very small element in all of the issues that go into what a guest is willing to pay.

And, second, because room and prices during '19 have been constricting, there had been severe downward pressure because of the increase in supply. So that average daily room rates. As we've seen in downtown Seattle, had dropped by 6 to 7 percent. They did not see any rationale by which they could ask guests to pay more in those difficult circumstances just because there was a park a few blocks away.

The second test that we ran in these reviews was to see if the hotels had the capacity to generate the additional revenue, not by raising rates, but by increasing the number of bodies in the hotel.

And here we looked at the average room rate that we felt that the hotel could achieve and the -- the seasonality of its business on a stabilized level. We thought that the -- the hotel was going to run close to full in the summer, then it would not have the room to accommodate additional leisure travel. This is predicated on the notion that business and group travel is not going to be affected by the park because people -- business travelers are coming here to work and groups are coming here for their beds. It's really the tourists, the leisure travelers, who conceivably might -- might be favorably disposed to the park and willing to pay either more to stay in the hotel or come more often.

So having ruled out the notion that they could -- that the hotels could raise prices in order to generate that revenue, we looked at the idea of, well, could they add more people? And because the tourism is -- most leisure travel in downtown Seattle occurs between May and October, we felt that that would be the -- the portion of the year that we should look at.

Occupancies are already pretty high during that period but they're not 100 percent.

And so we measured, well, could -- how many rooms would it take for us to generate the sort -- the level of revenue that we need in order to generate the lift that we need in value.

Now, keep in mind that revenue and value are not the same thing. Neither is net operating income and revenue the same thing.

The value of the hotel is tied to its NOI. But net operating income for these properties is 60, 70, or 80 percent, in that range, of the revenue that they generate. I'm sorry. The operating expenses of the hotels are in that range.

So if you wanted to generate a dollar in net operating income, you might have to generate $3 or $4 revenue in order to create that increase in net operating income which would, in turn, would increase the value. So that's what we're testing again. Could -- does the property have the capacity to -- to accommodate enough guests in order to generate the revenue you would need to get to the value lift that was put forth in the City appraisal.

That clear as mud?

Q. Yes.

And so given the market conditions, and the type of demand that this hotel generates, is it reasonable to expect that the Sound Hotel would be able to generate this kind of additional revenue through higher rates or their increased demand?

A. We didn't -- we don't think that it's reasonable that they could raise their rates. And keep in mind, we're talking about today. If you look out five years, clearly the rate is going to be higher.

But we don't think that the rates could be adjusted simply because of the park due to the competitive pressure in the market.

We do think that they could get some increase in -- in volume, in the number of guests there. The hotel does have the capacity, even in those peak months, to accommodate some new demand.

So this was -- that was the exercise that we went through. We didn't end up concluding whether or not their value is a good value or not a good value in terms of their future value.

But we did conclude that there is some space to accommodate some additional demand.

So we're not -- we're not ruling out their argument. We're saying that the notion of a -- of a value lift, it's conceivable that there could be some movement in that direction. But we -- we haven't nailed down how -- how much it should be or how much it could potentially be.

Q. Or it sounds like it -- is it your opinion that there also hasn't been specificity as to where that increase comes from. Is it from the park improvements or is it from business tourist; is that correct -- I'm sorry, business travelers.

A. Well, yeah, that's correct. The assumption in the City appraisal that the LID improvements are causing the lift. Otherwise, what's the point? I mean, there's -- that's the whole predicate of -- of the study.

For the Sound Hotel, we concluded that the -- that in the best-case scenario, the hotel would have to generate 278 new guests in order to get to the value lift -- I don't know if I'm phrasing this right.

Q. I guess to clarify my question.

Is the -- you're saying that the -- the demand that the hotel would have to generate in order to recapture the cost of paying the LID assessment is doable because there's going to be increased demand from this hotel. And my question is does the -- has the study indicated whether that increased demand is going to come from the LID improvements? Or does it discount for the fact that that demand might come from business travelers, for example, Amazon?

A. No. I think that the -- the study is focused entirely on the LID improvements. Because if Amazon is going to bring business in, it brings it in both scenarios, whether it's with the park or without the park. The people are still coming.

So it's really just the difference that they're trying to focus on is do we get the park and the other LID improvements or do we not. If we do get them, they think that this hotel will benefit by half a percentage point in revenue.

And they -- they -- I'm sorry, half a percentage point in value, in net operating income. Which implies that they would have to get something like 2 percent of an increase in revenue.

We're showing that there is some capacity to accommodate additional leisure travelers during the summer but not necessarily enough to get all the way to the half percent.

In any case, it's a very small margin for this hotel. They're not -- they're not looking at a 3 percent raise in income. So it's -- it might be more achievable with the Sound Hotel than it might be with some others.

But they don't prove that in their -- support that in their appraisal. They come up with the -- a lift number, lift percentages using their four scenarios and averaging them all together. But they never support where they got this scenario data from. The inputs for the scenarios are -- are not supported anywhere. They just appear. And that's pretty frustrating when you're trying to analyze their -- their results.

Q. And so as a final question on the Sound Hotel portion, based on your -- what you're saying, then, about that lack of data, and about the driving demand for the hotel, do you feel that the special assessment for the Sound Hotel is appropriate?

A. No. Well, I don't think it's supported. I don't think that there's evidence that a special benefit will exist with the park. If they did -- if they were able to support their numbers, our analysis of the capacity of the hotel suggests that there might be some room for an increase. But if they have no support for there being a special benefit at all, then I don't see -- the whole issue just goes away. I don't see how there could be a special benefit or a levy at all. That's --

Q. Thank you.

So to turn now to the -- I believe it's pronounced the Arrivé Apartments?

A. Yes. Got a little accent there.

Q. Yeah.

Can you please turn -- I would like to turn your attention to page 13 of the appraisal review where there's approximately half a page conclusion with regard to your estimation on the impact to the apartment portion. I'm wondering if you can just comment on your conclusions on whether or not the special assessment is appropriate for the apartments?

A. Yeah. We -- the apartments are all leased up now. Anybody can find out what they're leasing for. You just call and ask.

So there's no -- there isn't the sort of ambiguity with apartments that you have with hotels. Things don't change day to day.

From an occupancy standpoint, the fact that they're fully leased means that you can't expect that if you build a park, more people will rent units. There aren't units to rent. They're 2.3 percent vacancy right now. And that's as low -- that's frictional vacancy. That's not going to go down to zero.

So those two elements that I talked about for the hotel, volume and price, it's really only price that matters with the apartments.

We know what their getting in rents. We don't see anything in the City -- City appraisal that demonstrates why somebody will pay more rent because there's an apartment down the street.

Now, the Arrivé is on 4th between Lenora and Blanchard. That means that they're -- it's four blocks down to the water and then probably another two or three blocks to the park. That puts them somewhere around a third-of-a-mile walk to get down there. Maybe that will be a benefit; maybe it won't. But there's just no evidence presented in the appraisal -- in the City's appraisal -- to support this half-point bump that they expect to see in net operating income.

Which, again, would require about a 2 percent increase in rents.

HEARING EXAMINER VANCIL: Let's stop there for the day.

MR. STILLWELL: Thank you.

HEARING EXAMINER VANCIL: Mr. Stillwell you have Exhibits 85, 86, 87, and 88?

MR. STILLWELL: Yes. I would like to move to submit those exhibits into the record.

HEARING EXAMINER VANCIL: Any objections to 85 through 88?

MS. THOMPSON: I would just note that it looks like Exhibit 88, when the witness was testifying about it, these are the supplemental tables, I believe. He was referencing table numbers and page numbers. But the version that we received from Mr. Edlund-Cho doesn't appear to have those elements. So I would just ask that Perkins confirm that this version is the correct version that the witness was --

THE WITNESS: There was an earlier rough draft version that was circulating that did not have table numbers or page numbers. But that's not the one we intended.

HEARING EXAMINER VANCIL: It does not match the other similar reports where there -- the Tables 1 through 10 were labeled and we could follow. This was more just a collection of tables.

THE WITNESS: Okay. I've sent the attorneys the final version with all the numbers. I can send it again if you need it, Jake.

HEARING EXAMINER VANCIL: Well, let's leave that to Mr. Stillwell. This is more directed at him to organize his exhibit.

MS. THOMPSON: Will do.

HEARING EXAMINER VANCIL: Why don't we leave 89 off for now and pick that up in the morning.

Any objections to 85 through 87?

MS. THOMPSON: No objection.

HEARING EXAMINER VANCIL: 85 through 87 are admitted.

(Exhibit Nos. 85-87 admitted.)

HEARING EXAMINER VANCIL: Let me check with the parties.

Did anyone have any audio or video issues today either for representatives or for witnesses? I was able to view everything okay. Except a couple of moments where Ms. Lin's audio tapped out and we had to ask her to repeat a question. And then I've also been able to read all of the exhibits that have been submitted.

Has anyone else had any other issues with either audio or video?

MR. STILLWELL: None.

HEARING EXAMINER VANCIL: Okay. Then we will reconvene tomorrow, April 14th at 9 a.m. Thank you.

MR. STILLWELL: Thank you.

THE WITNESS: All right. Thank you.

(End of recording.)

C E R T I F I C A T E

STATE OF WASHINGTON
COUNTY OF KITSAP

I, Carisa Kitselman, a Certified Court Reporter in and for the State of Washington, do hereby certify that the foregoing transcription 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 1st day of May, 2020.

Carisa Kitselman

CARISA KITSELMAN, RPR, CCR #2018