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**BEFORE THE HEARING EXAMINER OF THE CITY OF SEATTLE**

In re Proposed Final Assessment Roll for  
Local Improvement District No. 6751  
("Waterfront LID")

Parcel Nos.:

6094670010; 6094670020; 6094670030;  
6094680050; 0660000740; 0660000708;  
2285130010; 6792120010; 6195000030;  
0942000430; 6792120020; 7683890010;  
1976200070; 1976200075; 1976200076;  
7666202465; 7666202345; 1975700365;  
0696000015; 1974700175; 1117080020;  
1975700235; 0696000055; 0660000540  
0660000545; 066000-0575; 2538831460;  
2538831480; 0939000240; 1974600025;  
1974600035

Case Nos. CWF-0318, 0410, 0411, 0412, 0413,  
0414, 0415, 0416, 0417, 0418, 0420, 0421, 0422,  
0423, 0425, 0426, 0427, 0429, 0430, 0431, 0432,  
0433, 0434, 0435, 0436, 0437, 0438, 0439, 0440,  
0441

WITNESS AND EXHIBIT LIST FOR  
HEARING ON APRIL 14, 2020

**Witness List – April 14, 2020**

Name		Email Address
John Gordon	Testifying regarding his appraisal of the Seattle Tower I (Sound Hotel and Arrive Apartments), Marriott Seattle Waterfront, and the Four Seasons	<a href="mailto:John.gordon@kidder.com">John.gordon@kidder.com</a>

Brian O'Connor	Testifying regarding the Helios Apartments	<a href="mailto:briano@ocgp.com">briano@ocgp.com</a>
Anthony Gibbons	Testifying regarding the impact of COVID-19	<a href="mailto:agibbons@realestatesolve.com">agibbons@realestatesolve.com</a>

**Exhibit List – April 14, 2020**

<b>Exhibit</b>	<b>Description</b>
85	Appraisal Review for the Seattle Tower I building, the Sound Hotel and Arrive Apartments, Case No. CWF-0415
86	Restricted Appraisal for the Sound Hotel, Case No. CWF-0415
87	Table comparing Kidder Matthews analysis with the analysis done by ABS Valuation for the Sound Hotel, Case No. CWF-0415
88	Supplemental tables prepared by Kidder Matthews for the Sound Hotel restricted appraisal, Case No. CWF-0415
89	Appraisal Review for the Four Seasons, Case Nos. CWF-0432; 0433; 0434
90	Appraisal Review for the Marriott Seattle Waterfront Hotel, Case No. CWF-0439
91	Appraisal Review for the Helios Apartments, Case No. CWF-0441
92	2018-2019 USPAP page 126
93	Appraisal Institution Coronavirus (COVID-19)

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DATED: April 14, 2020

**Perkins Coie LLP**



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*Attorneys for Objectors*



Appraisal Review

# Waterfront Seattle Project Special Benefit Study Sound Hotel & Arrivé Luxury Apartments

as of October 1, 2019 (Study Date)



Prepared for

Randy J. Meyer, CPA  
Chief Financial Officer  
The Hotel Group

Prepared by

Peter K. Shorett, MAI, CRE, FRICS  
Jesse L. Baker  
KM Job A20-0185

**Kidder Mathews**

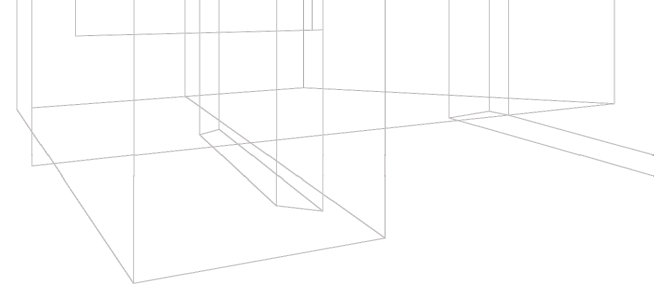
**Valuation Advisory Services**

601 Union Street, Suite 4720

Seattle, WA 98101

206.205.0200 | Fax 206.205.0220

[peter.shorett@kidder.com](mailto:peter.shorett@kidder.com)



March 2, 2020

Randy J. Meyer, CPA  
Chief Financial Officer  
The Hotel Group  
201 5<sup>th</sup> Avenue S, Suite 200  
Edmonds, Washington 98020

Re: Waterfront Seattle Project Special Benefit Study/Sound & Arrivé/A20-0185

Dear Mr. Meyer:

At your request, we have performed an appraisal review of the Final Special Benefit/Proportionate Assessment Study (Study) for the Waterfront Seattle Project (Waterfront Project) Local Improvement District (LID). This review was conducted in accordance with Standard 3 of the Uniform Standards of Professional Appraisal Practice (USPAP) for performing Appraisal Reviews. These services comply with and are subject to the Code of Professional Ethics and Standards of Professional Practice of the Appraisal Institute. A summary of the appraisal reviewed and our conclusions are contained in this report.

The Study concludes that 6,238 properties within a defined LID boundary will benefit from LID improvements that are part of the larger Waterfront Project. The Study provides opinion and analysis that form the basis for the formation of the LID boundary area and then applies value estimates for each of the 6,238 properties before and after completion of the Project.

This review provides an opinion of the appropriateness of the conclusions reached in the Study. We consider the appropriateness of the LID boundary conclusions, the estimates of benefit to the properties in the study, then a review of the value appropriateness before and after the Project for the property that is the subject of this review.

Respectfully submitted,



Peter K. Shorett, MAI, CRE, FRICS  
Certified General Real Estate Appraiser  
WA License 1100389, exp 4/10/2021



Jesse L. Baker  
State Registered Real Estate Appraiser Trainee  
WA License 1001777, exp 3/5/2020



# Certification

We certify that, to the best of our knowledge and belief:

- 1) The statements of fact contained in this report are true and correct.
- 2) The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are our personal, impartial, and unbiased professional analyses, opinions, and conclusions.
- 3) We have no present or prospective interest in the property that is the subject of this report, and no personal interest with respect to the parties involved.
- 4) We have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- 5) Our engagement in this assignment was not contingent upon developing or reporting predetermined results.
- 6) Our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- 7) Our analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice*.
- 8) John D. Gordon has made a personal inspection of the property that is the subject of this report.
- 9) We have not previously appraised the property within the three years preceding our acceptance of this engagement.
- 10) John D. Gordon (Kidder Mathews, Bellevue) provided significant real property appraisal assistance to the persons signing this certification.
- 11) The reported analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the requirements of the *Code of Professional Ethics and Standards of Professional Practice* of the Appraisal Institute.
- 12) The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
- 13) As of the date of this report, Peter K. Shorett and John D. Gordon have completed the continuing education program for Designated Members of the Appraisal Institute.
- 14) As of the date of this report, Jesse L. Baker has completed the Standards and Ethics Education Requirements for Practicing Affiliates of the Appraisal Institute.

Peter K. Shorett, MAI, CRE, FRICS  
Certified General Real Estate Appraiser  
WA License 1100389, exp 4/10/2021

Jesse L. Baker  
State Registered Real Estate Appraiser Trainee  
WA License 1001777, exp 3/5/2020



## Limiting Conditions

Limiting conditions specific to this appraisal review are as follows:

- 1) The appraisers have made no survey of the property and assume no responsibility in connection with such matters. Any sketch or identified survey of the property included in this report is only for the purpose of assisting the reader to visualize the property.
- 2) It is assumed that there are no hidden or unapparent conditions of the property, subsoil or structures (including asbestos, soil contamination or unknown environmental factors) that render it more or less valuable. No responsibility is assumed for such conditions or for arranging the studies that may be required to discover them.
- 3) No responsibility is assumed for the legal description or for matters including legal or title considerations.
- 4) The information identified in this report as being furnished by others is believed to be reliable, but no warranty is given for its accuracy.
- 5) The appraisers are not required to give testimony or attendance in court by reason of this appraisal unless arrangements have previously been made.
- 6) The allocation of total value to land, buildings, or any fractional part or interest, if shown in this report, is invalidated if used separately in conjunction with any other appraisal.
- 7) The appraisers are competent and qualified to perform the appraisal assignment.
- 8) Valuation Advisory Services is a subsidiary of Kidder Mathews, a full service commercial real estate brokerage firm. On occasion, employees or agents of the firm have interests in the property being appraised. When present, interests have been disclosed and the report has been made absent of any influence from these parties.

### RESTRICTION UPON DISCLOSURE & USE:

Disclosure of the contents of this appraisal report is governed by the By-Laws & Regulations of the Appraisal Institute. Neither all nor any part of the contents of this report (especially any conclusions as to value, the identity of the appraisers or the firm with which they are connected, or any reference to the Appraisal Institute or to the MAI designation) shall be disseminated to the public through advertising media, public relations media, news media, sales media or any other public means of communication without the prior written consent and approval of the undersigned. No part of this report or any of the conclusions may be included in any offering statement, memorandum, prospectus or registration without the prior written consent of the appraisers.



# Summary

<b>Property Appraised in Study</b>	Sound Hotel 2120 4 <sup>th</sup> Avenue Seattle, WA 98121	Arrivé Luxury Apartments 2116 4 <sup>th</sup> Avenue Seattle, WA 98121
<b>Study Prepared By</b>	ABS Valuation Robert J. Macaulay, MAI 2927 Colby Avenue, Suite 100 Everett, WA 98201	
<b>Study Reviewed By</b>	Peter K. Shorett, MAI, CRE, FRICS John D. Gordon, MAI, AI-GRS Jesse L. Baker Kidder Mathews Valuation Advisory Services 601 Union St., Suite 4720 Seattle, WA 98101	
<b>Intended Users</b>	This appraisal review is prepared for you as the client, your legal counsel, City of Seattle Hearing Examiner Ryan Vancil, the Seattle City Council members, and Robert J. Macaulay, MAI, appraiser with ABS Valuation.	
<b>Intended Use</b>	To be used in support of the property owners appeal of the Special Benefit Assessment proposed to be levied against the property.	
<b>Purpose of the Assignment</b>	To determine the appropriateness of the conclusions reached in the Final Special Benefit/Proportionate Assessment Study (Study) for the Waterfront Seattle Project Local Improvement District (LID).	
<b>Date of Appraisal Under Review</b>	Date of Value – October 1, 2019 Report Issued – November 18, 2019	
<b>Date of Reviewer’s Opinion</b>	Date of Value – October 1, 2019 Review Issued – March 2, 2020	





**Extraordinary Assumptions or Hypothetical Conditions to this Review** None

**Property Description** The subject site is an interior parcel with frontage on a commercial arterial and access from a midblock alley. The site is improved with a mixed-use tower consisting of 344 residential apartments above a 142-room hotel. The building opened in 2019. The improvements are in very good to excellent condition.

The Sound Hotel has a restaurant, a meeting room, and an exercise room. In its first year of operation, the hotel recorded an average daily room rate above that of its competitive set, but with a lower rate of occupancy.

Arrivé occupies the upper floors of the tower. The unit mix is 39 Studio, 239 1BR, 64 2BR, and 2 3BR Penthouse. The apartments leased up steadily to a current occupancy rate of 97.7%.

**Scope of the Review** This is a review and critique of the value methodologies and conclusions in the Study and the estimate of value increase for the property before and after the LID improvements are in place. We will be providing our opinion of value before the LID improvements in separate Restricted Appraisal reports.

The scope of work included a review of the Study, its Addendum, a general inspection of properties within the LID boundary area, location where the LID improvements will be made, additional research on the case study examples used in the Study and interviews with market participants in those markets.

The results of the review are contained in this report.

<b>Study Conclusions</b>	Before	\$301,002,000
	After	<u>302,567,000</u>
	Special Benefit	\$1,565,000
	LID Assessment	\$613,201

**Review Conclusion** The increase in value opined in the appraisal is not credible and should not be relied on.



## Reviewer's Conclusions

It is our conclusion that the assignment results in the Study are misleading and do not provide the necessary evidence to provide credible opinions of property value increases before and after the LID improvements are in place. The appraiser has failed to provide the proper support to conclude that the LID improvements provide special benefits to all of the properties in the LID boundary area, in contrast to the more common general benefits that park improvements typically create for the benefit of the larger community and region.

The Study determines special benefits based on case studies that represent completely different neighborhood settings. As explained in the attached exhibit, every case study considered was in a significantly inferior condition before the project improvements were installed. Most are significant urban renewal projects that have changed the landscape of surrounding neighborhoods and communities, and dramatically changed the way locals and visitors interact with those communities. Those case studies are in stark contrast to the Seattle waterfront that even today, is a very desirable community asset with views to the west towards the Puget Sound and the Olympic Mountains. As part of the Viaduct removal, the City is obligated to restore the waterfront with roads, sidewalks, landscaping and other streetscape improvements regardless of the LID improvements. The LID improvements marginally add to what would already have been a very desirable property condition before the improvements. The case studies contained in the Study illustrate benefits received in those communities well beyond the level that the LID improvements will provide.

Further, the economic studies considered in the Study focus on the overall benefit of the projects rather than the incremental impact such as the LID improvements provide. None of them fairly represent incremental property value impacts such as those contemplated from the LID improvements. And the results of the studies tend to focus on benefits to a larger study area than those established in the LID boundary area.

The estimated value increases are so small that it is virtually impossible to estimate at the level of precision implied in the Study. The value increase estimates of 0.5% to 4.0% are below the margin of error typically accepted within real estate appraisal practice.

Attached to this review is Exhibit 1 that provides further support and explanation for these opinions.

## Sound Hotel

### **SOUND HOTEL**

The Sound Hotel is part of a mixed-use structure consisting of a 142-room hotel and 344 residential apartments (Arrivé). Hotel amenities include a restaurant and lounge, an exercise room, and dedicated meeting space. The hotel opened in 2019 and competes in the boutique segment.



**INDIVIDUAL PERFORMANCE**

The table below highlights the Sound’s performance in the most recent year 2019. To preserve confidentiality, the individual results are presented in ranges.

**OPERATING STRATEGY**

Over the past year, hotels in the Downtown CBD have been dropping rates to maintain occupancy. The Sound Hotel 2019 opening strategy appears to have come in with rates below market average in an effort to capture its fair share of demand. The Sound will work to establish itself among the top performers with occupancy and rates similar other upper-tier boutique properties in Downtown Seattle.

**DEMAND SEGMENTATION**

Market demand may be analyzed by segment or source. In this region, the most common allocation is among transient demand (individual business or leisure travel), group demand, and contract demand.

At the Sound Hotel, the majority of demand is generated in the business and leisure segment. Specifically, the hotel targets upscale business travelers and leisure guests. The hotel has less than 3,000 sq ft and shares space with the apartments, limiting appeal to group demand. Given the small share of contract demand, we have included these room nights in the group segment for purposes of analysis. Based on the monthly data reported by hotel management to STR, the current mix of demand at the Sound is estimated and displayed in the following table.

**Performance & Segmentation**

	<b>Occupancy</b>	<b>Daily Rate</b>	<b>RevPAR</b>	<b>Transient</b>	<b>Group</b>
Sound Hotel	Under 75%	\$200-\$250	\$150-\$200	92.0%	8.0%

**SEASONALITY**

During 2019, demand seasonality was moderate with quarterly share ratios ranging from 16% to 31%. Monthly market occupancy rates ranged from 57.7% in December to 93.6% in September. There was moderate variation in room prices, which ranged from the mid-\$100’s to mid-\$200’s. The quarterly share range for room revenue was 13% to 37%. We note the lower winter numbers are likely affected by the hotel opening in February.

**MARKET PROJECTIONS**

Based on the interview feedback we received from Downtown CBD market operators, most are projecting flat rate growth and declining market occupancy is projected in the short term as the market continues to adjust to the significant influx in new supply that has recently opened.



**LID IMPACT**

We have provided a summary of the before and after valuation estimates per ABS. We rely on the estimate of value determined in the accompanying appraisal to determine the estimate impact of the LID results on the hotel, as the City's study does not separate the apartment/hotel component.

Property Name	Tax Parcel	2019/2020 Assessment	ABS Valuation 10/1/2019					
			Before	Change	After	Benefit	LID Ratio	LID Tax
Sound Hotel								
Arrive Apartments								
Total Seattle Tower	0696000015	\$263,866,700	\$301,002,000	0.5%	\$302,567,000	\$1,565,000	39.2%	\$613,201
			Kidder Mathews 1/1/2020					
			Before	Change	After	Benefit	LID Ratio	LID Tax
Sound Hotel			\$46,700,000	0.5%	\$46,942,807	\$242,807	39.2%	\$95,137
Arrive Apartments			\$194,350,000	0.5%	\$195,360,484	\$1,010,484	39.2%	\$395,930
Total Seattle Tower			\$241,050,000	0.5%	\$242,303,292	\$1,253,292	39.2%	\$491,067

**REQUIRED REVENUE INCREASE**

Applying the same 0.5% ratio to the estimate of hotel value results in a net benefit (i.e. value) increase of \$1,253,292. The overall revenue increase needed to support this valuation can be calculated as follows:

Value Increase: \$1,253,292

Cap Rate: 6.5%

NOI Increase: ( $\$1,253,292 \times .065$ ) = \$15,782 Net NOI Increase

NOI Ratio 20% = ( $\$15,782 / 20\%$ ) = \$78,912 Net New Revenue

Revenue Increase =  $\$78,912 / \$15,117,500$  (KM appraisal implied, before) = 0.50%

Based on the before/after assumptions in the Study, the Sound will need to increase revenue across the board by about 0.50%. To determine the required demand to meet revenue growth expectations, we examined the peak season months of May to October, as this timeframe is when most new tourists are expected to visit the Waterfront.

The subject's indicated ADR of \$224 during these months is about 111% higher than its annual ADR of \$202, assuming January 2019 results are similar to December 2019, as the hotel was not open yet in January 2019. We then apply the 111% index to our estimate of stabilized ADR forecast in the accompanying appraisal of \$218, resulting in a Waterfront Seasonal ADR is estimate of \$241.

Waterfront Seasonal Rev	Waterfront Seasonal Demand	Waterfront Seasonal ADR	Seasonal Index	KMProj Stab cur \$	Feasibility Test Seasonal ADR
\$5,012,663	22,415	\$223.63	110.67%	\$217.86	\$241.10



We apply the peak ADR (Assuming a \$241 average daily rate, the new target rate will be \$242. While it may appear that a \$1+/night is a minor increase and should be relatively easy to achieve, the same 0.5% revenue increase would also apply to all revenue centers including F&B, Parking, Retail, and Other. These are real increases across the board that are implied to occur immediately if the LID Final Assessment Roll is approved.

This amount of increase seems highly unlikely considering the recent decline in ADR observed across the CBD market and soft opening for the Sound in 2019. While the Sound ADR was about 5% higher than the competitive market, the hotel’s occupancy was about 15 points below the competitive market in its first year, likely a result of projections and declining performance and overall softening of the Seattle CBD Hotel market recently, as operators have dropped rates aggressively to maintain occupancy as new supply continues to come online. The declining performance is a direct result of new supply entering the market. According to operators we interviewed, this supply must be absorbed over the next few years, and it will likely be 2022 to 2023 before average rates recover to levels observed in recent years.

**REQUIRED  
 DEMAND  
 INCREASE**

From another perspective, we looked at the new revenue threshold expectation from a supply and demand perspective, to demonstrate how many actual new rooms would be needed to meet the value increase estimate opined in the Study.

New Revenue = \$78,912 | ADR = \$241 (Peak Season Estimate)  
 New Demand Required = (\$78,912 / \$241 ADR) = 327 new guestrooms  
 Existing Demand = 36,542 total rooms booked per year (12 mo. est. 2019)  
 Net Demand Increase = (327 / 36,542) / = 0.90% New Demand

The majority of new tourist demand would occur in the summer and fall months, as these months offer favorable weather for outdoor attractions, events held on the Waterfront, and other compression generated demand.

The summer and fall months are also considered the peak demand months for hotels in the region, creating limitations on supply to meet the new revenue demands. Using our segmentation data from the STR report, we illustrate available supply at the Sound during the peak season in the following table.



**Available Guestroom Supply, Peak Season**

	Subject Supply		Subject Demand		Available Supply	
	Rooms	ARN	ORN	Share	Rooms	Supply Ratio
May	142	4,402	3,378	9%	1024	23%
June	142	4,260	3,657	10%	603	14%
July	142	4,402	3,711	10%	691	16%
August	142	4,402	4,020	11%	382	9%
September	142	4,260	3,987	11%	273	6%
October	142	4,402	3,662	10%	740	17%
					<u>3,713</u>	

Available Supply (6 months) = 3,713 guestrooms

Projected Demand Requirement = 327 new guestrooms

WF LID Supply/Demand Ratio = (327/3,713) = **8.82% Total Supply**

Assuming a best-case scenario, with rooms revenue equating to about 65% of total operating revenue at the Sound, and that all other revenue centers (F&B, Parking, Other) meet the required 0.5% revenue growth we apply the 85% ratio to the new 327 guestrooms calculated above. The result (327 x 85%) = 278 new guestrooms.

WF LID Supply/Demand Ratio = (278/3,713) = **7.50% Total Supply**

**OPERATIONS  
FEASIBILITY TEST**

To illustrate how the above scenarios would fare under typical operations, we apply a max operating capacity ratio of 95% occupancy, accounting for Sundays and holidays, which are typically slower in all markets. This figure is also supported by typical capacity figures reported at Luxury properties in the region. Based on first year operating history, our model indicates the Sound Hotel could support the additional demand under both the best and worst case scenarios. We note the first year operating history is not a good indication of stabilized seasonal demand, as the hotel has been open for less than one year. Had the hotel been more established, it is likely that the subject's operating history would reflect high peak season demand. Still, we note the near shortages in September observed in both scenarios.



**Absorption Feasibility Test A: Best Case Scenario (278 guestrooms)**

	Subject Supply		Subject Demand		Available Supply					
	Rooms	ARN	ORN	OCC	Total	Peak 95%	Actual	WF NEEDS	NET	
May	142	4,402	3,378	76.7%	1,024	220	804	46	758	
June	142	4,260	3,657	85.8%	603	213	390	46	344	
July	142	4,402	3,711	84.3%	691	220	471	46	425	
August	142	4,402	4,020	91.3%	382	220	162	46	116	
September	142	4,260	3,987	93.6%	273	213	60	46	14	
October	142	4,402	3,662	83.2%	740	220	520	46	474	
					Subtotal	3,713	1,306	2,407	278	2,128

**Absorption Feasibility Test B: Worst Case Scenario (327 guestrooms)**

	Subject Supply		Subject Demand		Available Supply					
	Rooms	ARN	ORN	2019 OCC	Total	Peak 95%	Actual	WF NEEDS	NET	
May	142	4,402	3,378	76.7%	1,024	220	804	55	749	
June	142	4,260	3,657	85.8%	603	213	390	55	336	
July	142	4,402	3,711	84.3%	691	220	471	55	416	
August	142	4,402	4,020	91.3%	382	220	162	55	107	
September	142	4,260	3,987	93.6%	273	213	60	55	6	
October	142	4,402	3,662	83.2%	740	220	520	55	465	
					Subtotal	3,713	1,306	2,407	327	2,080

**CONCLUSION**

The impact of the LID improvements as opined in the Study imply the expectation that new revenue of 0.5% across the board will be achieved (Rooms, F&B, Parking, Other). From a supply/demand standpoint, we estimate the Waterfront LID project would need to generate an additional 278 guestrooms, accounting for 7.5% of supply in the best-case scenario, which assumes all other departments can meet the 0.5% revenue increase goal. Looking at just room revenue to fill the void, the new demand needed increases to 327 guestrooms, or 8.8% of available supply.

The typical profile of new overnight tourists expected to visit the Waterfront Park does not match the upscale-boutique guest profile targeted by the Sound and similar upper tier properties. Given the limited capacity for new rate growth in the current softened CBD lodging market, coupled with the limited supply available during peak season illustrated above, we find it unlikely the LID improvements would generate new demand to support the required 0.5% revenue growth required to support the special benefit assigned to the Sound Hotel.



## **Arrivé Luxury Apartments**

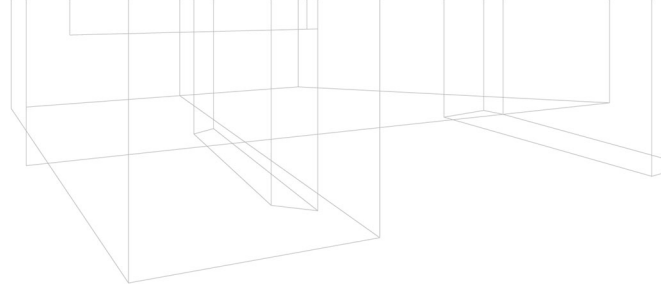
Specific to the Arrivé Luxury Apartments, the value increase is not considered market supported for the following reasons.

As of the date of our inspection, only 8 of the 344 units were vacant, for a current vacancy rate of only 2.3%. Allowing for some frictional vacancy upon turnover, the apartments are operating at their practical capacity. This means that even with the proposed civic improvements, the property will not realize any increase in occupancy.

In theory, the proposed upgrades to the street and waterfront could support higher rents. However, the Study presents no conclusive evidence that this will be the case for Arrivé. Considering the operating expenses of the apartments (about 30%), the proposed benefit ratio of 0.5% would require about a 2% increase in rents. Again, no evidence is presented that the project will support such an increase.

The increase in value opined in the appraisal is not credible and should not be relied on.





## EXHIBIT 1 – ATTACHMENT TO APPRAISAL REVIEW

This attachment provides support for the opinions in the accompanying appraisal review. It is not intended to be a standalone document and can only be used in conjunction with that appraisal review report.

This letter provides a descriptive overview of the Waterfront Seattle Project (Project) proposed by the City of Seattle and the appropriateness of the Special Benefit/Proportionate Assessment Study (Study) prepared by ABS Valuation for assigning assessments to properties for partial funding of the Project through a Local Improvement District (LID) special assessment.

### Executive Summary

Following the removal of the Alaskan Way Viaduct, the City of Seattle plans to construct a park promenade along the water, construct a new surface street along Alaskan Way, rebuild Pier 58 and Pier 62, build an elevated connection from Pike Place Market to the waterfront, and improve east-west connections between downtown and Elliott Bay. The Project will be a \$724M investment planned for completion by 2024.

The City adopted the ordinance to create the formation of the LID for partial payment of the Project. ABS Valuation prepared their Study with an October 1, 2019 date of value released to the public on or about January 10, 2020. The Study estimates the before and after value of property within a defined LID boundary area. The report includes 6,238 properties within the LID boundary and concludes a value increase because of the Project equal to \$447M. The City has allocated \$175.5M of the Project cost to these properties through the formation of the LID.

A LID is an unusual funding mechanism, especially for a project of this magnitude. The last major LID formed in the region was for the South Lake Union Streetcar in 2007. Funding for the park projects noted in the Study and accompanying reports was from tax incremental financing, transportation funds, City, State or Federal funds and grants, public, private, or philanthropy. None were funded with a LID.

It is important to understand the property conditions before and after the LID improvements that the Study is attempting to value. The Project is a component of a larger effort to restore the Seattle waterfront following the removal of the Alaskan Way Viaduct. As part of its removal, the City must restore the waterfront with roads, sidewalks, landscaping and other streetscape improvements to current design standards regardless of the LID improvements. The LID improvements add on to a project that is already schedule for construction.

Up to the release of the Study, the condition of the property before the LID improvements was largely unknown because the City had not prepared drawings and exhibits showing the difference in the property before and after with the LID improvements in place. These conditions were just provided as an addendum to the Study and help explain the marginal difference between the property condition before and after the LID improvements.

From this, the Study attempts to determine the value increase from these LID improvements for a very large grouping of properties from what would already have been a very desirable property condition without the LID improvements.

It is our conclusion that the assignment results in the Study are misleading and do not provide the necessary evidence to provide credible opinions of property value increases before and after the LID improvements are in place.

1. The difference in the property condition before and after the LID improvements are in place is overstated.
2. The LID improvements provide a general, not special benefit. There is insufficient evidence in the Study to conclude that the LID improvements provide special benefits to the properties in the LID boundary.
3. The LID boundary area is too large.
4. The value increase from the LID related improvements opined in the Study of 4% or less is within a margin of error for mass appraisals, and therefore is remote and speculative.
5. There is inequitable analysis between property types and uses.
6. Many values are overstated.
7. The Study relies on a report prepared by HR&A Advisors that fails to consider the economic impacts if the LID improvements were not funded.

#### 1. Difference in the Before and After Condition

The Study gives the impression that the LID improvements will transform the Project to a greater level of improvement than will actually be realized.

The LID improvements will convert public space to a dedicated park, but it does not bring better connectivity to Pioneer Square, north towards Colman Dock and the retail piers (54 through 57) to Union Street. Those connections already exist.

The Study states: "... With the LID project completed, accessibility to the waterfront from nearby areas including the Pike Place Market, downtown business district and Pioneer Square will vastly improve. On an overall basis, referring the economic studies and rating system discussed herein, *the waterfront area in general improves from a subjective quality rating of average in the "before" scenario to excellent with the LID project completed.*"

The Overlook Walk will provide a grand entrance from the Market to the waterfront, but for decades, tourists and visitors have found their way to the waterfront. Access to the waterfront from downtown Seattle will improve near Pike Place Market in the after condition, but the improvement is not such that it creates a special benefit.

Properties around the Project will still enjoy the spectacular views west towards Puget Sound, the Olympic Mountains to the south towards Mount Rainer, some of the many reasons visitors are *attracted* to Seattle. Adding the LID improvements marginally enhances that experience above and beyond what would be in place without the LID improvements. Even today, with all the construction from the removal of the Alaskan Way Viaduct, Sea Wall replacement and Washington State Ferry Terminal construction, the waterfront remains an active and vibrant

tourist destination. There is no market evidence in the report that waterfront access would change from average to excellent because of the LID improvements.

There are too many other amenities in the region attracting tourism to suggest that the LID improvements singularly will cause property values to increase. Seattle is already blessed with attractions like the Pike Place Market, Pioneer Square, International District, Seattle Center, Space Needle, Chihuly Garden and Glass, Seattle Monorail, Seattle Art Museum, Washington State Ferries, the Great Wheel, T-Mobile Park, CenturyLink Field, Hiram Chittenden Locks, Discovery and Myrtle Edwards Parks. There is competition for tourist dollars from these area attractions. It's virtually impossible to identify a percentage of value increase from the LID improvements, and to conclude that the LID improvements will substantively change visitor preferences is remote and speculative.

There are consequences from the LID improvements not considered in the report, such as losing street parking. The renderings show a loss of at least 60 parking stalls along Alaskan Way in a market already short of parking. Also not considered are the impacts to properties where tree density will increase, and views will be lost from the lower level of some buildings.

The Study also ignores the impacts for development not expected to be completed until 2023/2024. Work will be ongoing including the completion of Pier 62, construction of a new pedestrian bridge, stairs and an elevator on Union Street from Western Avenue to Alaskan Way. In 2021, the Overlook Walk, a main park promenade along the water and piers with a bike bath, a new park on Pier 58 and additional connections to Colman Dock will be built. The new Seattle Aquarium Ocean Pavilion will not be completed until 2024. The Study also ignores the uncertainty of completing a five-year project on time, nor does it consider changes in project scope or cost overruns, real elements in any development the magnitude of the Project.

It also ignores the impacts of construction over the next five years in its analysis. The construction along the waterfront has been disruptive and has negatively affected property value. Retail sales are down and will expect to be soft during project construction.

The following exhibits present a better visual of the difference before and after the LID improvements. The most impactful consist of the Promenade, Pier 58 decking, Union Street Staircase and Overlook Walk. While the LID improvements create a more park like setting, the condition of the roads, bike trails, landscaping and streetscape after completion is marginally improved from the condition before. The reader can see the marginal increase in property condition that visitors will experience because of the LID improvements.

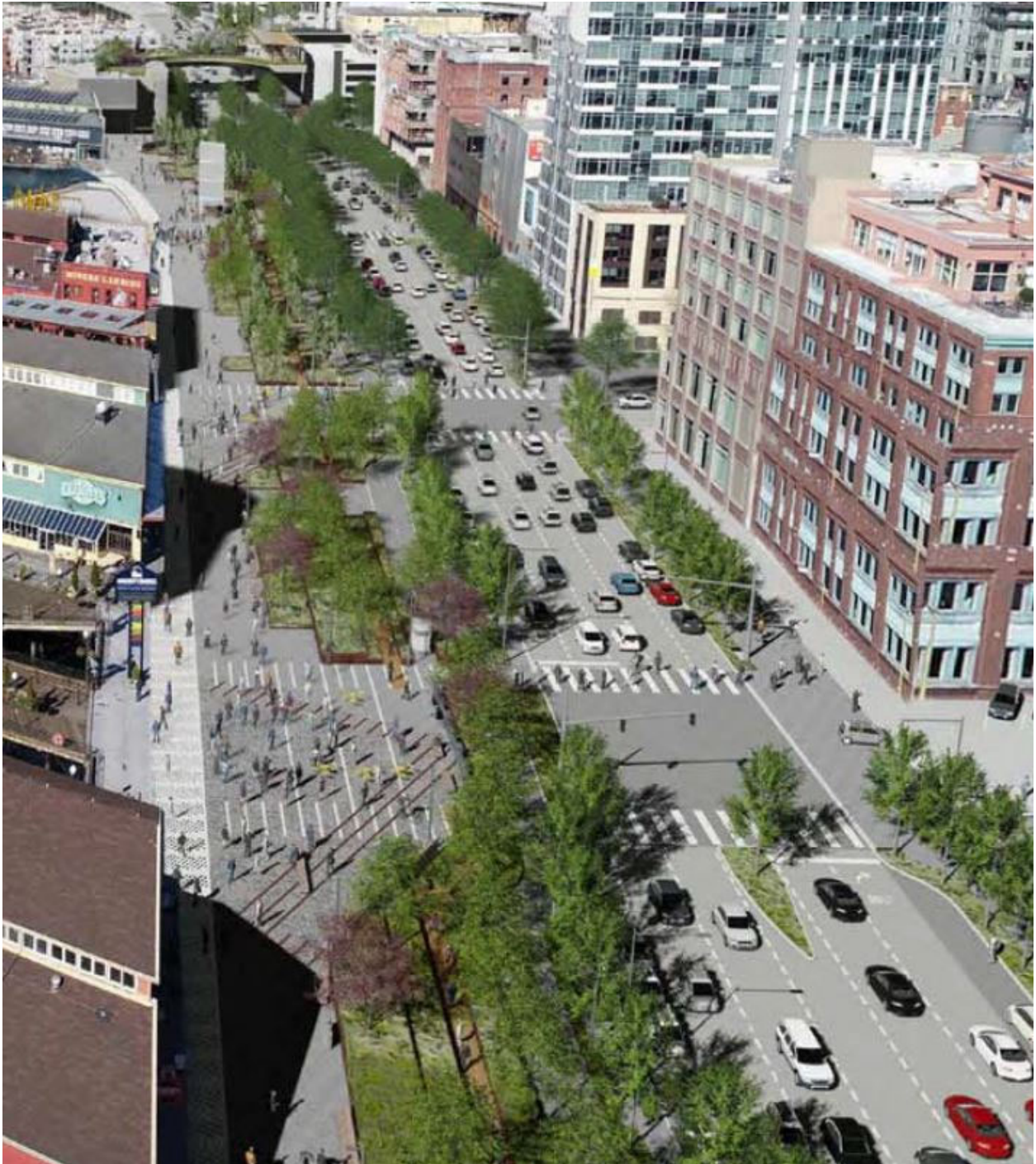
*Promenade*

Before

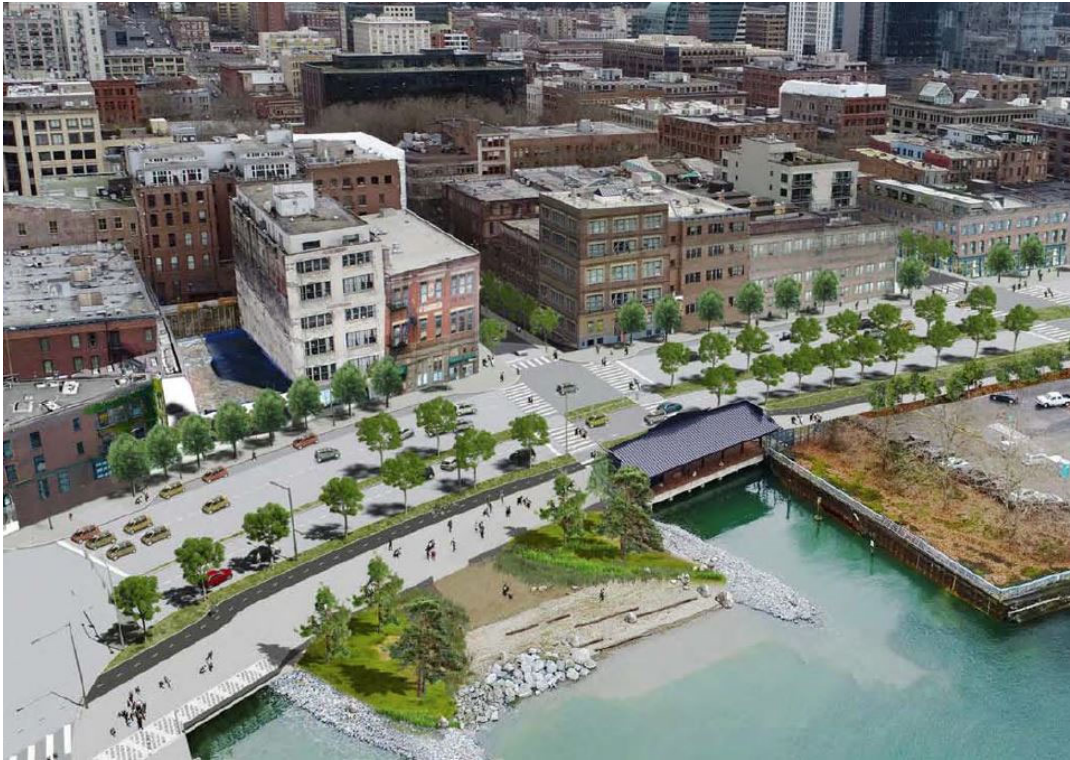


After

The area along Elliott Bay stretching from about Pine Street south to Dearborn Street will add landscaping, pedestrian corridors, bike paths, and park elements (benches, artwork, etc.).



Before



After



Pier 58

Waterfront Park is improved with a boardwalk & a pair of sculptures, plus views of the skyline & ships in dry-dock. There is a mix of plantings, public gathering areas and concrete amphitheater, fountain and seating areas.

Before



After

The LID improvements will create a larger platform with children's play area and raised lawn area. The possible bathroom would not be funded by the LID.





*Union Street Pedestrian Extension*

Present access from downtown Seattle is along a staircase leading down from the Four Seasons Hotel, to another staircase from Western Avenue to Alaskan Way.

Before



After

Improvements will include a new staircase, pedestrian areas, benches and artwork.



*Overlook Walk*

Current access to the waterfront from the Pike Place Market is the Pike Street Hill Climb, a series of steps or by elevators from the Skybridge to the Market Garage. These access points remain unchanged in the after condition.

Before and After





The rendering for the property in the before condition after the Alaskan Way realignment is shown below. The Pike Street Hill Climb and Skybridge/Market Garage elevators would remain as the primary points of access to and from the market. The rendering is a little misleading because it does not include the new \$113M Seattle Aquarium pavilion in the before condition. The Project will include \$34M in already identified City of Seattle funding as part of the Project outside of the LID improvement cost. The remaining costs will be funded by \$60M in private donations and \$19M from King County, Washington State and Federal sources. It is expected to be completed by 2024. The rendering shows a “no aquarium” alternative when in reality, it should be in place around the time the LID improvements are completed.



After

The Overlook Walk is the most significant improvement of the project. A pedestrian bridge and landscaped public space will cross over the Elliott Way surface street. It will include substantial public open space connecting the north end of the Pike Place Market with the waterfront. The Pike Street Hill Climb and Skybridge elevators are still in place in the after condition, and the aquarium improvements are shown as completed.



## 2. General versus Special Benefits

General benefits are easy to recognize such as an improved system of highways, or regional airport or new ferry terminal, since everybody in a community benefits from that improvement. General benefits are those that accrue to an entire neighborhood, community or region.

Special benefits are more difficult to define. They add value to a property because of a specific improvement as distinguished from those enjoyed by the public. Special benefits are easy to recognize when there is an actual physical improvement to a property, such as when water or sewer lines are installed, or a storm water retention system to keep a property from flooding is added, or a new freeway off-ramp serving an area once distant from freeway access is built. The benefit must result directly, uniquely and specifically from the public project to individual parcels.

The Study fails to properly determine that the LID improvements create special benefits to the properties within the LID boundary area. The case examples in the Study provide only anecdotal information about the project's general benefits. It does not employ a traditional "matched pair" analysis that would provide discrete value increase metrics from sale transactions for properties near these projects compared with those removed from the project influence. The proper measure of benefit is to compare like property transactions with and without the variable that is the project.

Moreover, the value increases noted in case studies contained in the report are not reflective of conditions even close to the LID improvement component of the project and are misleading. Virtually every case example cited in the Study are substantially more impactful than the LID improvement project. The High Line in New York City, for example, was an abandoned and unused elevated railroad that was a barrier and blight to the adjoining properties. The project improvements were so substantial, that it is now one of the more noted gentrification initiatives in the country. The Rose Kennedy Greenway in Boston also brought a major change to the area. The surface interstate highway was put underground and converted to a regional park. Not only had the interstate generated noise, it had posed a physical barrier that separated neighborhoods, whereas the project eliminated the noise and allowed for recreation and walking between neighborhoods.

We researched the case studies cited in both the Study and referenced HR&A reports. The changes in the condition before and after were so substantial that they dwarf the difference between the condition of the property before and after the LID improvements, and are not credible sources for opinions of value. Examples of the case studies used in the Study are discussed below.

Tom McCall Waterfront Park, Portland OR

## Before

The original 37-acre park was completed in 1984. The park was doubled in size following its southern expansion in 1999, resulting in a public space that spans about 1.5 miles on the west side of Willamette River. While the park offered water views, the park itself and the immediate neighborhoods adjacent to the park, and extending north and south from Burnside, were considered unsafe and not attractive. Upgrades were needed to the seawall. Public events such as the Saturday Market and the Portland Blues Festival were established.

## After

Redevelopment of the park was completed in 2011. The primary arterial, Naito Parkway, was reconfigured and overall improvements to the park included new pathways, public gardens, fountain upgrades, and construction of three plazas for events. Salmon Springs Plaza on the north end allowed for the expansion of the Saturday Market. A waterfront esplanade extends the full length of the park from RiverPlace Hotel on the south end to the Japanese-American Historical Plaza on the north. Coinciding with park renovation were new housing development projects (The Yards) and upgrades to trees, sidewalks, and signage on adjacent access streets. Perception has changed from unsafe and limited upside to a marketable destination. While these improvements are superior to the condition of the property before, it's not clear that values have increased because of them.

Rose Kennedy Greenway, Boston MA

## Before

Elevated JFK Expressway separated the east and west portions of town for 1.5 miles. Downtown was disconnected from the Waterfront. The expressway was demolished and I-93 was relocated underground following the Big Dig that started in 1991. The result was a cleared, graded site, with gravel and no enhancement factor, but the neighborhoods were at least connected.

## After

Independent non-profit, The Greenway Conservancy was established in 2004 to guide development and raise funds via endowment. The 17-acre park opened in October 2008 and can be best described as a linear park that spans over one mile across several Downtown Boston neighborhoods (Chinatown, Fi-Di, Waterfront, and Northend). Only a small eastern portion of the park has waterfront view or access; however, the park did connect Downtown with the Waterfront. Park features include gardens, promenade, sculptures, seating, trees, and greenspace. In 2008, State Legislation established a 50/50 Public-Private-Partnership (PPP), with Greenway Conservancy being appointed steward and operator in 2009. A new agreement was announced in 2017 dictating operational financing. The breakdown includes State/City 20%, New Greenway Business Improvement District (BID) 20%, and Greenway Conservancy 60% generated through private donations.



Hudson River Park, New York NY

## Before

500+ acres of West Manhattan with water view but considered as wasteland.

## After

After 30 years of planning, Friends of Hudson River Park were behind the effort to redevelop. Completed in the early 2000s, this project led to the complete redevelopment of the neighborhood. Park features included sports fields, recreation, walking and bike paths, waterfront promenade, and other amenities. Dramatic change in land use, private investment, and politics were required to make this project so. The project magnitude was well beyond the Seattle project.

The Embarcadero, San Francisco, CA

## Before

Post-Earthquake (1989), the city demolished the highway in 1991. The Bayfront was disconnected from Downtown San Francisco and considered under-utilized. This area of San Francisco was considered an industrial service corridor.

## After

Complete transformation; however the park project coincided with demolition opening once blocked waterfront view. This was around the time of the economic boom associated with the 1990's economy and Dot-Com era. All work was completed by early 2000's. City streets connected to the Embarcadero, a boulevard that runs along the waterfront, and sidewalks offered immediate waterfront and park access. Led to easier access to southern bay front and redevelopment of SOMA, (south of market), AT&T Park, and the new Arena, etc. This is a dramatically different level of improvement than those that will be realized from the LID improvements.

Millennium Park, Chicago II

## Before

Existing Grant Park and location in between downtown and major highway. This area was home to the Illinois Central rail yards, parking lots, and vacant underutilized land.

## After

The rail yard was converted to one of the world's largest green roofs. New park features include significant green space, major art installations such as the Bean, skating rink, pedestrian bridge, theatre, promenade, and an outdoor auditorium. The park is operated by the Chicago Department of Cultural Affairs and managed by MB Real Estate. The total cost of the park was \$475MM, equating to three times its original \$150MM budget; however, it has become the number one tourist attraction in the Midwest, as of 2015.

False Creek Viaduct Replacement, Vancouver BC

## Before

The Southeast False Creek project is the third and final segment of the waterfront revitalization plan. The City owned 80-acre area has historically been industrial with significant areas of undeveloped land. It is also the location of the aging Georgia and Dunsmuir Viaducts.

## After

The City plans to demolish the viaducts and through private and public funding rezone and designate the entire area for redevelopment including new road infrastructure, opens space and development sites. There will be defined districts – Events and Entertainment District, Park District and Main Street District, each with development expected to provide the development of several million square feet of office and hundreds of multifamily housing, along with supporting retail uses. This redevelopment will have a dramatically different scale of impact to property values when compared with the LID improvement component of the larger Project.

High Line, New York City, NY

## Before

Elevated rail infrastructure built in 1930's. The southern section was demolished in the 1960's, with last portion of demo in 1991. Remaining section spans from Meatpacking District, extending north through West Chelsea. Abandoned warehouses, lots of graffiti and area considered an eyesore. By 2006, an area of West Chelsea was rezoned to a special district to accommodate a public park. CSX, a supplier of rail-based freight transportation in North America, donated the right-of-way and infrastructure in 2005. Ground broke in 2006, first segment opened in 2009. In 2012, the second segment was completed (20th - 30th) and zoning changes were approved to allow the third segment to open in 2014 (30th - 40th).

## After

The completed product is a 1.45-mile long greenway maintained and operated through a public/private partnership between Friends of the Highline and NYC. The space is considered a tourist destination. In addition, the High Line is used to support many public programs including teen-engagement, art, and performance.

From an economic standpoint, real estate values near the park were driven up by speculators during the planning and development phases. The park is now an anchor and tourist attraction in the West Chelsea and Meatpacking Districts. Property values and retail/condo markets have experienced significant positive benefits.

According to Friends of the High Line co-founder Robert Hammond, the High Line “gets too much credit and too much blame” for the redevelopment of West Chelsea. The park development coincided with the rezoning of West Chelsea, with no affordable housing mandates. This led to gentrification and outpricing of the local community, including art galleries and businesses, due to people moving in from Manhattan. These issues led to an extended debate over income

inequality etc. Many cities have followed and completed or proposed elevated parks due to the overall positive impact of the High Line (Jersey City, Chicago, Philly).

#### Buffalo Bayou Park, Houston TX

##### Before

Buffalo Bayou Promenade was completed in 2006, establishing a 23-acre recreation area with 1.4 miles of hiking and biking trails that connects from West of Downtown to the Theater District.

##### After

Buffalo Bayou Park was completed in 2015 and established the new park immediately west of the promenade. This project added 160 acres of new parkland stretching 2.3 miles. Park features include a dog park, greenspace, gardens, restaurants, and an art space. Since 2015, this area has experienced three significant flood events. In 2017, Hurricane Harvey caused devastation and significant damages to property in the adjacent neighborhoods.

#### Atlanta Beltline, Atlanta Georgia, GA

##### Before

Vacant land including parking lots, demolished buildings or what remained of old foundations, vacant land, crime, and considered an eye sore. Some trails (The Westside Trail) and bridges that spanned the topography.

##### After

Partnership formed in 2005 to transform the area into a destination. First portion opened in 2012, with completion in 2014. The completed park offers a major pedestrian path for walking, running, and biking, and trails that connect to other areas of the city. Notably, the Eastside Trail extension broke ground in 2016 and was completed in 2017, which connected two disconnected railways. Funding sources for this portion included a \$3MM Woodruff Foundation grant, Beltline Tax Allocation District, The Kendeda Fund, and Waterfall Foundation. The redevelopment of this area has resulted in significant multifamily development around the trails and recreation space, including the "Edge" project near the new proposed Edgewood Avenue Bridge, which is to be added following the project. This project essentially is continuous.

#### 11th Street Bridge, Washington DC

##### Before:

Existing 11th Street Bridges. Construction began in 2009 on replacement bridges, new ramps, and interchanges. Phase 1 completed in 2013; Phase II completed in 2015.

**After:**

Breaking ground in 2021, the elevated park is proposed for construction atop the existing piers of the former 11th Street Bridge. This project is designed after the High Line in NYC. The finalized product will include art and performance spaces, recreation areas, plazas, urban farming plots, an amphitheater, and greenspace. The completed park will help connect Wards 7 and 8 to the rest of the city. Much of the hype is over the bridge design of the superstructure. Other issues have arisen over potential gentrification.

Willoughby Plaza, New York City NY**Before**

Vacant land owned by Marriott. There was significant traffic congestion near Downtown Brooklyn and the Brooklyn Bridge. The project area included an active use shared pedestrian/bike/vehicle street, parking lot underutilized vacant land.

**After**

Land was donated by Marriott as part of the renovation to their south tower completed in 2013. Street access was eliminated and this area designated an outdoor plaza. Marriott retains the ability to use the space as additional function space. Pedestrian traffic and access increased. Storefront retail businesses and restaurants saw positive impact. There was no revenue impact to Marriott from the project.

### 3. LID Boundary Area

There is no justifiable basis or support for the LID boundary areas as they have been determined. The primary improvements of the Project will be along the waterfront and near Pike Place Market, not away from the water. LID improvements, as identified by the City of Seattle, extend up the Pike/Pine corridor, and from Alaskan Way into Pioneer Square. But these improvements appear to be more of an improvement program to neglected streets, not part of the larger LID project.

It is unreasonable to conclude that properties in the north end of the boundary area will receive any benefit from the LID improvements. On the south end, neither T-Mobile Park (Mariners) nor Century Link Field (Seahawks & Sounders) will ever realize an increase in value from any part of the Project, let alone the LID improvements. Stadiums like these are bound to contracts that will not allow the property value to increase. The Seahawks games sell out every year, and fans will not pay more for a ticket or be drawn to the area because of these improvements.

Even if one were to accept there are special benefits, they would only accrue to properties closest to the Promenade and Overlook walk. However, the Study fails to provide sufficient evidence that even those properties would receive any special benefit from the LID improvements. The formation of the LID boundary in the study is arbitrary with the incremental value increase along boundaries so nominal that their inclusion to the study is well beyond the margin of error in rounding.



#### 4. Inequitable Analysis

The property uses within the LID boundary area are diverse and the Study fails to provide equitable value allocations. Vacant redevelopment site values are significantly lower than improved property value estimates passing the assessment burden to these higher value properties. This creates inequities on how the assessments are allocated as shown in three examples presented below. The sites should instead be analyzed on the common denominator of assessment per sq ft of land area.

The first example of the inequitable valuations is two nearly identical sites between Alaskan Way and Western Ave. Cyrene Apartments is a recently completed 17-story mid-rise apartment complex along the better part of the Seattle waterfront. One block south is a redevelopment site with nearly identical site characteristics that could be developed with a similar mid-rise apartment complex. The difference between the values and assessment allocation between the two properties is substantial. The improved property will be burdened with an assessment of \$932,361 or over four times the assessment of the development site.

Example #1	Land SF	Zoning	Value Before	Value After	Value Increase	%	Assessment	\$/SF Land
Cyrene Apartments 50 University 7666202450	15,413	DMC 170	\$101,209,000	\$104,242,000	\$3,033,000	3.0%	\$1,188,396	\$77.10
Surface Parking 1101 Western Ave 7666202506	14,156	DMC 170	\$18,757,000	\$19,413,000	\$656,000	3.5%	\$257,035	\$18.16

The next example is for property in the northern portion of the LID boundary area. The Amazon Office property is an older but functional 7-story office building. Directly across the street are three parcels that combine for the equivalent of a similar sized redevelopment site. The assessment for the Amazon Office property is three times that of the development site.

Example #2	Land SF	Zoning	Value Before	Value After	Value Increase	%	Assessment	\$/SF Land
Amazon Office 1903 Terry Ave 0660001255	42,360	DMC 340/ 290-400	\$127,103,000	\$127,303,000	\$200,000	0.16%	\$78,364	\$1.85
Development Site	13,334	DMC 340/	\$21,334,000	\$21,356,000	\$22,000	0.1%	\$8,620	
1906 Terry Ave to	14,160	290-400	22,656,000	22,679,000	23,000	0.1%	9,012	
1001 Virginia St	14,160		22,656,000	22,679,000	23,000	0.1%	9,012	
0660001512, 25, 30	41,654		\$66,646,000	\$66,714,000	\$68,000		\$26,644	\$0.64

The last example is the comparison of sites closer to the downtown core where the highest densities are allowed. The 27-story Olivian Apartments were built about 10 years ago. Immediately south are two nearly identical parcels, one interior and the other a corner lot. A comparison of these properties show that the Olivian Apartments are burdened with an assessment nearly four times that of the two redevelopment sites.

Example #3	Land SF	Zoning	Value Before	Value After	Value Increase	Assessment	\$/SF Land	
Olivian Apartments 809 Olive Way 0660000835	13,160	DOC2 500/ 300-550	\$160,493,000	\$161,295,000	(\$802,000)	0.5%	\$314,241	\$23.88
Old Bldg/Surface Pkg 1618 8th Ave 0660000820	14,160	DOC2 500/	\$25,488,000	\$25,679,000	(\$191,000)	0.75%	\$74,838	\$5.29
Surface Parking 802 Pine St 0660000804	13,200	300-550	\$23,976,000	\$24,156,000	(\$180,000)	0.75%	\$70,528	\$5.34

It is very apparent there is a disparity between how the study has treated properties already improved with those that will likely be developed in the near term. There is an inequitable allocation of the LID assessment. The owner of the development site will enjoy a significant value advantage into perpetuity compared with the owner of the improved property.

Moreover, there are no latecomer fee provisions in the analysis. These are often used to help reimburse the agency or funding source for the cost of a development. They are very common in utility infrastructure improvements. It allows the property owner to defer the cost of paying for the improvement to when the benefit is actually realized.

An alternative and more equitable value allocation approach would have been to measure the value increase based on the underlying land value, a common denominator for all properties in the LID boundary area. Under that approach, it is doubtful that the Study would conclude that there are value increases due to the LID improvements anywhere near the \$447M conclusion in the report.

#### 5. Mass Appraisal Margin of Error

The value increase from the LID related improvements opined in the Study of 4% or less is within a margin of error for mass appraisals. ABS Appraisal includes 6,238 properties in their study area with a before value of \$56,359,239,000. The overall increase in value of all the properties is \$447,908,000 or an overall increase of less than 0.8%. The estimated value increases fall within the standard margin of error not only for a mass appraisal, but also for a single property being valued by appraisers armed with all the necessary data not using mass appraisal techniques. It's simply impossible to adjust changes in property values with this level of precision. There are so many impactful elements requiring adjustment such as building age, location or site characteristics that would overwhelm and more than offset the implied value increases estimated in the Study. Determining such small value increases with this level of precision is simply impossible in the realm of traditional appraisal practice. The increases in value estimated in the appraisal are so small they are remote and speculative.

#### 6. Values are overstated

We analyzed about a dozen hotel properties in the Study area. The properties are overvalued, some by as much as almost 100%.

There are other examples where the Study fails to consider certain deed restrictions, or title encumbrances. We know of a site that has a small commercial building in the downtown core

that has sold the development rights thus preventing development, yet the property was valued much higher as a redevelopment site. There is another property along Pine St. valued as a redevelopment site, apparently with no development restrictions. However, it is above the Sound Transit light rail tunnel. That prohibits excavation for below grade and requires extraordinary foundation construction that will limit development height to somewhere around ten stories, well below the site's maximum development potential of up to 550 feet, which was used in the Study.

These omissions bring question to the reliability of the other property value conclusions in the Study.

## 7. Economic Studies

The Study relies on three economic studies as support of property value increases because of the LID improvements. These include an updated study "Beyond Real Estate Increment: The Value of the Central Seattle Waterfront" prepared by HR&A Advisors, "The Impact of Parks on Property Values: A Review of the Empirical Evidence" study by the Department of Recreation, Park and Tourism Sciences at Texas A & M University", and "The Economic Benefits of Sustainable Streets" published in 2014 by the New York City Department of Transportation.

The first study explains the economic, fiscal and community benefits of the waterfront project. The study focuses on the larger waterfront Project and does not differentiate between the larger Project and the incremental value increase associated with or without the LID improvements. It simply is a study discussing the economic benefits from the Project. It also confirms that the improvements in their entirety reflect general benefits to the community and region, not special benefits by citing a \$1.1B one-time economic impact because of the construction of the Project, \$288M ongoing economic impact, 2,385 permanent jobs and \$10M in ongoing local taxes. These accrue to the community and region, and are general, not special benefits.

The second study compares neighborhoods with and without a park, a more definitive distinction than the Study is trying to identify. The primary focus of this second study is to measure increases in sales revenue resulting from these new park projects. While it also considers other elements such as storm water runoff, air quality and health benefits, there is no documentation that these benefits directly lead to increases in property values. Further, the study additionally appears to imply these benefits accrue to the larger community rather than properties specifically adjacent to the park. This is support that the benefits generated from these park improvements are general, not special benefits.

The last study considered focuses on road improvements or street beautification projects in New York. The study compares unwelcoming, traffic-dominated corridors to safer, more attractive public spaces that better accommodate all users. The study focuses on safety, access/mobility, economic vitality, public health, environmental quality and livability/quality of life. The economic component is based on full availability of retail sales tax filings, limited data on commercial leases and rents, along with data on assessed market values. It is not based on real estate transactions and market sales. And while the results imply general increases in retail sales, it does not substantiate that this directly results in increases in property value. Again, there is no support that these result in special benefits, and in fact they are general benefits.



## 8. Summary

As stated in the accompanying appraisal review, it is our conclusion that the assignment results in the Study are misleading and do not provide the necessary evidence to provide credible opinions of property value increases before and after the LID improvements are in place. The appraiser has failed to provide the proper support to conclude that the LID improvements provide special benefits to the properties in the LID boundary area, in contrast to the more common general benefits that park improvements typically create for the larger community and region.

The Study determines special benefits based on case studies that represent completely different neighborhood settings. As explained in the attached exhibit, every case study considered was in a significantly inferior condition before the project improvements were installed. Most are significant urban renewal projects that have changed the landscape of surrounding neighborhoods and communities. This contrasts the Seattle waterfront that even today, is a very desirable community asset with views to the west towards the Puget Sound and the Olympic Mountains. As part of the Viaduct removal, the City must restore the waterfront with roads, sidewalks, landscaping and other streetscape improvements regardless of the LID improvements. The LID improvements marginally add to what would already have been a very desirable property condition before the improvements. The case studies in the Study starkly contrast with the level of benefit that the LID improvements will provide.

Further, the economic studies considered in the Study focus on the overall benefit of the project rather than the incremental impact that the LID improvements provide. None represent a fair representation of incremental property value impacts as it relates to those contemplated from the LID improvements. And the studies focus on benefits to a larger study area than those established in the LID boundary area.

The estimate of value increases are so small it is virtually impossible to estimate at the level of precision implied in the Study. The value increase estimates of 0.5% to 4.0% are below the margin of error typically accepted within real estate appraisal practice.

# Appraisers' Experience Data



# PETER K. SHORETT, MAI, CRE, FRICS

**President**  
**Valuation Advisory Services**

Peter Shorett entered private appraisal practice with Shorett & Riely in 1980 and was promoted to manager of the office in San Jose, California in 1985 and returned to practice at the Seattle office in 1990. He founded the Valuation Advisory Services division of Kidder Mathews in 1995.

In 1985 Mr. Shorett was awarded his MAI designation by the American Institute of Real Estate Appraisers (now known as the Appraisal Institute) and earned his CRE (Counselor of Real Estate) designation in 1999. He is a certified member of the Commercial Investment Real Estate Institute (CCIM) and has completed the requirements under the continuing education program of the Appraisal Institute. He has served as a Director of the Seattle Chapter of the Appraisal Institute and has served or led on the Candidates Guidance, Finance and Public Relation Committees. He also was appointed Chairman of the Seattle Chapter of the Counselors of Real Estate. In 2008 he became a Fellow of the Royal Institute of Chartered Surveyors (FRICS), the European equivalent of MAI. He serves on the Board of the Runstad Center for Real Estate Research at the University of Washington.

Mr. Shorett specializes in providing valuation and consultation for mediation, arbitration, litigation support and expert witness testimony. He has a wide diversified background in appraisal, market analysis and counseling for the development, acquisition, sale, leasing and financing of major urban real estate throughout the continental Western United States, including the cities of Seattle, Portland, San Francisco and Los Angeles.

Property types studied include apartments, churches, shopping centers, office and industrial buildings, marinas, condominiums, convention hotels, motels, golf courses, parking garages, medical clinics, service stations, residential subdivisions, nursing homes, retirement apartments, vacant land and numerous special-purpose and single-use properties. Mr. Shorett has extensive experience in working with owners whose property is acquired by condemning agencies such as Sound Transit or Local Improvement Districts (LID). Other assignments have included the valuation of leasehold interests, market analysis and lease-up studies for various investors and business groups.

## PROFESSIONAL AFFILIATIONS

**MEMBER OF** Appraisal Institute (MAI)

**COUNSELORS** of Real Estate (CRE)

**CERTIFIED** Commercial Investment Member Designee (CCIM)

**FELLOW** of the Royal Institute of Chartered Surveyors (FRICS)

## SELECT CLIENT LIST

### Attorney/Law Firms

- Bush Kornfeld
- Cairncross & Hemplemann
- Davis Wright Tremaine
- Dorsey Whitney
- Drumheller
- Ellis Li & McKinstry
- Foster Pepper
- Hansen Baker
- Karr Tuttle Campbell
- K&L Gates
- Lane Powell
- Lasher Holzapfel Sperry & Ebberson
- Miller Nash Graham & Dunn
- Perkins Coie
- Pillsbury Winthrop Shaw Pittman
- Schwabe Williamson & Wyatt
- Stafford Frey Cooper



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Suite 4720  
Seattle, WA 98101



**COURT EXPERIENCE**

United States Bankruptcy Court  
United States Federal Court  
King County, Washington Superior Court  
Kitsap County, Washington Superior Court  
Pierce County, Washington Superior Court  
Snohomish County, Washington Superior Court  
Santa Cruz County, California Superior Court

**EDUCATION**

**BUSINESS ADMINISTRATION**, Western Washington University (1980)

**PROFESSIONAL LICENSES**

**STATE OF WASHINGTON** Certified General Real Estate Appraiser (No. 1100389)

**STATE OF OREGON** Certified General Real Estate Appraiser (No. C000599)

**STATE OF CALIFORNIA** Real Estate Appraiser License (AG014564)

**STATE OF IDAHO** Real Estate Appraiser License (CGA-3932)

Reciprocal agreements with other states as needed

**ADDITIONAL CLIENTS**

**Corporations/Property Owners**

3M Corporation	Goodman Financial	Miller Brewing Company
Albertsons, Inc.	Health Science Properties	Nitze-Stagen
Bekins Company	Hertz Corporation	Nobel House Hotels & Resorts
Bristol Meyers Squibb	International Paper Company	Northwest Airlines
Clise Properties	KCTS Channel 9	Northwestern Trust
Consolidated Restaurants, Inc.	Kilroy Industries	Olympic Resource Management
Delta Airlines	KMPG	PACCAR
Fred Hutchinson	Lindal Cedar Homes	Pine Street Associates
Gai's Bakery	Lone Star Northwest	Portac, Inc.
Goodale & Barbieri	McDonalds Corporation	Rayonier

**Attorney/Law Firms Continued**

Stokes Lawrence

Stoel Rives

Tousley Brain Stephens

Williams Kastner

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**Corporations/Property Owners Cont'd**

Seattle Seahawks	Swinomish Tribal Community	Union Carbide
Skokomish Tribal Community	The Boeing Company	Vulcan, Inc.
Southland Corporation	Unigard Security Insurance	Wesley Homes
		YWCA

**Development Companies**

Bentall Corporation	Quadrant	Trammell Crow
Lincoln Property Co.	Sobrato Development Co.	Wright Runstad & Co
Opus		

**Financial Institutions/Life Insurance Companies**

AETNA Life Ins. Co.	Group	T. Rowe Price
Amresco	Home Street Bank	The Union Bank of California
Allstate Life Ins. Co.	InterWest	TIAA-CREF
Bank of America	Key Bank	Transamerica Insurance Co.
CitiCorp	L.J. Melody & Co.	US Bancorp
Coldwell Banker Financial	Manufacturer's Hanover Trust Co.	Washington Capital Management
Collateral Mortgage	Mellon Financial	Washington Mutual
Crown Life Ins. Co.	Merrill Lynch	Washington Trust Bank
First Horizon	Morgan Stanley	Wells Fargo Bank
Frontier Bank	New York Life	
GE Capital	Pacific NW Bank	
Glaser Financial	Sterling Savings	

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**Governmental Agencies/Port Authorities/Nonprofits**

City of Bainbridge Island	King County Dept. of Transportation	Port of Seattle
City of Half Moon Bay	King County Property Services	Port of Tacoma
City of Kirkland	King County Prosecutor's Office	Sound Transit
City of Santa Cruz	Port of Anacortes	The Nature Conservancy
City of Seattle	Port of Chelan	Trust for Public Land
Dept. of Natural Resources (WA State)	Port of Friday Harbor	United States Postal Service
General Services Administration	Port of Port Townsend	Washington State Attorney General's Office
Internal Revenue Service	Port of Renton	

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# STATE OF WASHINGTON

DEPARTMENT OF LICENSING – BUSINESS AND PROFESSIONS DIVISION



THIS CERTIFIES THAT THE PERSON OR BUSINESS NAMED BELOW IS AUTHORIZED AS A

**CERTIFIED GENERAL REAL ESTATE APPRAISER**

**PETER K SHORETT**  
**601 UNION STREET #4720**  
**SEATTLE WA 98101**

**1100389**

License Number

**01/06/1992**

Issued Date

**04/10/2021**

Expiration Date

*Teresa Berntsen*  
Teresa Berntsen, Director



# JOHN D. GORDON, MAI, AI-GRS

**Senior Vice President, Shareholder  
Valuation Advisory Services**

John Gordon has over 30 years experience in the analysis and appraisal of complex income property. He has served as a staff appraiser, as a regional appraisal manager for a national accounting and consulting firm, and as a principal of an independent appraisal company. Prior to joining Kidd Mathews' Valuation Advisory Services, he was Special Properties Manager in the Commercial Appraisal Department of Washington Mutual Bank (now JP Morgan Chase), where he oversaw the valuation of their national portfolio of hotels and other special purpose properties.

John's educational background includes a BA in Economics from the University of California, and an MBA, with an emphasis in finance, from the University of Washington. He was awarded his MAI designation in 1989, and is certified as a commercial real estate appraiser in the states of Washington, Oregon, Idaho, and California.

John brings special expertise to the valuation and analysis of lodging properties. He has appraised over 600 hotels in 13 states, including small motels, large full service hotels, and some of the finest boutique resort properties in the region. In addition to hotels, John has extensive expertise in the valuation of senior living communities and affordable multifamily housing.

John is a Past President of the Seattle Chapter of the Appraisal Institute. He served for several years as an instructor in the real estate program at North Seattle Community College, and has been a guest lecturer at the Fachhochschule Munchen in Munich, Germany.

## PROFESSIONAL LICENSES

**STATE OF WASHINGTON**, Certified General Real Estate Appraiser  
(No. 1100661)

**STATE OF OREGON**, State Certified General Appraiser  
(No. C000237)

**STATE OF IDAHO**, Certified General Appraiser  
(No. CGA-2519)

**STATE OF CALIFORNIA**, Certified General Real Estate Appraiser  
(No. AG 004565)

## SELECT CLIENT LIST

Bank of America

Bank of the Pacific

Bank of the West

Banner Bank

BECU

Coast Hotels

First Federal

Heritage Bank

HomeStreet Bank

JP Morgan Chase

Key Bank

Kitsap Bank

Mereté

Mountain Pacific Bank

Numerica Credit Union

Pacific Northwest Bank

Peoples Bank

Pacific Premiere Bank



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Bellevue, WA 98004





## HOTEL MARKETS

### WASHINGTON

Aberdeen	Edmonds	Mukilteo	Seki
Allyn	Ellensburg	Oak Harbor	Sequim
Anacortes	Everett	Ocean Shores	Silverdale
Ashford	Fall City	Olympia	Spokane
Auburn	Federal Way	Orcas Island	Spokane Valley
Belfair	Fife	Pacific Beach	Sumner
Bellevue	Forks	Pacific	Tacoma
Bellingham	Issaquah	Pasco	Toppenish
Blaine	Kennewick	Port Angeles	Touchet
Bothell	Kent	Port Hadlock	Tukwila
Bremerton	Kirkland	Port Townsend	Tumwater
Brewster	Lacey	Pullman	Union Gap
Burlington	Lakewood	Puyallup	Vancouver
Chehalis	Langley	Quincy	Vashon
Chelan	Leavenworth	Redmond	Walla Walla
Clarkston	Long Beach	Renton	Wenatchee
Cle Elum	Longview	Richland	Westport
Des Moines	Lynnwood	Ritzville	Woodinville
Dupont	Marysville	San Juan Island	Yakima
Eastsound	Monroe	SeaTac	Zillah
East Wentachee	Moses Lake	Seattle	

### OREGON

Ashland	Gresham	Newberg	The Dalles
Baker	Hermiston	Newport	Tigard
Bandon	Hillsboro	Ontario	Tillamook
Bend	Hood River	Pendleton	Troutdale
Beaverton	Klamath Falls	Portland	Tualatin
Boardman	La Grande	Redmond	West Linn
Coos Bay	Lake Oswego	Salem	Woodburn
Eugene	Lincoln City	Seaside	
Forest Grove	Medford	Sisters	
Grants Pass		Springfield	

### IDAHO

Boise	Idaho Falls	Nampa	Sandpoint
Bonnets Ferry	Lewiston	Pocatello	Twin Falls
Caldwell	Meridian	Post Falls	
Coeur d'Alene	Moscow	Rexburg	

## HOTEL BRANDS

Aloft	Embassy	La Quinta	Silver Cloud
Baymont	EVEN	McMenamins	Sleep
Best Western	FairBridge	Microtel	SpringHill
Candlewood	Fairfield	Motel 6	Staybridge
Clarion	Four Points	Oxford	Super 8
Coast	Four Seasons	Quality	TownePlace
Comfort	Guesthouse	Radisson	Travelodge
Country	Hampton	Ramada	Vagabond
Courtyard	Hilton	Red Lion	W
Crowne Plaza	Hilton Garden	Residence	WestCoast
Days	Holiday	Rodeway	WoodSpring
Doubletree	Home2	Sheraton	
EconoLodge	Hyatt	Shilo	

Red Lion Hotels

SaviBank

Seattle Bank

Shilo Inns

Silver Cloud Inns

Symetra Insurance

Tacoma Housing Authority

Timberland Bank

Travel Tacoma

Umpqua Bank

US Bancorp

Washington Capital

Washington Federal

Washington Trust Bank

Wells Fargo Bank

Yakima Convention Center

Zions Bank

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**STATE OF WASHINGTON**

DEPARTMENT OF LICENSING – BUSINESS AND PROFESSIONS DIVISION



THIS CERTIFIES THAT THE PERSON OR BUSINESS NAMED BELOW IS AUTHORIZED AS A

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**JOHN DAVID GORDON  
KIDDER MATHEWS  
500 108TH AVENUE NE, STE 2400  
BELLEVUE WA 98004**

**1100661**

License Number

**07/25/1991**

Issued Date

**03/27/2021**

Expiration Date

*Teresa Berntsen*

Teresa Berntsen, Director



# JESSE L. BAKER

**Associate**  
**Valuation Advisory Services**

Jesse Baker joined the Valuation Advisory Services department of Kidder Mathews in September 2014. Prior to joining the firm, he spent five years in leadership roles with the Cintas Corporation. He graduated the Management Trainee Program (2010), and was promoted to Service Manager (2011) and Operations Manager (2013). Mr. Baker also served as an integral member of the acquisition due-diligence team, providing analysis and recommendations as the Cintas Document Management Division pursued an aggressive growth strategy in Northern California markets.

With an educational background from the Cornell Hotel School, Mr. Baker is developing an expertise in the valuation and analysis of lodging properties. In his first 18 months with Kidder Mathews, he has appraised or provided consulting services on over 20 hotels across Washington. In addition to lodging, Jesse has appraised senior living properties (IL/AL/MC), multifamily, and LIHTC affordable housing.

## STATE CERTIFICATION

Jesse is actively pursuing the educational requirements for Washington State Certification. He is currently registered as a Washington State Real Estate Appraiser Trainee under Registration No. 1001777.

## EDUCATION

**BS** in Hospitality Management, The Hotel School at Cornell University

**REAL ESATE MINOR**, The Hotel School at Cornell University

Cornell Varsity Football; WR, 4yr Member, 2005-2008, All-Ivy 2008

## WASHINGTON STATE QUALIFYING EDUCATION

Basic Appraisal Principles

Basic Appraisal Procedures

2014-2015 National USPAP

2016-2017 National USPAP Update

General Appraiser Market Analysis & HBU

Statistics, Modeling & Finance



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# STATE OF WASHINGTON

DEPARTMENT OF LICENSING – BUSINESS AND PROFESSIONS DIVISION



THIS CERTIFIES THAT THE PERSON OR BUSINESS NAMED BELOW IS AUTHORIZED AS A

**STATE REGISTERED REAL ESTATE APPRAISER TRAINEE**

**JESSE LEE BAKER  
1346 S PEARL STREET  
SEATTLE WA 98108**

**1001777**

License Number

**08/28/2014**

Issued Date

**03/05/2020**

Expiration Date

  
Pat Kohler, Director



Restricted Appraisal Report

# Sound Hotel | Seattle, Washington

as of January 1, 2020



Prepared for

Randy J. Meyer, CPA  
Chief Financial Officer  
The Hotel Group

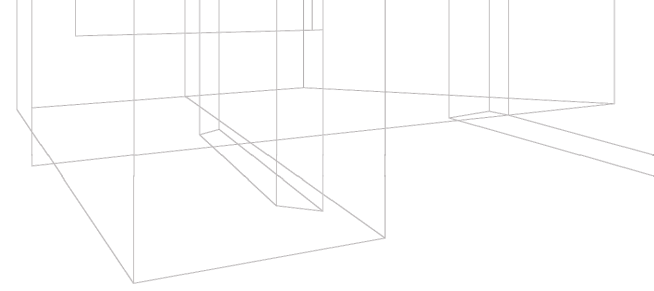
Prepared by

Peter K. Shorett, MAI, CRE, FRICS  
John D. Gordon, MAI, AI-GRS  
KM Job A20-0185a

**Kidder Mathews**

**Valuation Advisory Services**

500 108<sup>th</sup> Avenue NE, Suite 2400  
Bellevue, WA 98004  
425.283.5783 | Fax 425.450.1179  
john.gordon@kidder.com



April 10, 2020

Randy J. Meyer, CPA  
Chief Financial Officer  
The Hotel Group  
201 5<sup>th</sup> Avenue S, Suite 200  
Edmonds, Washington 98020

Re: Sound Hotel, Seattle / KM Job A20-0185a

Dear Mr. Meyer:

At your request, we have prepared this restricted appraisal of the Sound Hotel, a 142-room select service hotel located at 2120 4<sup>th</sup> Avenue in Seattle, King County, Washington. (The full name of the hotel is the Sound Hotel Seattle Belltown, Tapestry Collection by Hilton). The hotel occupies one portion of a mixed-use structure that also includes the 344-unit Arrivé Apartments. The purpose of the appraisal is to estimate the current market value of the hotel. The value of the apartments is addressed in a separate appraisal report.

The interest appraised is the fee simple interest in the hotel as encumbered by a condominium agreement. The intended use of the appraisal is to provide support for an appeal of taxes to be levied through a local improvement district. The client of record is Randy J. Meyer of The Hotel Group. Intended users include the client and their legal counsel, City of Seattle Hearing Examiner Ryan Vancil, Robert J. Macaulay, MAI (ABS Valuation), and the Seattle City Council.


This restricted appraisal has been prepared in conformance with the Uniform Standards of Professional Appraisal Practice. It is presented in an abbreviated format suitable only for the intended users. Our services comply with and are subject to the Code of Professional Ethics and Standards of Professional Practice of the Appraisal Institute.

In our opinion, the current market value of the Sound Hotel, as of January 1, 2020, is \$48,400,000, with \$45,800,000 for the real estate and \$2,600,000 for personal property.

Respectfully submitted,



Peter K. Shorette, MAI, CRE, FRICS  
Certified General Real Estate Appraiser  
WA License 1100389, exp 4/10/2021



John D. Gordon, MAI, AI-GRS  
Certified General Real Estate Appraiser  
WA License 1100661, exp 3/27/2021



# Certification

We certify that, to the best of our knowledge and belief:

- 1) The statements of fact contained in this report are true and correct.
- 2) The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are our personal, impartial, and unbiased professional analyses, opinions, and conclusions.
- 3) We have no present or prospective interest in the property that is the subject of this report, and no personal interest with respect to the parties involved.
- 4) We have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- 5) Our engagement in this assignment was not contingent upon developing or reporting predetermined results.
- 6) Our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- 7) Our analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice*.
- 8) John D. Gordon has made a personal inspection of the property that is the subject of this report.
- 9) We have not previously appraised the property within the three years preceding our acceptance of this engagement.
- 10) Jesse L. Baker (Kidder Mathews, Seattle) provided significant real property appraisal assistance to the persons signing this certification.
- 11) The reported analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the requirements of the *Code of Professional Ethics and Standards of Professional Practice* of the Appraisal Institute.
- 12) The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
- 13) As of the date of this report, Peter K. Shorett and John D. Gordon have completed the continuing education program for Designated Members of the Appraisal Institute.
- 14) As of the date of this report, Jesse L. Baker has completed the Standards and Ethics Education Requirements for Practicing Affiliates of the Appraisal Institute.

Peter K. Shorett, MAI, CRE, FRICS  
Certified General Real Estate Appraiser  
WA License 1100389, exp 4/10/2021

John D. Gordon, MAI, AI-GRS  
Certified General Real Estate Appraiser  
WA License 1100661, exp 3/27/2021



## Limiting Conditions

Limiting conditions specific to this appraisal are as follows:

- 1) The appraisers have made no survey of the property and assume no responsibility in connection with such matters. Any sketch or identified survey of the property included in this report is only for the purpose of assisting the reader to visualize the property.
- 2) It is assumed that there are no hidden or unapparent conditions of the property, subsoil or structures (including asbestos, soil contamination or unknown environmental factors) that render it more or less valuable. No responsibility is assumed for such conditions or for arranging the studies that may be required to discover them.
- 3) No responsibility is assumed for the legal description or for matters including legal or title considerations.
- 4) The information identified in this report as being furnished by others is believed to be reliable, but no warranty is given for its accuracy.
- 5) The appraisers are not required to give testimony or attendance in court by reason of this appraisal unless arrangements have previously been made.
- 6) The allocation of total value to land, buildings, or any fractional part or interest, if shown in this report, is invalidated if used separately in conjunction with any other appraisal.
- 7) The appraisers are competent and qualified to perform the appraisal assignment.
- 8) Valuation Advisory Services is a subsidiary of Kidder Mathews, a full service commercial real estate brokerage firm. On occasion, employees or agents of the firm have interests in the property being appraised. When present, interests have been disclosed and the report has been made absent of any influence from these parties.

### RESTRICTION UPON DISCLOSURE & USE:

Disclosure of the contents of this appraisal report is governed by the By-Laws & Regulations of the Appraisal Institute. Neither all nor any part of the contents of this report (especially any conclusions as to value, the identity of the appraisers or the firm with which they are connected, or any reference to the Appraisal Institute or to the MAI designation) shall be disseminated to the public through advertising media, public relations media, news media, sales media or any other public means of communication without the prior written consent and approval of the undersigned. No part of this report or any of the conclusions may be included in any offering statement, memorandum, prospectus or registration without the prior written consent of the appraisers.





# Summary

<b>Property</b>	<p>The subject of this appraisal is the Sound Hotel, a 142-room select service hotel located at 2120 4<sup>th</sup> Avenue in Seattle, King County, Washington. (The full name of the hotel is the Sound Hotel Seattle Belltown, Tapestry Collection by Hilton). The hotel occupies one portion of a mixed-use structure that also includes the 344-unit Arrivé Apartments. The purpose of the appraisal is to estimate the current market value of the hotel. The value of the apartments is addressed in a separate appraisal report.</p>
<b>ADDRESS</b>	<p>2120 Fourth Avenue Seattle, WA 98121</p>
<b>TAX PARCEL</b>	<p>069600-0015</p>
<b>CENSUS TRACT</b>	<p>Tract 72, Block 1056, King County</p>
<b>LEGAL DESCRIPTION</b>	<p>As shown in the assessor's records, an abbreviated legal description of the site is as follows:</p> <p>BELLS 5TH ADD LESS ST, Plat Block J, Plat Lots 3-4</p>
<b>OWNERSHIP &amp; DEVELOPMENT</b>	<p>Prior to 2013, the subject site was occupied by an aging garage owned by 2116 Fourth Avenue Development LLC. In October of that year, it was sold to Potala Tower LLC for \$11,500,000. Potala began construction of a mixed-use tower on the site, but work was suspended due to a combination of legal and financial issues.</p> <p>In December 2016, title was transferred to the current owner, Seattle Tower I LLC, and work resumed. Arrivé Apartments began leasing in September 2018, with the first occupancy in January 2019. The Sound Hotel opened in February 2019. No recent transactions have been recorded and the property is not listed for sale.</p>
<b>AFFILIATION &amp; MANAGEMENT</b>	<p>The hotel is operated under a franchise agreement with Hilton Hotels. It is managed by a professional hotel management company.</p>



## Appraisal Parameters

<b>PURPOSE</b>	The purpose of this appraisal is to estimate the current market value of the hotel.
<b>PROPERTY RIGHTS</b>	The interest appraised is the fee simple interest in the hotel as encumbered by a condominium agreement.
<b>INTENDED USE</b>	The intended use of the appraisal is to provide support for an appeal of taxes to be levied through a local improvement district.
<b>INTENDED USERS</b>	The client of record is Randy J. Meyer of The Hotel Group. Intended users include the client and their legal counsel, City of Seattle Hearing Examiner Ryan Vancil, Robert J. Macaulay, MAI (ABS Valuation), and the Seattle City Council.
<b>SCOPE OF WORK</b>	This appraisal has been prepared in conformance with the Uniform Standards of Professional Appraisal Practice. Our services comply with and are subject to the Code of Professional Ethics and Standards of Professional Practice of the Appraisal Institute.

Our scope of work included evaluating features of the region, neighborhood, site, and improvements; researching conditions in the lodging market; preparing a forecast of operating performance; and compiling information on sales of comparable properties.

Components of our regional analysis included geography, transportation, demographics, economic trends. We identified distinguishing features of the various districts in Downtown Seattle. Information on the site was compiled from public records.

Our scope of work did not include a thorough inspection of the hotel. At least one of the participating appraisers inspected the property on a prior occasion. For the current engagement, we made a brief visit to the hotel and noted the condition of the lobby, restaurant, meeting rooms (as available), and recreational amenities.

The owner provided us with recent STAR reports showing the monthly occupancy rate, average room rate, and daily RevPAR for the hotel and its primary competitors (as selected by management). We used this data to develop a forecast of market occupancy and revenue.



We also were provided with an operating statement for the months of February through December 2019 (the first eleven months of operation). The recent position of the hotel within the competitive set formed the basis for our forecast of room occupancy and room revenue. Revenue from the restaurant and other sources was projected near recent levels, taking into account any projected fluctuation in occupancy. Estimates of operating expenses were based on the historical results, the results reported by similar hotels, and published industry averages.

To ensure confidentiality, the historical results of the hotel are not disclosed in this appraisal.

Under the income capitalization approach, we choose appropriate rates of return based on recent sales and published surveys. Indications of value were developed using direct capitalization and yield capitalization. The results were reconciled to our opinion of current market value.

For our sales analysis, we identified and considered recent sales of upscale and luxury hotels in Downtown Seattle. Due to the very significant differences in facilities and performance, we did not use this approach to develop a specific indication of value.

A third valuation approach, analysis of replacement cost, was not applied, due to the minimal reliance accorded to this approach by typical investors.

Our opinion of value for the total asset was allocated among real estate, tangible personal property, and intangible business value (if any). Our conclusions are presented subject to our certification and to general assumptions and limiting conditions. This appraisal is not subject to any extraordinary assumptions or hypothetical conditions.

<b>APPRAISAL DATES</b>	Effective Date of Value	January 1, 2020
	Report Issued	April 10, 2020



## DEFINITIONS

The term “Market Value” is defined as:

*The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date, and the passing of title from seller to the buyer under conditions whereby:*

- a. the buyer and seller are typically motivated;*
- b. both parties are well informed or well advised, and acting in what they consider their own best interests;*
- c. a reasonable time is allowed for exposure in the open market;*
- d. payment is made in terms of cash in U.S. dollars or in term of financial arrangements comparable thereto; and*
- e. the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.*

Source: Code of Federal Regulations, Title 12, Part 34C, Section 34.42 [g].

The term “As Is Market Value” is defined as:

*The estimate of the market value of real property in its current physical condition, use, and zoning as of the appraisal date.*

Source: Dictionary of Real Estate Appraisal, 6<sup>th</sup> edition, 2015

The term “Fee Simple Estate” is defined as:

*Absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat.*

Source: Dictionary of Real Estate Appraisal, 6<sup>th</sup> edition, 2015



## Description

<b>PUGET SOUND REGION</b>	Seattle is in the central portion of the Puget Sound region. Dominant economic drivers include aerospace, software development, computer technology, health care, education, military bases, and tourism. The regional economy has been quite strong for at least five years, particularly in and near the Seattle metropolitan area.
<b>DOWNTOWN SEATTLE</b>	Downtown Seattle encompasses the central business district and peripheral neighborhoods to the north, south, and east. These areas have a wide array of retail stores, apartments, office buildings, theaters, and hotels. Amazon headquarters, the state convention center, and two sports stadiums are significant sources of lodging demand.
<b>SITE</b>	The subject site is an interior parcel with frontage on a commercial arterial and access from a midblock alley. The land area is 12,960 sq ft (0.30 acres). The land is zoned DMC-240 (Downtown Mixed Commercial), a classification intended to promote high-density commercial and residential development. The site is six blocks east of the waterfront and about eight blocks west of the interstate highway.
<b>IMPROVEMENTS</b>	The site is improved with a mixed-use structure consisting of a 142-room hotel and 344 residential apartments. Hotel amenities include a restaurant and lounge, an exercise room, and 770 sq ft of dedicated meeting space. The hotel opened in 2019 and is in very good to excellent condition.
<b>MARKET SUPPLY</b>	The management of the hotel identified five upscale hotels as primary competitors. The current market supply is 964 guestrooms. One new competitor (the Charter Hotel) opened in late 2019. The increase in supply was 24%.
<b>MARKET DEMAND</b>	According to the STAR reports, the annual market occupancy rate was 89.0% in 2017, 88.7% in 2018, and 85.7% in 2019. The mix of demand is 83% transient (business and leisure), 9% group, and 7% contract. We are projecting that occupancy will decline in the coming year with the recent increase in supply, recovering to 85.0% by 2024. The market average daily room rate in the STAR reports was \$198 in 2017, \$207 in 2018, and \$193 in 2019. We are projecting that the market ADR will increase by 2.5% annually through the forecast period.



## Valuation

### HIGHEST & BEST USE

Given the proximity of the site to the Amazon office district and the nature of surrounding land uses, the highest and best use of the site as if vacant would be some form of multifamily development, either apartments or condominiums, supplemented by lodging and/or street retail. The highest and best use of the property as improved is continued operation of the Sound Hotel.

### PROJECTED PERFORMANCE

For purposes of confidentiality, we are not disclosing the historical operating results of the hotel. We are projecting occupancy rates of 74.8% in 2020, increasing to 85.0% by 2022. For a future stabilized year, stated in current dollars, we are projecting an average room rate of \$218, room revenue of \$9.6MM, total revenue of \$11.2MM, operating expenses of \$8.0MM, and net operating income of \$3.2MM.

### RISK & RETURN

Positive risk factors include the desirable location of the site within the Seattle CBD, the very good to excellent condition of the improvements, and the sustained strength of the local lodging market. The primary negative risk factor is the impact of new competition. The risk of investment was recognized in our selection of an overall capitalization rate of 6.5% and a yield rate of 8.25%.

### INCOME CAPITALIZATION

For our direct capitalization analysis, we divided the stabilized NOI by the selected overall cap rate and made an adjustment for near-term shortfall, for an indicated value of \$48,200,000. In our yield analysis, we discounted the projected income and net reversion, for an indicated value of \$48,600,000.

### SALES COMPARISON

We analyzed eight recent sales of hotels in Downtown Seattle. The sales closed between January 2016 and August 2019. The hotels range in size from 76 guestrooms to 297 guestrooms. Each has a restaurant, meeting rooms, and recreational amenities. In terms of both price per room and price per square foot, the sale data brackets the results of our income analysis. We did not use this approach to develop independent indications of value.

### CURRENT MARKET VALUE

In our opinion, the current market value of the Sound Hotel, as of January 1, 2020, is \$48,400,000. The contributory value of tangible personal property is estimated at \$20,000/room less 10% depreciation, or \$2,600,000. The remaining value, \$45,800,000, is allocated to real estate.

# Appraisers' Experience Data



# PETER K. SHORETT, MAI, CRE, FRICS

**President**  
**Valuation Advisory Services**

Peter Shorett entered private appraisal practice with Shorett & Riely in 1980 and was promoted to manager of the office in San Jose, California in 1985 and returned to practice at the Seattle office in 1990. He founded the Valuation Advisory Services division of Kidder Mathews in 1995.

In 1985 Mr. Shorett was awarded his MAI designation by the American Institute of Real Estate Appraisers (now known as the Appraisal Institute) and earned his CRE (Counselor of Real Estate) designation in 1999. He is a certified member of the Commercial Investment Real Estate Institute (CCIM) and has completed the requirements under the continuing education program of the Appraisal Institute. He has served as a Director of the Seattle Chapter of the Appraisal Institute and has served or led on the Candidates Guidance, Finance and Public Relation Committees. He also was appointed Chairman of the Seattle Chapter of the Counselors of Real Estate. In 2008 he became a Fellow of the Royal Institute of Chartered Surveyors (FRICS), the European equivalent of MAI. He serves on the Board of the Runstad Center for Real Estate Research at the University of Washington.

Mr. Shorett specializes in providing valuation and consultation for mediation, arbitration, litigation support and expert witness testimony. He has a wide diversified background in appraisal, market analysis and counseling for the development, acquisition, sale, leasing and financing of major urban real estate throughout the continental Western United States, including the cities of Seattle, Portland, San Francisco and Los Angeles.

Property types studied include apartments, churches, shopping centers, office and industrial buildings, marinas, condominiums, convention hotels, motels, golf courses, parking garages, medical clinics, service stations, residential subdivisions, nursing homes, retirement apartments, vacant land and numerous special-purpose and single-use properties. Mr. Shorett has extensive experience in working with owners whose property is acquired by condemning agencies such as Sound Transit or Local Improvement Districts (LID). Other assignments have included the valuation of leasehold interests, market analysis and lease-up studies for various investors and business groups.

## PROFESSIONAL AFFILIATIONS

**MEMBER OF** Appraisal Institute (MAI)

**COUNSELORS** of Real Estate (CRE)

**CERTIFIED** Commercial Investment Member Designee (CCIM)

**FELLOW** of the Royal Institute of Chartered Surveyors (FRICS)

## SELECT CLIENT LIST

### Attorney/Law Firms

- Bush Kornfeld
- Cairncross & Hemplemann
- Davis Wright Tremaine
- Dorsey Whitney
- Drumheller
- Ellis Li & McKinstry
- Foster Pepper
- Hansen Baker
- Karr Tuttle Campbell
- K&L Gates
- Lane Powell
- Lasher Holzapfel Sperry & Ebberson
- Miller Nash Graham & Dunn
- Perkins Coie
- Pillsbury Winthrop Shaw Pittman
- Schwabe Williamson & Wyatt
- Stafford Frey Cooper



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**COURT EXPERIENCE**

United States Bankruptcy Court  
United States Federal Court  
King County, Washington Superior Court  
Kitsap County, Washington Superior Court  
Pierce County, Washington Superior Court  
Snohomish County, Washington Superior Court  
Santa Cruz County, California Superior Court

**EDUCATION**

**BUSINESS ADMINISTRATION**, Western Washington University (1980)

**PROFESSIONAL LICENSES**

**STATE OF WASHINGTON** Certified General Real Estate Appraiser (No. 1100389)

**STATE OF OREGON** Certified General Real Estate Appraiser (No. C000599)

**STATE OF CALIFORNIA** Real Estate Appraiser License (AG014564)

**STATE OF IDAHO** Real Estate Appraiser License (CGA-3932)

Reciprocal agreements with other states as needed

**ADDITIONAL CLIENTS**

**Corporations/Property Owners**

3M Corporation	Goodman Financial	Miller Brewing Company
Albertsons, Inc.	Health Science Properties	Nitze-Stagen
Bekins Company	Hertz Corporation	Nobel House Hotels & Resorts
Bristol Meyers Squibb	International Paper Company	Northwest Airlines
Clise Properties	KCTS Channel 9	Northwestern Trust
Consolidated Restaurants, Inc.	Kilroy Industries	Olympic Resource Management
Delta Airlines	KMPG	PACCAR
Fred Hutchinson	Lindal Cedar Homes	Pine Street Associates
Gai's Bakery	Lone Star Northwest	Portac, Inc.
Goodale & Barbieri	McDonalds Corporation	Rayonier

**Attorney/Law Firms Continued**

Stokes Lawrence

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**Corporations/Property Owners Cont'd**

Seattle Seahawks	Swinomish Tribal Community	Union Carbide
Skokomish Tribal Community	The Boeing Company	Vulcan, Inc.
Southland Corporation	Unigard Security Insurance	Wesley Homes
		YWCA

**Development Companies**

Bentall Corporation	Quadrant	Trammell Crow
Lincoln Property Co.	Sobrato Development Co.	Wright Runstad & Co
Opus		

**Financial Institutions/Life Insurance Companies**

AETNA Life Ins. Co.	Group	T. Rowe Price
Amresco	Home Street Bank	The Union Bank of California
Allstate Life Ins. Co.	InterWest	TIAA-CREF
Bank of America	Key Bank	Transamerica Insurance Co.
CitiCorp	L.J. Melody & Co.	US Bancorp
Coldwell Banker Financial	Manufacturer's Hanover Trust Co.	Washington Capital Management
Collateral Mortgage	Mellon Financial	Washington Mutual
Crown Life Ins. Co.	Merrill Lynch	Washington Trust Bank
First Horizon	Morgan Stanley	Wells Fargo Bank
Frontier Bank	New York Life	
GE Capital	Pacific NW Bank	
Glaser Financial	Sterling Savings	

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**Governmental Agencies/Port Authorities/Nonprofits**

City of Bainbridge Island	King County Dept. of Transportation	Port of Seattle
City of Half Moon Bay	King County Property Services	Port of Tacoma
City of Kirkland	King County Prosecutor's Office	Sound Transit
City of Santa Cruz	Port of Anacortes	The Nature Conservancy
City of Seattle	Port of Chelan	Trust for Public Land
Dept. of Natural Resources (WA State)	Port of Friday Harbor	United States Postal Service
General Services Administration	Port of Port Townsend	Washington State Attorney General's Office
Internal Revenue Service	Port of Renton	

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# STATE OF WASHINGTON

DEPARTMENT OF LICENSING – BUSINESS AND PROFESSIONS DIVISION



THIS CERTIFIES THAT THE PERSON OR BUSINESS NAMED BELOW IS AUTHORIZED AS A

**CERTIFIED GENERAL REAL ESTATE APPRAISER**

**PETER K SHORETT**  
**601 UNION STREET #4720**  
**SEATTLE WA 98101**

**1100389**

License Number

**01/06/1992**

Issued Date

**04/10/2021**

Expiration Date

*Teresa Berntsen*  
Teresa Berntsen, Director



# JOHN D. GORDON, MAI, AI-GRS

**Senior Vice President, Shareholder  
Valuation Advisory Services**

John Gordon has over 30 years experience in the analysis and appraisal of complex income property. He has served as a staff appraiser, as a regional appraisal manager for a national accounting and consulting firm, and as a principal of an independent appraisal company. Prior to joining Kidd Mathews' Valuation Advisory Services, he was Special Properties Manager in the Commercial Appraisal Department of Washington Mutual Bank (now JP Morgan Chase), where he oversaw the valuation of their national portfolio of hotels and other special purpose properties.

John's educational background includes a BA in Economics from the University of California, and an MBA, with an emphasis in finance, from the University of Washington. He was awarded his MAI designation in 1989, and is certified as a commercial real estate appraiser in the states of Washington, Oregon, Idaho, and California.

John brings special expertise to the valuation and analysis of lodging properties. He has appraised over 600 hotels in 13 states, including small motels, large full service hotels, and some of the finest boutique resort properties in the region. In addition to hotels, John has extensive expertise in the valuation of senior living communities and affordable multifamily housing.

John is a Past President of the Seattle Chapter of the Appraisal Institute. He served for several years as an instructor in the real estate program at North Seattle Community College, and has been a guest lecturer at the Fachhochschule Munchen in Munich, Germany.

## PROFESSIONAL LICENSES

**STATE OF WASHINGTON**, Certified General Real Estate Appraiser  
(No. 1100661)

**STATE OF OREGON**, State Certified General Appraiser  
(No. C000237)

**STATE OF IDAHO**, Certified General Appraiser  
(No. CGA-2519)

**STATE OF CALIFORNIA**, Certified General Real Estate Appraiser  
(No. AG 004565)

## SELECT CLIENT LIST

Bank of America

Bank of the Pacific

Bank of the West

Banner Bank

BECU

Coast Hotels

First Federal

Heritage Bank

HomeStreet Bank

JP Morgan Chase

Key Bank

Kitsap Bank

Mereté

Mountain Pacific Bank

Numerica Credit Union

Pacific Northwest Bank

Peoples Bank

Pacific Premiere Bank



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## HOTEL MARKETS

### WASHINGTON

Aberdeen	Edmonds	Mukilteo	Seki
Allyn	Ellensburg	Oak Harbor	Sequim
Anacortes	Everett	Ocean Shores	Silverdale
Ashford	Fall City	Olympia	Spokane
Auburn	Federal Way	Orcas Island	Spokane Valley
Belfair	Fife	Pacific Beach	Sumner
Bellevue	Forks	Pacific	Tacoma
Bellingham	Issaquah	Pasco	Toppenish
Blaine	Kennewick	Port Angeles	Touchet
Bothell	Kent	Port Hadlock	Tukwila
Bremerton	Kirkland	Port Townsend	Tumwater
Brewster	Lacey	Pullman	Union Gap
Burlington	Lakewood	Puyallup	Vancouver
Chehalis	Langlely	Quincy	Vashon
Chelan	Leavenworth	Redmond	Walla Walla
Clarkston	Long Beach	Renton	Wenatchee
Cle Elum	Longview	Richland	Westport
Des Moines	Lynnwood	Ritzville	Woodinville
Dupont	Marysville	San Juan Island	Yakima
Eastsound	Monroe	SeaTac	Zillah
East Wentachee	Moses Lake	Seattle	

### OREGON

Ashland	Gresham	Newberg	The Dalles
Baker	Hermiston	Newport	Tigard
Bandon	Hillsboro	Ontario	Tillamook
Bend	Hood River	Pendleton	Troutdale
Beaverton	Klamath Falls	Portland	Tualatin
Boardman	La Grande	Redmond	West Linn
Coos Bay	Lake Oswego	Salem	Woodburn
Eugene	Lincoln City	Seaside	
Forest Grove	Medford	Sisters	
Grants Pass		Springfield	

### IDAHO

Boise	Idaho Falls	Nampa	Sandpoint
Bonniers Ferry	Lewiston	Pocatello	Twin Falls
Caldwell	Meridian	Post Falls	
Coeur d'Alene	Moscow	Rexburg	

## HOTEL BRANDS

Aloft	Embassy	La Quinta	Silver Cloud
Baymont	EVEN	McMenamins	Sleep
Best Western	FairBridge	Microtel	SpringHill
Candlewood	Fairfield	Motel 6	Staybridge
Clarion	Four Points	Oxford	Super 8
Coast	Four Seasons	Quality	TownePlace
Comfort	Guesthouse	Radisson	Travelodge
Country	Hampton	Ramada	Vagabond
Courtyard	Hilton	Red Lion	W
Crowne Plaza	Hilton Garden	Residence	WestCoast
Days	Holiday	Rodeway	WoodSpring
Doubletree	Home2	Sheraton	
EconoLodge	Hyatt	Shilo	

Red Lion Hotels

SaviBank

Seattle Bank

Shilo Inns

Silver Cloud Inns

Symetra Insurance

Tacoma Housing Authority

Timberland Bank

Travel Tacoma

Umpqua Bank

US Bancorp

Washington Capital

Washington Federal

Washington Trust Bank

Wells Fargo Bank

Yakima Convention Center

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**STATE OF WASHINGTON**

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*Teresa Berntsen*

Teresa Berntsen, Director



# JESSE L. BAKER

**Associate**  
**Valuation Advisory Services**

Jesse Baker joined the Valuation Advisory Services department of Kidder Mathews in September 2014. Prior to joining the firm, he spent five years in leadership roles with the Cintas Corporation. He graduated the Management Trainee Program (2010), and was promoted to Service Manager (2011) and Operations Manager (2013). Mr. Baker also served as an integral member of the acquisition due-diligence team, providing analysis and recommendations as the Cintas Document Management Division pursued an aggressive growth strategy in Northern California markets.

With an educational background from the Cornell Hotel School, Mr. Baker is developing an expertise in the valuation and analysis of lodging properties. In his first 18 months with Kidder Mathews, he has appraised or provided consulting services on over 20 hotels across Washington. In addition to lodging, Jesse has appraised senior living properties (IL/AL/MC), multifamily, and LIHTC affordable housing.

## STATE CERTIFICATION

Jesse is actively pursuing the educational requirements for Washington State Certification. He is currently registered as a Washington State Real Estate Appraiser Trainee under Registration No. 1001777.

## EDUCATION

**BS** in Hospitality Management, The Hotel School at Cornell University

**REAL ESATE MINOR**, The Hotel School at Cornell University

Cornell Varsity Football; WR, 4yr Member, 2005-2008, All-Ivy 2008

## WASHINGTON STATE QUALIFYING EDUCATION

Basic Appraisal Principles

Basic Appraisal Procedures

2014-2015 National USPAP

2016-2017 National USPAP Update

General Appraiser Market Analysis & HBU

Statistics, Modeling & Finance



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# STATE OF WASHINGTON

DEPARTMENT OF LICENSING – BUSINESS AND PROFESSIONS DIVISION



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**STATE REGISTERED REAL ESTATE APPRAISER TRAINEE**

**JESSE LEE BAKER  
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SEATTLE WA 98108**

**1001777**

License Number

**08/28/2014**

Issued Date

**03/05/2020**

Expiration Date

*Pat Kohler*  
Pat Kohler, Director

Sound Hotel	Actual 2-12/2019 (1st year)		ABS Final		KM Stabilized	
	Total	Ratio	Total	Ratio	Total	Ratio
Guestrooms	142		142		142	
Available Room Nights	45,866		51,830		51,830	
Occupancy Rate	73.2%		80.0%		85.0%	
Occupied Room Nights	33,590		41,464		44,056	
Average Room Rate	\$205		\$300		\$218	
Room Revenue	\$6,883,261	84.8%	\$12,439,200	85.9%	\$9,597,933	85.5%
Other Revenue	\$1,232,295	15.2%	\$2,038,890	14.1%	\$1,630,054	14.5%
Total Revenue	\$8,115,556	100.0%	\$14,478,090	100.0%	\$11,227,987	100.0%
Operating Expenses	\$7,351,780	90.6%	\$9,421,175	65.1%	\$8,020,562	71.4%
Net Operating Income	\$763,776	9.4%	\$5,056,915	34.9%	\$3,207,425	28.6%
Capitalization Rate			7.25%		6.87%	
Current Value			\$69,751,000		\$46,700,000	
Lift Ratio			0.52%		0.52%	
Special Benefit			\$363,000		\$243,037	
LID Levy			\$142,296		\$95,271	



# **Sound Hotel**

## **Restricted Appraisal – Supplemental Tables**

**LID Hearing Case CWF-415**

**Tax Parcel 0696000015**

**ABS Valuation Property C-080**

**Kidder Mathews Job A20-0185a**



**Table 1  
Competitive Set**

<b>Property Name Street Address City, State</b>	<b>Built Affil Eff Age</b>	<b>Standard Suite Total</b>	<b>Land Area Bldg Area Mtg Space</b>	<b>Land/Rm Bldg/Rm Mtg/Rm</b>	<b>Type Corridors Height</b>	<b>Rack Rates Amenities AAA</b>
Warwick Hotel	1981	227	19,440	84	Select	\$149-\$449
401 Lenora Street	1981	4	119,890	519	Interior	A B C E F
Seattle, WA 98121	20	231	1,170	5	19 Stories	◆◆◆
Hilton Garden Inn	2015	202	41,619	187	Select	\$208-\$504
1821 Boren Avenue	2015	20	158,207	713	Interior	A B C E F
Seattle, WA 98101	4	222	2,010	9	14 Stories	◆◆◆
Hotel Theodore	1929	123	8,400	55	Vintage	\$147-\$342
1531 7th Avenue	2017	30	88,591	579	Interior	A B E
Seattle, WA 98101	10	153	2,559	17	20 Stories	Not Rated
Sound Hotel	2019	142	12,960	91	Select	\$293-\$442
2120 4th Avenue	2019	0	108,210	762	Interior	A B C E
Seattle, WA 98121	0	142	770	5	10 Stories	Not Yet Rated
Hotel Andra	1926	118	12,957	109	Vintage	\$144-\$828
2000 4th Avenue	2004	1	116,604	980	Interior	A B C E
Seattle, WA 98121	20	119	2,800	24	9 Stories	Not Rated
Kimpton Palladian Hotel	1910	69	6,480	67	Vintage	\$144-\$545
2000 2nd Avenue	2015	28	60,087	619	Interior	A B E
Seattle, WA 98121	10	97	1,150	12	9 Stories	Not Rated
Sources: Hotel Management County Assessors AAA Tourbook			A = Restaurant/Lounge B = Meeting Rooms C = Refridge/MW	D = Health Spa E = Fitness Center F = Swimming Pool		



**Table 2**  
**Market Supply & Demand, Historical**

	<b>2017</b>	<b>2018</b>	<b>2019</b>
<b>Market Supply</b>			
Existing Hotels	822	822	952
Charter Hotel			
Average Daily Rooms	822	822	952
Available Room Nights	300,030	300,030	347,458
Percentage Change	-	0.0%	15.8%
<b>Market Demand</b>			
Base Demand			
Underlying Growth			
Trended Demand			
Induced Demand			
Occupied Room Nights	267,113	266,045	297,830
Percentage Change	-	-0.4%	11.9%
<b>Market Occupancy</b>	89.0%	88.7%	85.7%
<b>Market Room Rate</b>	\$198.25	\$207.16	\$193.22
Percentage Change	-	4.5%	-6.7%
<b>Market RevPAR</b>	\$176.50	\$183.69	\$165.63
Percentage Change	-	4.1%	-9.8%
<b>Market Revenue (000)</b>	\$52,955	\$55,113	\$57,548
Percentage Change	-	4.1%	4.4%



**Table 3**  
**Market Supply & Demand, Projected**

	2020	2021	2022	2023	2024
<b>Market Supply</b>					
Existing Hotels	964	964	964	964	964
Charter Hotel	229	229	229	229	229
Average Daily Rooms	1,193	1,193	1,193	1,193	1,193
Available Room Nights	435,445	435,445	435,445	435,445	435,445
Percentage Change	25.3%	0.0%	0.0%	0.0%	0.0%
<b>Market Demand</b>					
Base Demand	297,830	330,187	363,190	370,128	370,128
Underlying Growth	2.0%	2.0%	2.0%	0.0%	0.0%
Trended Demand	303,787	336,790	370,454	370,128	370,128
Induced Demand	26,400	26,400	0	0	0
Occupied Room Nights	330,187	363,190	370,128	370,128	370,128
Percentage Change	10.9%	10.0%	1.9%	0.0%	0.0%
<b>Market Occupancy</b>	75.8%	83.4%	85.0%	85.0%	85.0%
<b>Market Room Rate</b>	\$198.05	\$203.01	\$208.08	\$213.28	\$218.62
Percentage Change	2.5%	2.5%	2.5%	2.5%	2.5%
<b>Market RevPAR</b>	\$150.18	\$169.32	\$176.87	\$181.29	\$185.82
Percentage Change	-9.3%	12.7%	4.5%	2.5%	2.5%
<b>Market Revenue (000)</b>	\$65,395	\$73,730	\$77,017	\$78,942	\$80,916
Percentage Change	13.6%	12.7%	4.5%	2.5%	2.5%



**Table 4**  
**Market Position, Historical**

	<b>2019</b>
<b>Supply Ratio</b>	
Subject Room Supply	130
Market Room Supply	952
Subject Supply Ratio	13.6%
<b>Room Occupancy</b>	
Market Supply	347,458
Market Occupancy	85.7%
Market Demand	297,830
Subject Supply Ratio	13.6%
Proportionate Demand	40,654
Occupancy Index	85.4%
Subject Demand	34,734
Subject Supply	47,428
Subject Occupancy	73.2%
<b>Room Rate</b>	
Market Room Rate	\$193.22
Room Rate Index	106.1%
Subject Room Rate	\$204.92
<b>Room Revenue</b>	
Market RevPAR	\$168.08
RevPAR Index	89.3%
Subject RevPAR	\$150.07
Subject Revenue	\$7,117,584



**Table 5**  
**Market Position, Projected**

	Projected					Stabilized
	2020	2021	2022	2023	2024	2020 \$
<b>Supply Ratio</b>						
Subject Room Supply	142	142	142	142	142	142
Market Room Supply	1,193	1,193	1,193	1,193	1,193	1,193
Subject Supply Ratio	11.9%	11.9%	11.9%	11.9%	11.9%	11.9%
<b>Room Occupancy</b>						
Market Supply	435,445	435,445	435,445	435,445	435,445	435,445
Market Occupancy	75.8%	83.4%	85.0%	85.0%	85.0%	85.0%
Market Demand	330,187	363,190	370,128	370,128	370,128	370,128
Subject Supply Ratio	11.9%	11.9%	11.9%	11.9%	11.9%	11.9%
Proportionate Demand	39,301	43,230	44,056	44,056	44,056	44,056
Occupancy Index	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Subject Demand	39,301	43,230	44,056	44,056	44,056	44,056
Subject Supply	51,830	51,830	51,830	51,830	51,830	51,830
Subject Occupancy	75.8%	83.4%	85.0%	85.0%	85.0%	85.0%
<b>Room Rate</b>						
Market Room Rate	\$198.05	\$203.01	\$208.08	\$213.28	\$218.62	\$198.05
Room Rate Index	108.0%	110.0%	110.0%	110.0%	110.0%	110.0%
Subject Room Rate	\$213.90	\$223.31	\$228.89	\$234.61	\$240.48	\$217.86
<b>Room Revenue</b>						
Market RevPAR	\$150.18	\$169.32	\$176.87	\$181.29	\$185.82	\$168.35
RevPAR Index	108.0%	110.0%	110.0%	110.0%	110.0%	110.0%
Subject RevPAR	\$162.19	\$186.25	\$194.56	\$199.42	\$204.41	\$185.18
Subject Revenue	\$8,406,513	\$9,653,472	\$10,083,829	\$10,335,924	\$10,594,322	\$9,597,933





**Table 6**  
**Historical Operating Performance**

	Feb-Dec 2019			
	Total	Ratio	Per Rm	Per ORN
Available Rooms	142			
Occupancy Rate	73.2%			
Average Room Rate	\$204.92			
Daily RevPAR	\$150.07			
<b>Revenue</b>				
Rooms	\$6,883,261	84.8%	\$48,474	\$204.92
Food & Beverage	\$845,229	10.4%	\$5,952	\$25.16
Ancillary	\$368,993	4.5%	\$2,599	\$10.99
Other Income	\$18,073	0.2%	\$127	\$0.54
Total	\$8,115,556	100.0%	\$57,152	\$241.61
<b>Departmental Expenses</b>				
Rooms	\$2,113,300	30.7%	\$14,882	\$62.91
Food & Beverage	\$1,180,031	139.6%	\$8,310	\$35.13
Ancillary	\$348,679	94.5%	\$2,455	\$10.38
Other Income	\$0	0.0%	\$0	\$0.00
Total	\$3,642,010	44.9%	\$25,648	\$108.43
<b>Undistributed Expenses</b>				
Administration	\$803,538	9.9%	\$5,659	\$23.92
Info & Telecomm	\$156,370	1.9%	\$1,101	\$4.66
Marketing	\$1,140,097	14.0%	\$8,029	\$33.94
Maintenance	\$295,112	3.6%	\$2,078	\$8.79
Utilities	\$263,912	3.3%	\$1,859	\$7.86
Total	\$2,659,029	32.8%	\$18,726	\$79.16
<b>Fixed Charges</b>				
Taxes	\$337,378	4.2%	\$2,376	\$10.04
Insurance	\$64,119	0.8%	\$452	\$1.91
Total	\$401,497	4.9%	\$2,827	\$11.95
Direct Expenses	\$6,702,536	82.6%	\$47,201	\$199.54
Operating Profit	\$1,413,020	17.4%	\$9,951	\$42.07



**Table 7**  
**Stabilized Operating Performance**

	Total	Ratio	Per Room	Per ORN
Guestrooms	142			
Room Occupancy Rate	85.0%			
Average Daily Room Rate	\$217.86			
Daily RevPAR	\$185.18			
Revenue				
Rooms	\$9,597,933	85.5%	\$67,591	\$217.86
Food & Beverage	\$1,101,388	9.8%	\$7,756	\$25.00
Ancillary	\$484,611	4.3%	\$3,413	\$11.00
Other Income	\$44,056	0.4%	\$310	\$1.00
Total	\$11,227,987	100.0%	\$79,070	\$254.86
Departmental Expenses				
Rooms	\$2,399,483	25.0%	\$16,898	\$54.47
Food & Beverage	\$991,249	9.0%	\$6,981	\$22.50
Ancillary	\$339,227	7.0%	\$2,389	\$7.70
Total	\$3,729,959	33.2%	\$26,267	\$84.67
Undistributed Expenses				
Administration	\$904,840	8.1%	\$6,372	\$20.54
Info & Telecomm	\$156,200	1.4%	\$1,100	\$3.55
Marketing	\$1,331,897	11.9%	\$9,380	\$30.23
Maintenance	\$298,200	2.7%	\$2,100	\$6.77
Utilities	\$269,800	2.4%	\$1,900	\$6.12
Total	\$2,960,936	26.4%	\$20,852	\$67.21
Fixed Charges				
Property Taxes	\$360,427	3.2%	\$2,538	\$8.18
Insurance	\$71,000	0.6%	\$500	\$1.61
Total	\$431,427	3.8%	\$3,038	\$9.79
Direct Expenses	\$7,122,323	63.4%	\$50,157	\$161.67
Operating Profit	\$4,105,664	36.6%	\$28,913	\$93.19
Other Charges				
Management Fees	\$336,840	3.0%	\$2,372	\$7.65
Capital Replacement	\$561,399	5.0%	\$3,954	\$12.74
Total	\$898,239	8.0%	\$6,326	\$20.39
Total Expenses	\$8,020,562	71.4%	\$56,483	\$182.06
Net Operating Income	\$3,207,425	28.6%	\$22,587	\$72.80



**Table 8**  
**Projected Operating Performance**

	2020	2021	2022	2023	2024
Room Occupancy Rate	75.8%	83.4%	85.0%	85.0%	85.0%
Average Daily Room Rate	\$213.90	\$223.31	\$228.89	\$234.61	\$240.48
Daily RevPAR	\$162.19	\$186.25	\$194.56	\$199.42	\$204.41
<b>Revenue</b>					
Rooms	\$8,406,513	\$9,653,472	\$10,083,829	\$10,335,924	\$10,594,322
Food & Beverage	\$982,533	\$1,107,761	\$1,157,145	\$1,186,074	\$1,215,726
Ancillary	\$432,315	\$487,415	\$509,144	\$521,873	\$534,919
Other Income	\$39,301	\$44,310	\$46,286	\$47,443	\$48,629
Total	\$9,860,663	\$11,292,958	\$11,796,404	\$12,091,314	\$12,393,596
<b>Departmental Expenses</b>					
Rooms	\$2,295,909	\$2,441,029	\$2,520,957	\$2,583,981	\$2,648,581
Food & Beverage	\$927,067	\$1,004,603	\$1,041,431	\$1,067,466	\$1,094,153
Ancillary	\$306,281	\$341,842	\$356,401	\$365,311	\$374,444
Total	\$3,529,257	\$3,787,474	\$3,918,789	\$4,016,758	\$4,117,177
<b>Undistributed Expenses</b>					
Administration	\$863,820	\$920,989	\$950,647	\$974,413	\$998,774
Info & Telecomm	\$156,200	\$160,105	\$164,108	\$168,210	\$172,416
Marketing	\$1,272,326	\$1,355,974	\$1,399,324	\$1,434,307	\$1,470,165
Maintenance	\$288,546	\$303,936	\$313,296	\$321,129	\$329,157
Utilities	\$266,889	\$276,027	\$283,459	\$290,545	\$297,809
Total	\$2,847,780	\$3,017,030	\$3,110,834	\$3,188,604	\$3,268,320
<b>Fixed Charges</b>					
Property Taxes	\$353,987	\$368,422	\$378,674	\$388,141	\$397,844
Insurance	\$71,000	\$72,775	\$74,594	\$76,459	\$78,371
Total	\$424,987	\$441,197	\$453,268	\$464,600	\$476,215
<b>Other Charges</b>					
Management Fees	\$295,820	\$338,789	\$353,892	\$362,739	\$371,808
Capital Replacement	\$493,033	\$564,648	\$589,820	\$604,566	\$619,680
Total	\$788,853	\$903,437	\$943,712	\$967,305	\$991,488
Total Expenses	\$7,590,878	\$8,149,138	\$8,426,603	\$8,637,268	\$8,853,200
Net Operating Income	\$2,269,785	\$3,143,820	\$3,369,801	\$3,454,046	\$3,540,397



**Table 9**  
**Income Capitalization**

<b>Direct Capitalization</b>	<b>Projected NOI</b>	<b>Overall Cap Rate</b>	<b>Present Value</b>
Stabilized NOI (2020 \$)	\$3,207,425	6.50%	\$49,300,000
Near-Term Surplus/Shortfall			<u>-\$1,100,000</u>
Indicated Value			\$48,200,000
<hr/>			
<b>Yield Capitalization</b>	<b>Projected NOI</b>	<b>8.25% PV Factor</b>	<b>Present Value</b>
2020	\$2,269,785	0.923788	\$2,096,799
2021	\$3,143,820	0.853383	\$2,682,884
2022	\$3,369,801	0.788345	\$2,656,565
2023	\$3,454,046	0.728263	\$2,515,454
2024	\$3,540,397	0.672760	\$2,381,839
2025	\$3,628,907	0.621488	\$2,255,321
2026	\$3,719,629	0.574123	\$2,135,523
2027	\$3,812,620	0.530367	\$2,022,089
2028	\$3,907,936	0.489947	\$1,914,680
2029	\$4,005,634	0.452607	\$1,812,977
Reversion			
NOI After Reversion	\$4,105,775		
Reversion Capitalization Rate	<u>6.90%</u>		
Fee Simple Value At Reversion	\$59,500,000		
Less Selling Costs @ 3.0%	<u>\$1,790,000</u>		
Net Cash At Reversion	\$57,710,000	0.452607	<u>\$26,119,931</u>
Indicated Value			\$48,600,000
<hr/>			
<b>Current Market Value As Is</b>			\$48,400,000



**Table 10**  
**Near-Term Income Variance**

	<b>2020</b>	<b>2021</b>	<b>2022</b>
Stabilized NOI	\$3,207,425	\$3,207,425	\$3,207,425
Trending Factor	1.000000	1.025000	1.050625
Trended NOI	\$3,207,425	\$3,287,610	\$3,369,801
Projected NOI	\$2,269,785	\$3,143,820	\$3,369,801
Shortfall	-\$937,640	-\$143,790	\$0
Discount Factor	0.923788	0.853383	
Discounted Shortfall	-\$866,180	-\$122,708	
Cumulative Shortfall	-\$988,888		
Profit Incentive	-\$148,333		
Shortfall & Incentive (rd)	-\$1,100,000		

**Table 11**  
**Allocation of Value**

<b>Total Asset</b>	<b>Personal Property</b>			<b>Net</b>	<b>Real Estate</b>
	<b>Per Room</b>	<b>Total</b>	<b>Deprec</b>		
\$48,400,000	\$20,000	\$2,840,000	10%	\$2,600,000	\$45,800,000

# Exhibit 5



Appraisal Review

# Waterfront Seattle Project Special Benefit Study Four Seasons Hotel

as of October 1, 2019 (Study Date)



Prepared for

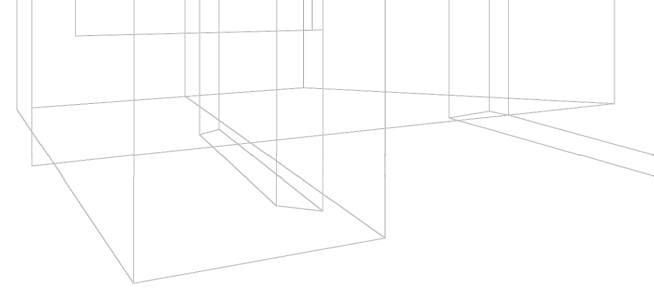
Greg Vik, Manager  
Seattle Hotel Group

Prepared by

Peter K. Shorett, MAI, CRE, FRICS  
Jesse L. Baker  
KM Job A19-1335

Kidder Mathews

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February 3, 2020

Greg Vik, Manager  
Seattle Hotel Group  
P.O. Box 334  
Bellevue, Washington 98009

Dear Mr. Vik:

At your request, we have performed an appraisal review of the Final Special Benefit/ Proportionate Assessment Study (Study) for the Waterfront Seattle Project (Waterfront Project) Local Improvement District (LID). This review was conducted in accordance with Standard 3 of the Uniform Standards of Professional Appraisal Practice (USPAP) for performing Appraisal Reviews. These services comply with and are subject to the Code of Professional Ethics and Standards of Professional Practice of the Appraisal Institute. A summary of the appraisal reviewed and our conclusions are contained in this report.

The Study concludes that 6,238 properties within a defined LID boundary will benefit from LID improvements that are part of the larger Waterfront Project. The Study provides opinion and analysis that form the basis for the formation of the LID boundary area and then applies value estimates for each of the 6,238 properties before and after completion of the Project.

This review provides an opinion of the appropriateness of the conclusions reached in the Study. We consider the appropriateness of the LID boundary conclusions, the estimates of benefit to the properties in the study, then a review of the value appropriateness before and after the Project for the property that is the subject of this review.

Respectfully submitted,



Peter K. Shorett, MAI, CRE, FRICS  
Certified General Real Estate Appraiser  
WA License 1100389, exp 4/10/2021



Jesse L. Baker  
State Registered Real Estate Appraiser Trainee  
WA License 1001777, exp 3/5/2020





# Certification

We certify that, to the best of our knowledge and belief:

- 1) The statements of fact contained in this report are true and correct.
- 2) The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are our personal, impartial, and unbiased professional analyses, opinions, and conclusions.
- 3) We have no present or prospective interest in the property that is the subject of this report, and no personal interest with respect to the parties involved.
- 4) We have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- 5) Our engagement in this assignment was not contingent upon developing or reporting predetermined results.
- 6) Our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- 7) Our analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice*.
- 8) John D. Gordon has made a personal inspection of the property that is the subject of this report.
- 9) We have not previously appraised the property within the three years preceding our acceptance of this engagement.
- 10) John D. Gordon (Kidder Mathews, Bellevue) provided significant real property appraisal assistance to the persons signing this certification.
- 11) The reported analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the requirements of the *Code of Professional Ethics and Standards of Professional Practice* of the Appraisal Institute.
- 12) The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
- 13) As of the date of this report, Peter K. Shorett and John D. Gordon have completed the continuing education program for Designated Members of the Appraisal Institute.
- 14) As of the date of this report, Jesse L. Baker has completed the Standards and Ethics Education Requirements for Practicing Affiliates of the Appraisal Institute.

Peter K. Shorett, MAI, CRE, FRICS  
Certified General Real Estate Appraiser  
WA License 1100389, exp 4/10/2021

Jesse L. Baker  
State Registered Real Estate Appraiser Trainee  
WA License 1001777, exp 3/5/2020



## Limiting Conditions

Limiting conditions specific to this appraisal are as follows:

- 1) The appraisers have made no survey of the property and assume no responsibility in connection with such matters. Any sketch or identified survey of the property included in this report is only for the purpose of assisting the reader to visualize the property.
- 2) It is assumed that there are no hidden or unapparent conditions of the property, subsoil or structures (including asbestos, soil contamination or unknown environmental factors) that render it more or less valuable. No responsibility is assumed for such conditions or for arranging the studies that may be required to discover them.
- 3) No responsibility is assumed for the legal description or for matters including legal or title considerations.
- 4) The information identified in this report as being furnished by others is believed to be reliable, but no warranty is given for its accuracy.
- 5) The appraisers are not required to give testimony or attendance in court by reason of this appraisal unless arrangements have previously been made.
- 6) The allocation of total value to land, buildings, or any fractional part or interest, if shown in this report, is invalidated if used separately in conjunction with any other appraisal.
- 7) The appraisers are competent and qualified to perform the appraisal assignment.
- 8) Valuation Advisory Services is a subsidiary of Kidder Mathews, a full service commercial real estate brokerage firm. On occasion, employees or agents of the firm have interests in the property being appraised. When present, interests have been disclosed and the report has been made absent of any influence from these parties.

### RESTRICTION UPON DISCLOSURE & USE:

Disclosure of the contents of this appraisal report is governed by the By-Laws & Regulations of the Appraisal Institute. Neither all nor any part of the contents of this report (especially any conclusions as to value, the identity of the appraisers or the firm with which they are connected, or any reference to the Appraisal Institute or to the MAI designation) shall be disseminated to the public through advertising media, public relations media, news media, sales media or any other public means of communication without the prior written consent and approval of the undersigned. No part of this report or any of the conclusions may be included in any offering statement, memorandum, prospectus or registration without the prior written consent of the appraisers.



## Summary

<b>Property Appraised in Study</b>	Four Seasons Hotel 99 Union Street Seattle, Washington 98101
<b>Study Prepared By</b>	ABS Valuation Robert J. Macaulay, MAI 2927 Colby Avenue, Suite 100 Everett, WA 98201
<b>Study Reviewed By</b>	Peter K. Shorett, MAI, CRE, FRICS John D. Gordon, MAI, AI-GRS Jesse L. Baker Kidder Mathews Valuation Advisory Services 601 Union St., Suite 4720 Seattle, WA 98101
<b>Intended Users</b>	This appraisal review is prepared for you, the client, your legal counsel Jerry Lutz with Perkins Coie, City of Seattle Hearing Examiner Ryan Vancil, the Seattle City Council members, and Robert J. Macaulay, MAI, appraiser with ABS Valuation
<b>Intended Use</b>	To be used in support of the property owners appeal of the Special Benefit Assessment proposed to be levied against the property.
<b>Purpose of the Assignment</b>	To determine the appropriateness of the conclusions reached in the Final Special Benefit/Proportionate Assessment Study (Study) for the Waterfront Seattle Project Local Improvement District (LID).
<b>Date of Appraisal Under Review</b>	Prepared – November 18, 2019 Date of Value – October 1, 2019
<b>Date of Reviewer's Opinion</b>	Prepared – January 30, 2020 Date of Value – October 1, 2019



**Extraordinary Assumptions or Hypothetical Conditions to this Review** None

**Scope of the Review** This is a review and critique of the value methodologies and conclusions in the Study and the estimate of value increase for the property before and after the LID improvements are in place. We will be providing our opinion of value before the LID improvements in a separate Restricted Appraisal report.

The scope of work included a review of the Study, its Addendum, a general inspection of properties within the LID boundary area, location where the LID improvements will be made, additional research on the case study examples used in the Study and interviews with market participants in those markets.

The results of the review are contained in this report.

<b>Study Conclusions</b>	Before	\$156,595,000
	After	<u>161,291,000</u>
	Special Benefit	\$4,696,000
	LID Assessment	\$1,839,997

**Review Conclusion** The increase in value opined in the appraisal is not credible and should not be relied on.



## Reviewer's Conclusions

It is our conclusion that the assignment results in the Study are misleading and do not provide the necessary evidence to provide credible opinions of property value increases before and after the LID improvements are in place. The appraiser has failed to provide the proper support to conclude that the LID improvements provide special benefits to all of the properties in the LID boundary area, in contrast to the more common general benefits that park improvements typically create for the benefit of the larger community and region.

The Study determines special benefits based on case studies that represent completely different neighborhood settings. As explained in the attached exhibit, every case study considered was in a significantly inferior condition before the project improvements were installed. Most are significant urban renewal projects that have changed the landscape of surrounding neighborhoods and communities, and dramatically changed the way locals and visitors interact with those communities. Those case studies are in stark contrast to the Seattle waterfront that even today, is a very desirable community asset with views to the west towards the Puget Sound and the Olympic Mountains. As part of the Viaduct removal, the City is obligated to restore the waterfront with roads, sidewalks, landscaping and other streetscape improvements regardless of the LID improvements. The LID improvements marginally add to what would already have been a very desirable property condition before the improvements. The case studies contained in the Study illustrate benefits received in those communities well beyond the level that the LID improvements will provide.

Further, the economic studies considered in the Study focus on the overall benefit of the projects rather than the incremental impact such as the LID improvements provide. None of them fairly represent incremental property value impacts such as those contemplated from the LID improvements. And the results of the studies tend to focus on benefits to a larger study area than those established in the LID boundary area.

The estimated value increases are so small that it is virtually impossible to estimate at the level of precision implied in the Study. The value increase estimates of 0.5% to 4.0% are below the margin of error typically accepted within real estate appraisal practice.

Attached to this review is Exhibit 1 that provides further support and explanation for these opinions.

Specific to the Four Seasons Hotel, the value increase is not considered market supported for the following reasons.

### **FOUR SEASONS HOTEL**

The Four Seasons competes in the luxury tier and is considered the premier lodging property in Seattle. Accommodations include 134 standard guestrooms, 13 suites, and over 8,500 sq ft of function space. The Four Seasons brand is known internationally for its representation of exclusivity and status.



**INDIVIDUAL PERFORMANCE**

The table below highlights the Four Seasons performance in the most recent year 2019. To preserve confidentiality, the individual results are presented in ranges.

**OPERATING STRATEGY**

Over the past year, hotels in the Downtown CBD have been dropping rates significantly to maintain occupancy. The Four Seasons 2019 strategy appears to be rooted in maintaining average daily rates at current levels despite the occupancy declining across the market. By doing so, Four Seasons will continue to count on its core customer base while allowing rate sensitive customers to downgrade accommodations.

**DEMAND SEGMENTATION**

Market demand may be analyzed by segment or source. In this region, the most common allocation is among transient demand (individual business or leisure travel), group demand, and contract demand.

At the Four Seasons, the majority of demand is generated in the business and leisure segment. The hotel also has a reasonable amount of function space and can also attract higher end group demand. Given the small share of contract demand, we have included these room nights in the group segment for analysis. Based on the monthly data reported by hotel management to STR, the current mix of demand at the Four Seasons is estimated and displayed in the following table.

**Performance & Segmentation**

	<b>Occupancy</b>	<b>Daily Rate</b>	<b>RevPAR</b>	<b>Transient</b>	<b>Group</b>
Four Seasons	Over 75%	\$450-\$550	\$350-\$450	77.0%	23.0%

**SEASONALITY**

During 2019, demand seasonality was moderate, with quarterly share ratios ranging from 21% to 30%. Monthly market occupancy rates ranged from 55% in March to 93% in August. There was similar seasonal variation in room prices, which ranged from the mid-\$400's to mid-\$600's. The quarterly share range for room revenue was 17% to 37%.



**MARKET PROJECTIONS**

Based on the interview feedback we received from Downtown CBD market operators, most are projecting flat rate growth and declining market occupancy is projected in the short term as the market continues to adjust to the significant influx in new supply that has recently opened.

**LID IMPACT**

We summarize the before and after valuation estimates per ABS.

Property Name	ABS Valuation 10/1/2019					
	Before	Change	After	Benefit	LID Ratio	LID Tax
Four Seasons Hotel	\$142,639,000	3.0%	\$146,917,000	\$4,278,000	39.182%	\$1,676,215
Four Seasons Garage	\$11,280,000	3.0%	\$11,618,000	\$338,000	39.182%	\$132,436
Four Seasons Retail	\$2,676,000	3.0%	\$2,756,000	\$80,000	39.183%	\$31,346
Subtotal Four Seasons	\$156,595,000	3.0%	\$161,291,000	\$4,696,000	39.182%	\$1,839,997

**REQUIRED REVENUE INCREASE**

The impact of the LID results in a net value increase of nearly \$4.7MM. The overall revenue increase needed to support this valuation can be calculated as:

Value Increase: \$4,696,000

Cap Rate: 6.0%

NOI Increase:  $(\$4,696,000 \times .06) = \$281,760$  Net NOI Increase

NOI Ratio 20% =  $(\$281,760 / 20\%) = \$1.4MM$  Net New Revenue

Revenue Increase =  $\$1.4MM / \$46,978,500$  (study value before) = 3%

Based on the before/after assumptions in the Study, the Four Seasons will need to increase revenue across the board by 3%. Assuming a \$500 average daily rate, the new target rate will be \$515.

While it may appear that a \$15/night is a minor increase and should be relatively easy to achieve, the same 3% revenue increase would also apply to all revenue centers including F&B, Parking, Retail, and Other. These are significant across the board increases implied to occur immediately if the LID Final Assessment Roll is approved. This amount of increase seems highly unlikely considering the 1% decline in ADR observed at the Four Seasons in the most recent year, along with the overall softening of the Seattle CBD Hotel market recently, as operators have dropped rates aggressively to maintain occupancy as new supply continues to come online.



**REQUIRED  
DEMAND  
INCREASE**

From another perspective, we looked at the new revenue threshold expectation from a supply and demand perspective, to demonstrate how many actual new rooms would be needed to meet the value increase estimate opined in the Study.

New Revenue = \$1.4MM | ADR = \$500 (Assumption)  
New Demand Required = ( $\$1.4\text{MM} / \$500 \text{ ADR}$ ) = 2,800 new guestrooms  
Existing Demand = 41,430 total rooms rented per year  
Net Demand Increase =  $(2,800 / 41,430) / = 6.75\%$  New Demand

The majority of new tourist demand would occur in the summer and fall months, as these months offer favorable weather for outdoor attractions, events held on the Waterfront, and other compression generated demand.

The summer and fall months are also considered the peak demand months for hotels in the region, creating limitations on supply to meet the new revenue demands. Using our segmentation data from the STR report, we illustrate supply at the Four Seasons during the peak season in the following table.





**Available Guestroom Supply, Peak Season**

	Subject Supply		Subject Demand		Available Supply	
	Rooms	ARN	ORN	Share	OCC	Ratio
May	147	4,557	3,722	9%	835	18%
June	147	4,410	3,896	9%	514	12%
July	147	4,557	4,162	10%	395	9%
August	147	4,557	4,236	10%	321	7%
September	147	4,410	3,916	9%	494	11%
October	147	4,557	3,876	9%	681	15%
					3,240	

Available Supply (6 months) = 3,240 guestrooms

Projected Demand Requirement = 2,800 new guestrooms

WF LID Supply/Demand Ratio = (2,800/3,240) = **86.4% Total Supply**

The Four Seasons would need to fill over 86% of its supply (rooms) with demand generated by the LID improvements.

Assuming a best-case scenario, with rooms revenue equating to about 55% of total operating revenue at the Four Seasons, and that all other revenue centers (F&B, Parking, Retail, Other) meet the required 3% revenue growth we apply the 55% ratio to the new 2,800 guestrooms calculated above. The result (2,800 x 55%) = 1,540 new guestrooms.

WF LID Supply/Demand Ratio = (1,540/3,240) = **47.5% Total Supply**



**OPERATIONS  
 FEASIBILITY TEST**

To illustrate how the above scenarios would fare under typical operations, we apply a max operating capacity ratio of 95% occupancy, accounting for Sundays and holidays, which are typically slower in all markets. This figure is also supported by typical capacity figures reported at Luxury properties in the region. Waterfront LID-generated demand would need to be absorbed over the six months most over-night tourists are expected to visit Seattle. Under the best case scenario, the Four Seasons could not accommodate the additional demand in two of six months. Under the worst case scenario, the hotel could not accommodate the demand in five of six months.

**Absorption Feasibility Test A: Best Case Scenario (1,540 guestrooms)**

	Subject Supply		Subject Demand			Available Supply			
	Rooms	ARN	ORN	OCC	Total	Peak 95%	Actual	WF NEEDS	NET
May	147	4,557	3,722	81.7%	835	228	607	257	350
June	147	4,410	3,896	88.3%	514	221	294	257	37
July	147	4,557	4,162	91.3%	395	228	167	257	-90
August	147	4,557	4,236	93.0%	321	228	93	257	-164
September	147	4,410	3,916	88.8%	494	221	274	257	17
October	147	4,557	3,876	85.1%	681	228	453	257	196
					3,240	1,352	1,888	1,540	348

**Absorption Feasibility Test B: Worst Case Scenario (2,800 guestrooms)**

	Subject Supply		Subject Demand			Available Supply			
	Rooms	ARN	ORN	2019 OCC	Total	Peak 95%	Actual	WF NEEDS	NET
May	147	4,557	3,722	81.7%	835	228	607	467	140
June	147	4,410	3,896	88.3%	514	221	294	467	-173
July	147	4,557	4,162	91.3%	395	228	167	467	-300
August	147	4,557	4,236	93.0%	321	228	93	467	-374
September	147	4,410	3,916	88.8%	494	221	274	467	-193
October	147	4,557	3,876	85.1%	681	228	453	467	-14
					3,240	1,352	1,888	2,800	-912

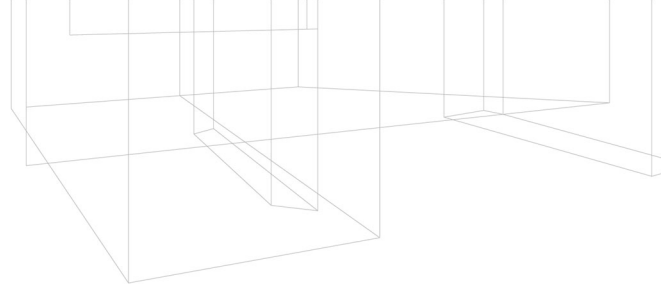


## CONCLUSION

The impact of the LID improvements as opined in the Study imply the expectation that new revenue of 3% across the board will be achieved (Rooms, F&B, Parking, Retail, Other). From a supply/demand standpoint, we estimate the Waterfront LID project would need to generate an additional 1,540 guestrooms, accounting for 47.5% of supply in the best-case scenario, which assumes all other departments can meet the 3% revenue increase goal. Looking at just room revenue to fill the void, the new demand needed increases to 2,800 guestrooms, or 86.4% of available supply.

The typical profile of new overnight tourists expected to visit the Waterfront Park does not match the luxury guest profile targeted by the Four Seasons. Given the limited capacity for new rate growth in the current softened CBD lodging market, coupled with the limited supply available during peak season illustrated above, we find it highly unlikely the LID improvements would generate new demand to support the required 3% revenue growth necessary to support the special benefit assigned to the Four Seasons Hotel.

It is our conclusion that the benefit assigned to this property is neither market supported, nor possible to achieve from a financial analysis perspective.



## EXHIBIT 1 – ATTACHMENT TO APPRAISAL REVIEW

This attachment provides support for the opinions in the accompanying appraisal review. It is not intended to be a standalone document and can only be used in conjunction with that appraisal review report.

This letter provides a descriptive overview of the Waterfront Seattle Project (Project) proposed by the City of Seattle and the appropriateness of the Special Benefit/Proportionate Assessment Study (Study) prepared by ABS Valuation for assigning assessments to properties for partial funding of the Project through a Local Improvement District (LID) special assessment.

### Executive Summary

Following the removal of the Alaskan Way Viaduct, the City of Seattle plans to construct a park promenade along the water, construct a new surface street along Alaskan Way, rebuild Pier 58 and Pier 62, build an elevated connection from Pike Place Market to the waterfront, and improve east-west connections between downtown and Elliott Bay. The Project will be a \$724M investment planned for completion by 2024.

The City adopted the ordinance to create the formation of the LID for partial payment of the Project. ABS Valuation prepared their Study with an October 1, 2019 date of value released to the public on or about January 10, 2020. The Study estimates the before and after value of property within a defined LID boundary area. The report includes 6,238 properties within the LID boundary and concludes a value increase because of the Project equal to \$447M. The City has allocated \$175.5M of the Project cost to these properties through the formation of the LID.

A LID is an unusual funding mechanism, especially for a project of this magnitude. The last major LID formed in the region was for the South Lake Union Streetcar in 2007. Funding for the park projects noted in the Study and accompanying reports was from tax incremental financing, transportation funds, City, State or Federal funds and grants, public, private, or philanthropy. None were funded with a LID.

It is important to understand the property conditions before and after the LID improvements that the Study is attempting to value. The Project is a component of a larger effort to restore the Seattle waterfront following the removal of the Alaskan Way Viaduct. As part of its removal, the City must restore the waterfront with roads, sidewalks, landscaping and other streetscape improvements to current design standards regardless of the LID improvements. The LID improvements add on to a project that is already schedule for construction.

Up to the release of the Study, the condition of the property before the LID improvements was largely unknown because the City had not prepared drawings and exhibits showing the difference in the property before and after with the LID improvements in place. These conditions were just provided as an addendum to the Study and help explain the marginal difference between the property condition before and after the LID improvements.

From this, the Study attempts to determine the value increase from these LID improvements for a very large grouping of properties from what would already have been a very desirable property condition without the LID improvements.

It is our conclusion that the assignment results in the Study are misleading and do not provide the necessary evidence to provide credible opinions of property value increases before and after the LID improvements are in place.

1. The difference in the property condition before and after the LID improvements are in place is overstated.
2. The LID improvements provide a general, not special benefit. There is insufficient evidence in the Study to conclude that the LID improvements provide special benefits to the properties in the LID boundary.
3. The LID boundary area is too large.
4. The value increase from the LID related improvements opined in the Study of 4% or less is within a margin of error for mass appraisals, and therefore is remote and speculative.
5. There is inequitable analysis between property types and uses.
6. Many values are overstated.
7. The Study relies on a report prepared by HR&A Advisors that fails to consider the economic impacts if the LID improvements were not funded.

#### 1. Difference in the Before and After Condition

The Study gives the impression that the LID improvements will transform the Project to a greater level of improvement than will actually be realized.

The LID improvements will convert public space to a dedicated park, but it does not bring better connectivity to Pioneer Square, north towards Colman Dock and the retail piers (54 through 57) to Union Street. Those connections already exist.

The Study states: "... With the LID project completed, accessibility to the waterfront from nearby areas including the Pike Place Market, downtown business district and Pioneer Square will vastly improve. On an overall basis, referring the economic studies and rating system discussed herein, *the waterfront area in general improves from a subjective quality rating of average in the "before" scenario to excellent with the LID project completed.*"

The Overlook Walk will provide a grand entrance from the Market to the waterfront, but for decades, tourists and visitors have found their way to the waterfront. Access to the waterfront from downtown Seattle will improve near Pike Place Market in the after condition, but the improvement is not such that it creates a special benefit.

Properties around the Project will still enjoy the spectacular views west towards Puget Sound, the Olympic Mountains to the south towards Mount Rainer, some of the many reasons visitors are *attracted* to Seattle. Adding the LID improvements marginally enhances that experience above and beyond what would be in place without the LID improvements. Even today, with all the construction from the removal of the Alaskan Way Viaduct, Sea Wall replacement and Washington State Ferry Terminal construction, the waterfront remains an active and vibrant

tourist destination. There is no market evidence in the report that waterfront access would change from average to excellent because of the LID improvements.

There are too many other amenities in the region attracting tourism to suggest that the LID improvements singularly will cause property values to increase. Seattle is already blessed with attractions like the Pike Place Market, Pioneer Square, International District, Seattle Center, Space Needle, Chihuly Garden and Glass, Seattle Monorail, Seattle Art Museum, Washington State Ferries, the Great Wheel, T-Mobile Park, CenturyLink Field, Hiram Chittenden Locks, Discovery and Myrtle Edwards Parks. There is competition for tourist dollars from these area attractions. It's virtually impossible to identify a percentage of value increase from the LID improvements, and to conclude that the LID improvements will substantively change visitor preferences is remote and speculative.

There are consequences from the LID improvements not considered in the report, such as losing street parking. The renderings show a loss of at least 60 parking stalls along Alaskan Way in a market already short of parking. Also not considered are the impacts to properties where tree density will increase, and views will be lost from the lower level of some buildings.

The Study also ignores the impacts for development not expected to be completed until 2023/2024. Work will be ongoing including the completion of Pier 62, construction of a new pedestrian bridge, stairs and an elevator on Union Street from Western Avenue to Alaskan Way. In 2021, the Overlook Walk, a main park promenade along the water and piers with a bike bath, a new park on Pier 58 and additional connections to Colman Dock will be built. The new Seattle Aquarium Ocean Pavilion will not be completed until 2024. The Study also ignores the uncertainty of completing a five-year project on time, nor does it consider changes in project scope or cost overruns, real elements in any development the magnitude of the Project.

It also ignores the impacts of construction over the next five years in its analysis. The construction along the waterfront has been disruptive and has negatively affected property value. Retail sales are down and will expect to be soft during project construction.

The following exhibits present a better visual of the difference before and after the LID improvements. The most impactful consist of the Promenade, Pier 58 decking, Union Street Staircase and Overlook Walk. While the LID improvements create a more park like setting, the condition of the roads, bike trails, landscaping and streetscape after completion is marginally improved from the condition before. The reader can see the marginal increase in property condition that visitors will experience because of the LID improvements.

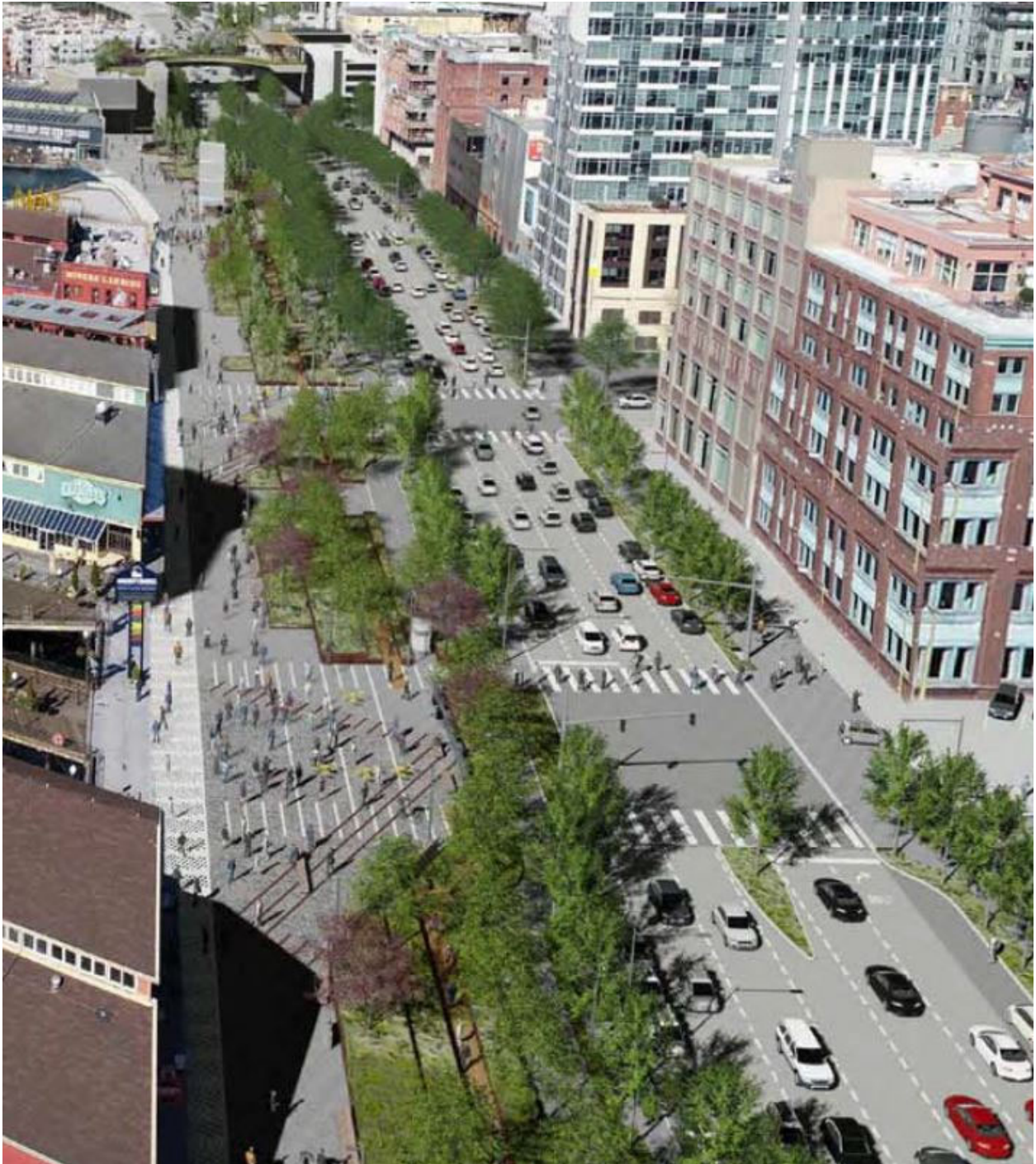
*Promenade*

Before



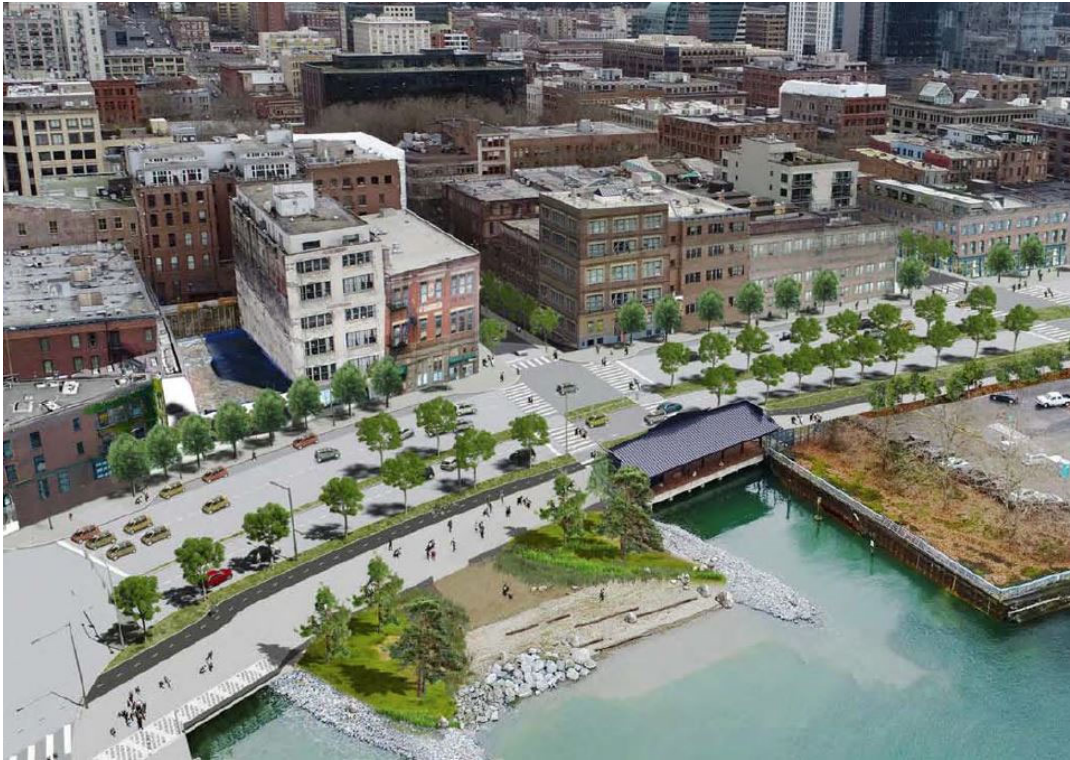
After

The area along Elliott Bay stretching from about Pine Street south to Dearborn Street will add landscaping, pedestrian corridors, bike paths, and park elements (benches, artwork, etc.).





Before



After



Pier 58

Waterfront Park is improved with a boardwalk & a pair of sculptures, plus views of the skyline & ships in dry-dock. There is a mix of plantings, public gathering areas and concrete amphitheater, fountain and seating areas.

Before



After

The LID improvements will create a larger platform with children's play area and raised lawn area. The possible bathroom would not be funded by the LID.



*Union Street Pedestrian Extension*

Present access from downtown Seattle is along a staircase leading down from the Four Seasons Hotel, to another staircase from Western Avenue to Alaskan Way.

Before



After

Improvements will include a new staircase, pedestrian areas, benches and artwork.



*Overlook Walk*

Current access to the waterfront from the Pike Place Market is the Pike Street Hill Climb, a series of steps or by elevators from the Skybridge to the Market Garage. These access points remain unchanged in the after condition.

Before and After





The rendering for the property in the before condition after the Alaskan Way realignment is shown below. The Pike Street Hill Climb and Skybridge/Market Garage elevators would remain as the primary points of access to and from the market. The rendering is a little misleading because it does not include the new \$113M Seattle Aquarium pavilion in the before condition. The Project will include \$34M in already identified City of Seattle funding as part of the Project outside of the LID improvement cost. The remaining costs will be funded by \$60M in private donations and \$19M from King County, Washington State and Federal sources. It is expected to be completed by 2024. The rendering shows a “no aquarium” alternative when in reality, it should be in place around the time the LID improvements are completed.





After

The Overlook Walk is the most significant improvement of the project. A pedestrian bridge and landscaped public space will cross over the Elliott Way surface street. It will include substantial public open space connecting the north end of the Pike Place Market with the waterfront. The Pike Street Hill Climb and Skybridge elevators are still in place in the after condition, and the aquarium improvements are shown as completed.



## 2. General versus Special Benefits

General benefits are easy to recognize such as an improved system of highways, or regional airport or new ferry terminal, since everybody in a community benefits from that improvement. General benefits are those that accrue to an entire neighborhood, community or region.

Special benefits are more difficult to define. They add value to a property because of a specific improvement as distinguished from those enjoyed by the public. Special benefits are easy to recognize when there is an actual physical improvement to a property, such as when water or sewer lines are installed, or a storm water retention system to keep a property from flooding is added, or a new freeway off-ramp serving an area once distant from freeway access is built. The benefit must result directly, uniquely and specifically from the public project to individual parcels.

The Study fails to properly determine that the LID improvements create special benefits to the properties within the LID boundary area. The case examples in the Study provide only anecdotal information about the project's general benefits. It does not employ a traditional "matched pair" analysis that would provide discrete value increase metrics from sale transactions for properties near these projects compared with those removed from the project influence. The proper measure of benefit is to compare like property transactions with and without the variable that is the project.

Moreover, the value increases noted in case studies contained in the report are not reflective of conditions even close to the LID improvement component of the project and are misleading. Virtually every case example cited in the Study are substantially more impactful than the LID improvement project. The High Line in New York City, for example, was an abandoned and unused elevated railroad that was a barrier and blight to the adjoining properties. The project improvements were so substantial, that it is now one of the more noted gentrification initiatives in the country. The Rose Kennedy Greenway in Boston also brought a major change to the area. The surface interstate highway was put underground and converted to a regional park. Not only had the interstate generated noise, it had posed a physical barrier that separated neighborhoods, whereas the project eliminated the noise and allowed for recreation and walking between neighborhoods.

We researched the case studies cited in both the Study and referenced HR&A reports. The changes in the condition before and after were so substantial that they dwarf the difference between the condition of the property before and after the LID improvements, and are not credible sources for opinions of value. Examples of the case studies used in the Study are discussed below.

Tom McCall Waterfront Park, Portland OR

## Before

The original 37-acre park was completed in 1984. The park was doubled in size following its southern expansion in 1999, resulting in a public space that spans about 1.5 miles on the west side of Willamette River. While the park offered water views, the park itself and the immediate neighborhoods adjacent to the park, and extending north and south from Burnside, were considered unsafe and not attractive. Upgrades were needed to the seawall. Public events such as the Saturday Market and the Portland Blues Festival were established.

## After

Redevelopment of the park was completed in 2011. The primary arterial, Naito Parkway, was reconfigured and overall improvements to the park included new pathways, public gardens, fountain upgrades, and construction of three plazas for events. Salmon Springs Plaza on the north end allowed for the expansion of the Saturday Market. A waterfront esplanade extends the full length of the park from RiverPlace Hotel on the south end to the Japanese-American Historical Plaza on the north. Coinciding with park renovation were new housing development projects (The Yards) and upgrades to trees, sidewalks, and signage on adjacent access streets. Perception has changed from unsafe and limited upside to a marketable destination. While these improvements are superior to the condition of the property before, it's not clear that values have increased because of them.

Rose Kennedy Greenway, Boston MA

## Before

Elevated JFK Expressway separated the east and west portions of town for 1.5 miles. Downtown was disconnected from the Waterfront. The expressway was demolished and I-93 was relocated underground following the Big Dig that started in 1991. The result was a cleared, graded site, with gravel and no enhancement factor, but the neighborhoods were at least connected.

## After

Independent non-profit, The Greenway Conservancy was established in 2004 to guide development and raise funds via endowment. The 17-acre park opened in October 2008 and can be best described as a linear park that spans over one mile across several Downtown Boston neighborhoods (Chinatown, Fi-Di, Waterfront, and Northend). Only a small eastern portion of the park has waterfront view or access; however, the park did connect Downtown with the Waterfront. Park features include gardens, promenade, sculptures, seating, trees, and greenspace. In 2008, State Legislation established a 50/50 Public-Private-Partnership (PPP), with Greenway Conservancy being appointed steward and operator in 2009. A new agreement was announced in 2017 dictating operational financing. The breakdown includes State/City 20%, New Greenway Business Improvement District (BID) 20%, and Greenway Conservancy 60% generated through private donations.

Hudson River Park, New York NY

## Before

500+ acres of West Manhattan with water view but considered as wasteland.

## After

After 30 years of planning, Friends of Hudson River Park were behind the effort to redevelop. Completed in the early 2000s, this project led to the complete redevelopment of the neighborhood. Park features included sports fields, recreation, walking and bike paths, waterfront promenade, and other amenities. Dramatic change in land use, private investment, and politics were required to make this project so. The project magnitude was well beyond the Seattle project.

The Embarcadero, San Francisco, CA

## Before

Post-Earthquake (1989), the city demolished the highway in 1991. The Bayfront was disconnected from Downtown San Francisco and considered under-utilized. This area of San Francisco was considered an industrial service corridor.

## After

Complete transformation; however the park project coincided with demolition opening once blocked waterfront view. This was around the time of the economic boom associated with the 1990's economy and Dot-Com era. All work was completed by early 2000's. City streets connected to the Embarcadero, a boulevard that runs along the waterfront, and sidewalks offered immediate waterfront and park access. Led to easier access to southern bay front and redevelopment of SOMA, (south of market), AT&T Park, and the new Arena, etc. This is a dramatically different level of improvement than those that will be realized from the LID improvements.

Millennium Park, Chicago II

## Before

Existing Grant Park and location in between downtown and major highway. This area was home to the Illinois Central rail yards, parking lots, and vacant underutilized land.

## After

The rail yard was converted to one of the world's largest green roofs. New park features include significant green space, major art installations such as the Bean, skating rink, pedestrian bridge, theatre, promenade, and an outdoor auditorium. The park is operated by the Chicago Department of Cultural Affairs and managed by MB Real Estate. The total cost of the park was \$475MM, equating to three times its original \$150MM budget; however, it has become the number one tourist attraction in the Midwest, as of 2015.

False Creek Viaduct Replacement, Vancouver BC

## Before

The Southeast False Creek project is the third and final segment of the waterfront revitalization plan. The City owned 80-acre area has historically been industrial with significant areas of undeveloped land. It is also the location of the aging Georgia and Dunsmuir Viaducts.

## After

The City plans to demolish the viaducts and through private and public funding rezone and designate the entire area for redevelopment including new road infrastructure, opens space and development sites. There will be defined districts – Events and Entertainment District, Park District and Main Street District, each with development expected to provide the development of several million square feet of office and hundreds of multifamily housing, along with supporting retail uses. This redevelopment will have a dramatically different scale of impact to property values when compared with the LID improvement component of the larger Project.

High Line, New York City, NY

## Before

Elevated rail infrastructure built in 1930's. The southern section was demolished in the 1960's, with last portion of demo in 1991. Remaining section spans from Meatpacking District, extending north through West Chelsea. Abandoned warehouses, lots of graffiti and area considered an eyesore. By 2006, an area of West Chelsea was rezoned to a special district to accommodate a public park. CSX, a supplier of rail-based freight transportation in North America, donated the right-of-way and infrastructure in 2005. Ground broke in 2006, first segment opened in 2009. In 2012, the second segment was completed (20th - 30th) and zoning changes were approved to allow the third segment to open in 2014 (30th - 40th).

## After

The completed product is a 1.45-mile long greenway maintained and operated through a public/private partnership between Friends of the Highline and NYC. The space is considered a tourist destination. In addition, the High Line is used to support many public programs including teen-engagement, art, and performance.

From an economic standpoint, real estate values near the park were driven up by speculators during the planning and development phases. The park is now an anchor and tourist attraction in the West Chelsea and Meatpacking Districts. Property values and retail/condo markets have experienced significant positive benefits.

According to Friends of the High Line co-founder Robert Hammond, the High Line “gets too much credit and too much blame” for the redevelopment of West Chelsea. The park development coincided with the rezoning of West Chelsea, with no affordable housing mandates. This led to gentrification and outpricing of the local community, including art galleries and businesses, due to people moving in from Manhattan. These issues led to an extended debate over income

inequality etc. Many cities have followed and completed or proposed elevated parks due to the overall positive impact of the High Line (Jersey City, Chicago, Philly).

#### Buffalo Bayou Park, Houston TX

##### Before

Buffalo Bayou Promenade was completed in 2006, establishing a 23-acre recreation area with 1.4 miles of hiking and biking trails that connects from West of Downtown to the Theater District.

##### After

Buffalo Bayou Park was completed in 2015 and established the new park immediately west of the promenade. This project added 160 acres of new parkland stretching 2.3 miles. Park features include a dog park, greenspace, gardens, restaurants, and an art space. Since 2015, this area has experienced three significant flood events. In 2017, Hurricane Harvey caused devastation and significant damages to property in the adjacent neighborhoods.

#### Atlanta Beltline, Atlanta Georgia, GA

##### Before

Vacant land including parking lots, demolished buildings or what remained of old foundations, vacant land, crime, and considered an eye sore. Some trails (The Westside Trail) and bridges that spanned the topography.

##### After

Partnership formed in 2005 to transform the area into a destination. First portion opened in 2012, with completion in 2014. The completed park offers a major pedestrian path for walking, running, and biking, and trails that connect to other areas of the city. Notably, the Eastside Trail extension broke ground in 2016 and was completed in 2017, which connected two disconnected railways. Funding sources for this portion included a \$3MM Woodruff Foundation grant, Beltline Tax Allocation District, The Kendeda Fund, and Waterfall Foundation. The redevelopment of this area has resulted in significant multifamily development around the trails and recreation space, including the "Edge" project near the new proposed Edgewood Avenue Bridge, which is to be added following the project. This project essentially is continuous.

#### 11th Street Bridge, Washington DC

##### Before:

Existing 11th Street Bridges. Construction began in 2009 on replacement bridges, new ramps, and interchanges. Phase 1 completed in 2013; Phase II completed in 2015.

**After:**

Breaking ground in 2021, the elevated park is proposed for construction atop the existing piers of the former 11th Street Bridge. This project is designed after the High Line in NYC. The finalized product will include art and performance spaces, recreation areas, plazas, urban farming plots, an amphitheater, and greenspace. The completed park will help connect Wards 7 and 8 to the rest of the city. Much of the hype is over the bridge design of the superstructure. Other issues have arisen over potential gentrification.

Willoughby Plaza, New York City NY**Before**

Vacant land owned by Marriott. There was significant traffic congestion near Downtown Brooklyn and the Brooklyn Bridge. The project area included an active use shared pedestrian/bike/vehicle street, parking lot underutilized vacant land.

**After**

Land was donated by Marriott as part of the renovation to their south tower completed in 2013. Street access was eliminated and this area designated an outdoor plaza. Marriott retains the ability to use the space as additional function space. Pedestrian traffic and access increased. Storefront retail businesses and restaurants saw positive impact. There was no revenue impact to Marriott from the project.

### 3. LID Boundary Area

There is no justifiable basis or support for the LID boundary areas as they have been determined. The primary improvements of the Project will be along the waterfront and near Pike Place Market, not away from the water. LID improvements, as identified by the City of Seattle, extend up the Pike/Pine corridor, and from Alaskan Way into Pioneer Square. But these improvements appear to be more of an improvement program to neglected streets, not part of the larger LID project.

It is unreasonable to conclude that properties in the north end of the boundary area will receive any benefit from the LID improvements. On the south end, neither T-Mobile Park (Mariners) nor Century Link Field (Seahawks & Sounders) will ever realize an increase in value from any part of the Project, let alone the LID improvements. Stadiums like these are bound to contracts that will not allow the property value to increase. The Seahawks games sell out every year, and fans will not pay more for a ticket or be drawn to the area because of these improvements.

Even if one were to accept there are special benefits, they would only accrue to properties closest to the Promenade and Overlook walk. However, the Study fails to provide sufficient evidence that even those properties would receive any special benefit from the LID improvements. The formation of the LID boundary in the study is arbitrary with the incremental value increase along boundaries so nominal that their inclusion to the study is well beyond the margin of error in rounding.





#### 4. Inequitable Analysis

The property uses within the LID boundary area are diverse and the Study fails to provide equitable value allocations. Vacant redevelopment site values are significantly lower than improved property value estimates passing the assessment burden to these higher value properties. This creates inequities on how the assessments are allocated as shown in three examples presented below. The sites should instead be analyzed on the common denominator of assessment per sq ft of land area.

The first example of the inequitable valuations is two nearly identical sites between Alaskan Way and Western Ave. Cyrene Apartments is a recently completed 17-story mid-rise apartment complex along the better part of the Seattle waterfront. One block south is a redevelopment site with nearly identical site characteristics that could be developed with a similar mid-rise apartment complex. The difference between the values and assessment allocation between the two properties is substantial. The improved property will be burdened with an assessment of \$932,361 or over four times the assessment of the development site.

Example #1	Land SF	Zoning	Value Before	Value After	Value Increase	%	Assessment	\$/SF Land
Cyrene Apartments 50 University 7666202450	15,413	DMC 170	\$101,209,000	\$104,242,000	\$3,033,000	3.0%	\$1,188,396	\$77.10
Surface Parking 1101 Western Ave 7666202506	14,156	DMC 170	\$18,757,000	\$19,413,000	\$656,000	3.5%	\$257,035	\$18.16

The next example is for property in the northern portion of the LID boundary area. The Amazon Office property is an older but functional 7-story office building. Directly across the street are three parcels that combine for the equivalent of a similar sized redevelopment site. The assessment for the Amazon Office property is three times that of the development site.

Example #2	Land SF	Zoning	Value Before	Value After	Value Increase	%	Assessment	\$/SF Land
Amazon Office 1903 Terry Ave 0660001255	42,360	DMC 340/ 290-400	\$127,103,000	\$127,303,000	\$200,000	0.16%	\$78,364	\$1.85
Development Site	13,334	DMC 340/	\$21,334,000	\$21,356,000	\$22,000	0.1%	\$8,620	
1906 Terry Ave to	14,160	290-400	22,656,000	22,679,000	23,000	0.1%	9,012	
1001 Virginia St	14,160		22,656,000	22,679,000	23,000	0.1%	9,012	
0660001512, 25, 30	41,654		\$66,646,000	\$66,714,000	\$68,000		\$26,644	\$0.64

The last example is the comparison of sites closer to the downtown core where the highest densities are allowed. The 27-story Olivian Apartments were built about 10 years ago. Immediately south are two nearly identical parcels, one interior and the other a corner lot. A comparison of these properties show that the Olivian Apartments are burdened with an assessment nearly four times that of the two redevelopment sites.

Example #3	Land SF	Zoning	Value Before	Value After	Value Increase	Assessment	\$/SF Land	
Olivian Apartments 809 Olive Way 0660000835	13,160	DOC2 500/ 300-550	\$160,493,000	\$161,295,000	(\$802,000)	0.5%	\$314,241	\$23.88
Old Bldg/Surface Pkg 1618 8th Ave 0660000820	14,160	DOC2 500/	\$25,488,000	\$25,679,000	(\$191,000)	0.75%	\$74,838	\$5.29
Surface Parking 802 Pine St 0660000804	13,200	300-550	\$23,976,000	\$24,156,000	(\$180,000)	0.75%	\$70,528	\$5.34

It is very apparent there is a disparity between how the study has treated properties already improved with those that will likely be developed in the near term. There is an inequitable allocation of the LID assessment. The owner of the development site will enjoy a significant value advantage into perpetuity compared with the owner of the improved property.

Moreover, there are no latecomer fee provisions in the analysis. These are often used to help reimburse the agency or funding source for the cost of a development. They are very common in utility infrastructure improvements. It allows the property owner to defer the cost of paying for the improvement to when the benefit is actually realized.

An alternative and more equitable value allocation approach would have been to measure the value increase based on the underlying land value, a common denominator for all properties in the LID boundary area. Under that approach, it is doubtful that the Study would conclude that there are value increases due to the LID improvements anywhere near the \$447M conclusion in the report.

#### 5. Mass Appraisal Margin of Error

The value increase from the LID related improvements opined in the Study of 4% or less is within a margin of error for mass appraisals. ABS Appraisal includes 6,238 properties in their study area with a before value of \$56,359,239,000. The overall increase in value of all the properties is \$447,908,000 or an overall increase of less than 0.8%. The estimated value increases fall within the standard margin of error not only for a mass appraisal, but also for a single property being valued by appraisers armed with all the necessary data not using mass appraisal techniques. It's simply impossible to adjust changes in property values with this level of precision. There are so many impactful elements requiring adjustment such as building age, location or site characteristics that would overwhelm and more than offset the implied value increases estimated in the Study. Determining such small value increases with this level of precision is simply impossible in the realm of traditional appraisal practice. The increases in value estimated in the appraisal are so small they are remote and speculative.

#### 6. Values are overstated

We analyzed about a dozen hotel properties in the Study area. The properties are overvalued, some by as much as almost 100%.

There are other examples where the Study fails to consider certain deed restrictions, or title encumbrances. We know of a site that has a small commercial building in the downtown core

that has sold the development rights thus preventing development, yet the property was valued much higher as a redevelopment site. There is another property along Pine St. valued as a redevelopment site, apparently with no development restrictions. However, it is above the Sound Transit light rail tunnel. That prohibits excavation for below grade and requires extraordinary foundation construction that will limit development height to somewhere around ten stories, well below the site's maximum development potential of up to 550 feet, which was used in the Study.

These omissions bring question to the reliability of the other property value conclusions in the Study.

## 7. Economic Studies

The Study relies on three economic studies as support of property value increases because of the LID improvements. These include an updated study "Beyond Real Estate Increment: The Value of the Central Seattle Waterfront" prepared by HR&A Advisors, "The Impact of Parks on Property Values: A Review of the Empirical Evidence" study by the Department of Recreation, Park and Tourism Sciences at Texas A & M University", and "The Economic Benefits of Sustainable Streets" published in 2014 by the New York City Department of Transportation.

The first study explains the economic, fiscal and community benefits of the waterfront project. The study focuses on the larger waterfront Project and does not differentiate between the larger Project and the incremental value increase associated with or without the LID improvements. It simply is a study discussing the economic benefits from the Project. It also confirms that the improvements in their entirety reflect general benefits to the community and region, not special benefits by citing a \$1.1B one-time economic impact because of the construction of the Project, \$288M ongoing economic impact, 2,385 permanent jobs and \$10M in ongoing local taxes. These accrue to the community and region, and are general, not special benefits.

The second study compares neighborhoods with and without a park, a more definitive distinction than the Study is trying to identify. The primary focus of this second study is to measure increases in sales revenue resulting from these new park projects. While it also considers other elements such as storm water runoff, air quality and health benefits, there is no documentation that these benefits directly lead to increases in property values. Further, the study additionally appears to imply these benefits accrue to the larger community rather than properties specifically adjacent to the park. This is support that the benefits generated from these park improvements are general, not special benefits.

The last study considered focuses on road improvements or street beautification projects in New York. The study compares unwelcoming, traffic-dominated corridors to safer, more attractive public spaces that better accommodate all users. The study focuses on safety, access/mobility, economic vitality, public health, environmental quality and livability/quality of life. The economic component is based on full availability of retail sales tax filings, limited data on commercial leases and rents, along with data on assessed market values. It is not based on real estate transactions and market sales. And while the results imply general increases in retail sales, it does not substantiate that this directly results in increases in property value. Again, there is no support that these result in special benefits, and in fact they are general benefits.

## 8. Summary

As stated in the accompanying appraisal review, it is our conclusion that the assignment results in the Study are misleading and do not provide the necessary evidence to provide credible opinions of property value increases before and after the LID improvements are in place. The appraiser has failed to provide the proper support to conclude that the LID improvements provide special benefits to the properties in the LID boundary area, in contrast to the more common general benefits that park improvements typically create for the larger community and region.

The Study determines special benefits based on case studies that represent completely different neighborhood settings. As explained in the attached exhibit, every case study considered was in a significantly inferior condition before the project improvements were installed. Most are significant urban renewal projects that have changed the landscape of surrounding neighborhoods and communities. This contrasts the Seattle waterfront that even today, is a very desirable community asset with views to the west towards the Puget Sound and the Olympic Mountains. As part of the Viaduct removal, the City must restore the waterfront with roads, sidewalks, landscaping and other streetscape improvements regardless of the LID improvements. The LID improvements marginally add to what would already have been a very desirable property condition before the improvements. The case studies in the Study starkly contrast with the level of benefit that the LID improvements will provide.

Further, the economic studies considered in the Study focus on the overall benefit of the project rather than the incremental impact that the LID improvements provide. None represent a fair representation of incremental property value impacts as it relates to those contemplated from the LID improvements. And the studies focus on benefits to a larger study area than those established in the LID boundary area.

The estimate of value increases are so small it is virtually impossible to estimate at the level of precision implied in the Study. The value increase estimates of 0.5% to 4.0% are below the margin of error typically accepted within real estate appraisal practice.

# Appraisers' Experience Data



# PETER K. SHORETT, MAI, CRE, FRICS

**President**  
**Valuation Advisory Services**

Peter Shorett entered private appraisal practice with Shorett & Riely in 1980 and was promoted to manager of the office in San Jose, California in 1985 and returned to practice at the Seattle office in 1990. He founded the Valuation Advisory Services division of Kidder Mathews in 1995.

In 1985 Mr. Shorett was awarded his MAI designation by the American Institute of Real Estate Appraisers (now known as the Appraisal Institute) and earned his CRE (Counselor of Real Estate) designation in 1999. He is a certified member of the Commercial Investment Real Estate Institute (CCIM) and has completed the requirements under the continuing education program of the Appraisal Institute. He has served as a Director of the Seattle Chapter of the Appraisal Institute and has served or led on the Candidates Guidance, Finance and Public Relation Committees. He also was appointed Chairman of the Seattle Chapter of the Counselors of Real Estate. In 2008 he became a Fellow of the Royal Institute of Chartered Surveyors (FRICS), the European equivalent of MAI. He serves on the Board of the Runstad Center for Real Estate Research at the University of Washington.

Mr. Shorett specializes in providing valuation and consultation for mediation, arbitration, litigation support and expert witness testimony. He has a wide diversified background in appraisal, market analysis and counseling for the development, acquisition, sale, leasing and financing of major urban real estate throughout the continental Western United States, including the cities of Seattle, Portland, San Francisco and Los Angeles.

Property types studied include apartments, churches, shopping centers, office and industrial buildings, marinas, condominiums, convention hotels, motels, golf courses, parking garages, medical clinics, service stations, residential subdivisions, nursing homes, retirement apartments, vacant land and numerous special-purpose and single-use properties. Mr. Shorett has extensive experience in working with owners whose property is acquired by condemning agencies such as Sound Transit or Local Improvement Districts (LID). Other assignments have included the valuation of leasehold interests, market analysis and lease-up studies for various investors and business groups.

## PROFESSIONAL AFFILIATIONS

**MEMBER OF** Appraisal Institute (MAI)

**COUNSELORS** of Real Estate (CRE)

**CERTIFIED** Commercial Investment Member Designee (CCIM)

**FELLOW** of the Royal Institute of Chartered Surveyors (FRICS)

## SELECT CLIENT LIST

### Attorney/Law Firms

- Bush Kornfeld
- Cairncross & Hemplemann
- Davis Wright Tremaine
- Dorsey Whitney
- Drumheller
- Ellis Li & McKinstry
- Foster Pepper
- Hansen Baker
- Karr Tuttle Campbell
- K&L Gates
- Lane Powell
- Lasher Holzapfel Sperry & Ebberson
- Miller Nash Graham & Dunn
- Perkins Coie
- Pillsbury Winthrop Shaw Pittman
- Schwabe Williamson & Wyatt
- Stafford Frey Cooper



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**COURT EXPERIENCE**

United States Bankruptcy Court  
United States Federal Court  
King County, Washington Superior Court  
Kitsap County, Washington Superior Court  
Pierce County, Washington Superior Court  
Snohomish County, Washington Superior Court  
Santa Cruz County, California Superior Court

**EDUCATION**

**BUSINESS ADMINISTRATION**, Western Washington University (1980)

**PROFESSIONAL LICENSES**

**STATE OF WASHINGTON** Certified General Real Estate Appraiser (No. 1100389)

**STATE OF OREGON** Certified General Real Estate Appraiser (No. C000599)

**STATE OF CALIFORNIA** Real Estate Appraiser License (AG014564)

**STATE OF IDAHO** Real Estate Appraiser License (CGA-3932)

Reciprocal agreements with other states as needed

**ADDITIONAL CLIENTS**

**Corporations/Property Owners**

3M Corporation	Goodman Financial	Miller Brewing Company
Albertsons, Inc.	Health Science Properties	Nitze-Stagen
Bekins Company	Hertz Corporation	Nobel House Hotels & Resorts
Bristol Meyers Squibb	International Paper Company	Northwest Airlines
Clise Properties	KCTS Channel 9	Northwestern Trust
Consolidated Restaurants, Inc.	Kilroy Industries	Olympic Resource Management
Delta Airlines	KMPG	PACCAR
Fred Hutchinson	Lindal Cedar Homes	Pine Street Associates
Gai's Bakery	Lone Star Northwest	Portac, Inc.
Goodale & Barbieri	McDonalds Corporation	Rayonier

**Attorney/Law Firms Continued**

Stokes Lawrence

Stoel Rives

Tousley Brain Stephens

Williams Kastner

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**Corporations/Property Owners Cont'd**

Seattle Seahawks	Swinomish Tribal Community	Union Carbide
Skokomish Tribal Community	The Boeing Company	Vulcan, Inc.
Southland Corporation	Unigard Security Insurance	Wesley Homes
		YWCA

**Development Companies**

Bentall Corporation	Quadrant	Trammell Crow
Lincoln Property Co.	Sobrato Development Co.	Wright Runstad & Co
Opus		

**Financial Institutions/Life Insurance Companies**

AETNA Life Ins. Co.	Group	T. Rowe Price
Amresco	Home Street Bank	The Union Bank of California
Allstate Life Ins. Co.	InterWest	TIAA-CREF
Bank of America	Key Bank	Transamerica Insurance Co.
CitiCorp	L.J. Melody & Co.	US Bancorp
Coldwell Banker Financial	Manufacturer's Hanover Trust Co.	Washington Capital Management
Collateral Mortgage	Mellon Financial	Washington Mutual
Crown Life Ins. Co.	Merrill Lynch	Washington Trust Bank
First Horizon	Morgan Stanley	Wells Fargo Bank
Frontier Bank	New York Life	
GE Capital	Pacific NW Bank	
Glaser Financial	Sterling Savings	

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**Governmental Agencies/Port Authorities/Nonprofits**

City of Bainbridge Island	King County Dept. of Transportation	Port of Seattle
City of Half Moon Bay	King County Property Services	Port of Tacoma
City of Kirkland	King County Prosecutor's Office	Sound Transit
City of Santa Cruz	Port of Anacortes	The Nature Conservancy
City of Seattle	Port of Chelan	Trust for Public Land
Dept. of Natural Resources (WA State)	Port of Friday Harbor	United States Postal Service
General Services Administration	Port of Port Townsend	Washington State Attorney General's Office
Internal Revenue Service	Port of Renton	

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# STATE OF WASHINGTON

DEPARTMENT OF LICENSING – BUSINESS AND PROFESSIONS DIVISION



THIS CERTIFIES THAT THE PERSON OR BUSINESS NAMED BELOW IS AUTHORIZED AS A

**CERTIFIED GENERAL REAL ESTATE APPRAISER**

**PETER K SHORETT**  
**601 UNION STREET #4720**  
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**1100389**

License Number

**01/06/1992**

Issued Date

**04/10/2021**

Expiration Date

*Teresa Berntsen*  
Teresa Berntsen, Director



# JOHN D. GORDON, MAI, AI-GRS

**Senior Vice President, Shareholder  
Valuation Advisory Services**

John Gordon has over 30 years experience in the analysis and appraisal of complex income property. He has served as a staff appraiser, as a regional appraisal manager for a national accounting and consulting firm, and as a principal of an independent appraisal company. Prior to joining Kidd Mathews' Valuation Advisory Services, he was Special Properties Manager in the Commercial Appraisal Department of Washington Mutual Bank (now JP Morgan Chase), where he oversaw the valuation of their national portfolio of hotels and other special purpose properties.

John's educational background includes a BA in Economics from the University of California, and an MBA, with an emphasis in finance, from the University of Washington. He was awarded his MAI designation in 1989, and is certified as a commercial real estate appraiser in the states of Washington, Oregon, Idaho, and California.

John brings special expertise to the valuation and analysis of lodging properties. He has appraised over 600 hotels in 13 states, including small motels, large full service hotels, and some of the finest boutique resort properties in the region. In addition to hotels, John has extensive expertise in the valuation of senior living communities and affordable multifamily housing.

John is a Past President of the Seattle Chapter of the Appraisal Institute. He served for several years as an instructor in the real estate program at North Seattle Community College, and has been a guest lecturer at the Fachhochschule Munchen in Munich, Germany.

## PROFESSIONAL LICENSES

**STATE OF WASHINGTON**, Certified General Real Estate Appraiser  
(No. 1100661)

**STATE OF OREGON**, State Certified General Appraiser  
(No. C000237)

**STATE OF IDAHO**, Certified General Appraiser  
(No. CGA-2519)

**STATE OF CALIFORNIA**, Certified General Real Estate Appraiser  
(No. AG 004565)

## SELECT CLIENT LIST

Bank of America

Bank of the Pacific

Bank of the West

Banner Bank

BECU

Coast Hotels

First Federal

Heritage Bank

HomeStreet Bank

JP Morgan Chase

Key Bank

Kitsap Bank

Mereté

Mountain Pacific Bank

Numerica Credit Union

Pacific Northwest Bank

Peoples Bank

Pacific Premiere Bank



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## HOTEL MARKETS

### WASHINGTON

Aberdeen	Edmonds	Mukilteo	Seki
Allyn	Ellensburg	Oak Harbor	Sequim
Anacortes	Everett	Ocean Shores	Silverdale
Ashford	Fall City	Olympia	Spokane
Auburn	Federal Way	Orcas Island	Spokane Valley
Belfair	Fife	Pacific Beach	Sumner
Bellevue	Forks	Pacific	Tacoma
Bellingham	Issaquah	Pasco	Toppenish
Blaine	Kennewick	Port Angeles	Touchet
Bothell	Kent	Port Hadlock	Tukwila
Bremerton	Kirkland	Port Townsend	Tumwater
Brewster	Lacey	Pullman	Union Gap
Burlington	Lakewood	Puyallup	Vancouver
Chehalis	Langlely	Quincy	Vashon
Chelan	Leavenworth	Redmond	Walla Walla
Clarkston	Long Beach	Renton	Wenatchee
Cle Elum	Longview	Richland	Westport
Des Moines	Lynnwood	Ritzville	Woodinville
Dupont	Marysville	San Juan Island	Yakima
Eastsound	Monroe	SeaTac	Zillah
East Wentachee	Moses Lake	Seattle	

### OREGON

Ashland	Gresham	Newberg	The Dalles
Baker	Hermiston	Newport	Tigard
Bandon	Hillsboro	Ontario	Tillamook
Bend	Hood River	Pendleton	Troutdale
Beaverton	Klamath Falls	Portland	Tualatin
Boardman	La Grande	Redmond	West Linn
Coos Bay	Lake Oswego	Salem	Woodburn
Eugene	Lincoln City	Seaside	
Forest Grove	Medford	Sisters	
Grants Pass		Springfield	

### IDAHO

Boise	Idaho Falls	Nampa	Sandpoint
Bonnets Ferry	Lewiston	Pocatello	Twin Falls
Caldwell	Meridian	Post Falls	
Coeur d'Alene	Moscow	Rexburg	

## HOTEL BRANDS

Aloft	Embassy	La Quinta	Silver Cloud
Baymont	EVEN	McMenamins	Sleep
Best Western	FairBridge	Microtel	SpringHill
Candlewood	Fairfield	Motel 6	Staybridge
Clarion	Four Points	Oxford	Super 8
Coast	Four Seasons	Quality	TownePlace
Comfort	Guesthouse	Radisson	Travelodge
Country	Hampton	Ramada	Vagabond
Courtyard	Hilton	Red Lion	W
Crowne Plaza	Hilton Garden	Residence	WestCoast
Days	Holiday	Rodeway	WoodSpring
Doubletree	Home2	Sheraton	
EconoLodge	Hyatt	Shilo	

Red Lion Hotels

SaviBank

Seattle Bank

Shilo Inns

Silver Cloud Inns

Symetra Insurance

Tacoma Housing Authority

Timberland Bank

Travel Tacoma

Umpqua Bank

US Bancorp

Washington Capital

Washington Federal

Washington Trust Bank

Wells Fargo Bank

Yakima Convention Center

Zions Bank

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**07/25/1991**

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**03/27/2021**

Expiration Date

*Teresa Berntsen*

Teresa Berntsen, Director



# JESSE L. BAKER

**Associate**  
**Valuation Advisory Services**

Jesse Baker joined the Valuation Advisory Services department of Kidder Mathews in September 2014. Prior to joining the firm, he spent five years in leadership roles with the Cintas Corporation. He graduated the Management Trainee Program (2010), and was promoted to Service Manager (2011) and Operations Manager (2013). Mr. Baker also served as an integral member of the acquisition due-diligence team, providing analysis and recommendations as the Cintas Document Management Division pursued an aggressive growth strategy in Northern California markets.

With an educational background from the Cornell Hotel School, Mr. Baker is developing an expertise in the valuation and analysis of lodging properties. In his first 18 months with Kidder Mathews, he has appraised or provided consulting services on over 20 hotels across Washington. In addition to lodging, Jesse has appraised senior living properties (IL/AL/MC), multifamily, and LIHTC affordable housing.

## STATE CERTIFICATION

Jesse is actively pursuing the educational requirements for Washington State Certification. He is currently registered as a Washington State Real Estate Appraiser Trainee under Registration No. 1001777.

## EDUCATION

**BS** in Hospitality Management, The Hotel School at Cornell University

**REAL ESATE MINOR**, The Hotel School at Cornell University

Cornell Varsity Football; WR, 4yr Member, 2005-2008, All-Ivy 2008

## WASHINGTON STATE QUALIFYING EDUCATION

Basic Appraisal Principles

Basic Appraisal Procedures

2014-2015 National USPAP

2016-2017 National USPAP Update

General Appraiser Market Analysis & HBU

Statistics, Modeling & Finance



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# STATE OF WASHINGTON

DEPARTMENT OF LICENSING – BUSINESS AND PROFESSIONS DIVISION



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**JESSE LEE BAKER**  
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**SEATTLE WA 98108**

**1001777**

License Number

**08/28/2014**

Issued Date

**03/05/2020**

Expiration Date

*Pat Kohler*  
Pat Kohler, Director



Appraisal Review

# Waterfront Seattle Project Special Benefit Study Seattle Marriott Waterfront

as of October 1, 2019 (Study Date)



Prepared for

Clayton Rash  
VP-Property Tax  
Ashford Seattle Waterfront LP

Prepared by

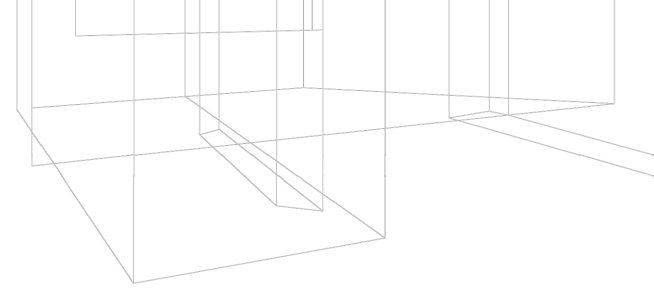
Peter K. Shorett, MAI, CRE, FRICS  
Jesse L. Baker  
KM Job A20-0090

**Kidder Mathews**

**Valuation Advisory Services**

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peter.shorett@kidder.com





April 14, 2020

Clayton Rash, VP-Property Tax  
Ashford Seattle Waterfront LP  
Ashford TRS Seattle Waterfront LLC  
14185 Dallas Parkway, Suite 1100  
Dallas, Texas 75254

Re: Waterfront Seattle Project Special Benefit Study/Seattle Marriott Waterfront/A20-0090

Dear Mr. Rash:

At your request, we have performed an appraisal review of the Final Special Benefit/Proportionate Assessment Study (Study) for the Waterfront Seattle Project (Waterfront Project) Local Improvement District (LID). This review was conducted in accordance with Standard 3 of the Uniform Standards of Professional Appraisal Practice (USPAP) for performing Appraisal Reviews. These services comply with and are subject to the Code of Professional Ethics and Standards of Professional Practice of the Appraisal Institute. A summary of the appraisal reviewed and our conclusions are contained in this report.

The Study concludes that 6,238 properties within a defined LID boundary will benefit from LID improvements that are part of the larger Waterfront Project. The Study provides opinion and analysis that form the basis for the formation of the LID boundary area and then applies value estimates for each of the 6,238 properties before and after completion of the Project.

This review provides an opinion of the appropriateness of the conclusions reached in the Study. We consider the appropriateness of the LID boundary conclusions, the estimates of benefit to the properties in the study, then a review of the value appropriateness before and after the Project for the property that is the subject of this review.

Respectfully submitted,



Peter K. Shorett, MAI, CRE, FRICS  
Certified General Real Estate Appraiser  
WA License 1100389, exp 4/10/2021



Jesse L. Baker  
State Registered Real Estate Appraiser Trainee  
WA License 1001777, exp 3/5/2020



# Certification

We certify that, to the best of our knowledge and belief:

- 1) The statements of fact contained in this report are true and correct.
- 2) The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are our personal, impartial, and unbiased professional analyses, opinions, and conclusions.
- 3) We have no present or prospective interest in the property that is the subject of this report, and no personal interest with respect to the parties involved.
- 4) We have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- 5) Our engagement in this assignment was not contingent upon developing or reporting predetermined results.
- 6) Our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- 7) Our analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice*.
- 8) John D. Gordon has made a personal inspection of the property that is the subject of this report.
- 9) We have not previously appraised the property within the three years preceding our acceptance of this engagement.
- 10) John D. Gordon (Kidder Mathews, Bellevue) provided significant real property appraisal assistance to the persons signing this certification.
- 11) The reported analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the requirements of the *Code of Professional Ethics and Standards of Professional Practice* of the Appraisal Institute.
- 12) The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
- 13) As of the date of this report, Peter K. Shorett and John D. Gordon have completed the continuing education program for Designated Members of the Appraisal Institute.
- 14) As of the date of this report, Jesse L. Baker has completed the Standards and Ethics Education Requirements for Practicing Affiliates of the Appraisal Institute.

Peter K. Shorett, MAI, CRE, FRICS  
Certified General Real Estate Appraiser  
WA License 1100389, exp 4/10/2021

Jesse L. Baker  
State Registered Real Estate Appraiser Trainee  
WA License 1001777, exp 3/5/2020



# Limiting Conditions

Limiting conditions specific to this appraisal review are as follows:

- 1) The appraisers have made no survey of the property and assume no responsibility in connection with such matters. Any sketch or identified survey of the property included in this report is only for the purpose of assisting the reader to visualize the property.
- 2) It is assumed that there are no hidden or unapparent conditions of the property, subsoil or structures (including asbestos, soil contamination or unknown environmental factors) that render it more or less valuable. No responsibility is assumed for such conditions or for arranging the studies that may be required to discover them.
- 3) No responsibility is assumed for the legal description or for matters including legal or title considerations.
- 4) The information identified in this report as being furnished by others is believed to be reliable, but no warranty is given for its accuracy.
- 5) The appraisers are not required to give testimony or attendance in court by reason of this appraisal unless arrangements have previously been made.
- 6) The allocation of total value to land, buildings, or any fractional part or interest, if shown in this report, is invalidated if used separately in conjunction with any other appraisal.
- 7) The appraisers are competent and qualified to perform the appraisal assignment.
- 8) Valuation Advisory Services is a subsidiary of Kidder Mathews, a full service commercial real estate brokerage firm. On occasion, employees or agents of the firm have interests in the property being appraised. When present, interests have been disclosed and the report has been made absent of any influence from these parties.

## RESTRICTION UPON DISCLOSURE & USE:

Disclosure of the contents of this appraisal report is governed by the By-Laws & Regulations of the Appraisal Institute. Neither all nor any part of the contents of this report (especially any conclusions as to value, the identity of the appraisers or the firm with which they are connected, or any reference to the Appraisal Institute or to the MAI designation) shall be disseminated to the public through advertising media, public relations media, news media, sales media or any other public means of communication without the prior written consent and approval of the undersigned. No part of this report or any of the conclusions may be included in any offering statement, memorandum, prospectus or registration without the prior written consent of the appraisers.



## Summary

<b>Property Appraised in Study</b>	Seattle Marriott Waterfront 2100 Alaskan Way Seattle, Washington 98101
<b>Study Prepared By</b>	ABS Valuation Robert J. Macaulay, MAI 2927 Colby Avenue, Suite 100 Everett, WA 98201
<b>Study Reviewed By</b>	Peter K. Shorett, MAI, CRE, FRICS John D. Gordon, MAI, AI-GRS Jesse L. Baker Kidder Mathews Valuation Advisory Services 601 Union St., Suite 4720 Seattle, WA 98101
<b>Intended Users</b>	This appraisal review is prepared for you, the client, your legal counsel Jerry Lutz with Perkins Coie, City of Seattle Hearing Examiner Ryan Vancil, the Seattle City Council members, and Robert J. Macaulay, MAI, appraiser with ABS Valuation
<b>Intended Use</b>	To be used in support of the property owners appeal of the Special Benefit Assessment proposed to be levied against the property.
<b>Purpose of the Assignment</b>	To determine the appropriateness of the conclusions reached in the Final Special Benefit/Proportionate Assessment Study (Study) for the Waterfront Seattle Project Local Improvement District (LID).
<b>Date of Appraisal Under Review</b>	Date of Value – October 1, 2019 Report Issued – November 18, 2019
<b>Date of Reviewer's Opinion</b>	Date of Value – October 1, 2019 Review Issued – April 14, 2020



**Extraordinary Assumptions or Hypothetical Conditions to this Review** None

**Scope of the Review** This is a review and critique of the value methodologies and conclusions in the Study and the estimate of value increase for the property before and after the LID improvements are in place.

The scope of work included a review of the Study, its Addendum, a general inspection of properties within the LID boundary area, location where the LID improvements will be made, additional research on the case study examples used in the Study and interviews with market participants in those markets.

The results of the review are contained in this report.

<b>Study Conclusions</b>	Before	\$167,975,000
	After	<u>173,352,000</u>
	Special Benefit	\$5,377,000
	LID Assessment	\$2,106,827

**Review Conclusion** The increase in value opined in the appraisal is not credible and should not be relied on.



## Reviewer's Conclusions

It is our conclusion that the assignment results in the Study are misleading and do not provide the necessary evidence to provide credible opinions of property value increases before and after the LID improvements are in place. The appraiser has failed to provide the proper support to conclude that the LID improvements provide special benefits to all of the properties in the LID boundary area, in contrast to the more common general benefits that park improvements typically create for the benefit of the larger community and region.

The Study determines special benefits based on case studies that represent completely different neighborhood settings. As explained in the attached exhibit, every case study considered was in a significantly inferior condition before the project improvements were installed. Most are significant urban renewal projects that have changed the landscape of surrounding neighborhoods and communities, and dramatically changed the way locals and visitors interact with those communities. Those case studies are in stark contrast to the Seattle waterfront that even today, is a very desirable community asset with views to the west towards the Puget Sound and the Olympic Mountains. As part of the Viaduct removal, the City is obligated to restore the waterfront with roads, sidewalks, landscaping and other streetscape improvements regardless of the LID improvements. The LID improvements marginally add to what would already have been a very desirable property condition before the improvements. The case studies contained in the Study illustrate benefits received in those communities well beyond the level that the LID improvements will provide.

Further, the economic studies considered in the Study focus on the overall benefit of the projects rather than the incremental impact such as the LID improvements provide. None of them fairly represent incremental property value impacts such as those contemplated from the LID improvements. And the results of the studies tend to focus on benefits to a larger study area than those established in the LID boundary area.

The estimated value increases are so small that it is virtually impossible to estimate at the level of precision implied in the Study. The value increase estimates of 0.5% to 4.0% are below the margin of error typically accepted within real estate appraisal practice.

Attached to this review is Exhibit 1 that provides further support and explanation for these opinions.

Specific to the Seattle Marriott Waterfront, the value increase is not considered market supported for the following reasons.



**MARRIOTT**

The Marriott Seattle Waterfront is situated along Elliot Bay, adjacent to the Downtown Marina and Bell Harbor International Convention Center. The hotel competes across multiple segments as one of two hotels in the competitive set carrying a Marriott affiliation. Accommodations include 361 guestrooms designed to promote the property’s expansive waterfront views. Amenities include an onsite restaurant, meeting space, business center, and swimming pool.

**INDIVIDUAL PERFORMANCE**

The table below highlights the Marriott’s performance in the most recent year 2019. To preserve confidentiality, the individual results are presented in ranges.

**OPERATING STRATEGY**

Over the past year, hotels in the Downtown CBD have been dropping rates to maintain occupancy. The Marriott 2019 strategy appears to be similar, as management dropped rates in 2019 to remain competitive. By doing so, Marriott will continue to count on its core customer base, while other rate-sensitive customers downgrade accommodations.

**DEMAND SEGMENTATION**

Market demand may be analyzed by segment or source. In this region, the most common allocation is among transient demand (individual business or leisure travel), group demand, and contract demand.

At the Marriott, the majority of demand is generated in the business and leisure segment. Specifically, the hotel targets upscale business travelers and guest loyalty members. With 15 meeting rooms and over 11,000 sq ft of function space, the Marriott is able to accommodate groups of varying sizes. Given the small share of contract demand, we have included these room nights in the group segment for purposes of analysis. Based on the monthly data reported by hotel management to STR, the current mix of demand at the Marriott is estimated and displayed in the following table.

**Performance & Segmentation**

	Occupancy	Daily Rate	RevPAR	Transient	Group
Marriott Waterfront	Over 80%	\$250-\$300	\$200-\$250	84%	16%



**SEASONALITY** During 2019, demand seasonality was moderate, with quarterly share ratios ranging from 21% to 29%. Monthly market occupancy rates ranged from 67.6% in January to 96.0% in July. There was similar seasonal variation in room prices, which ranged from the low-\$200's to mid-\$300's. The quarterly share range for room revenue was more pronounced at 16% to 36%.

**MARKET PROJECTIONS** Based on the interview feedback we received from Downtown CBD market operators, most are projecting flat rate growth and declining market occupancy is projected in the short term as the market continues to adjust to the significant influx in new supply that has recently opened.

**LID IMPACT** We have provided a summary of the before and after valuation estimates per ABS.

Property Name	ABS Valuation 10/1/2019					
	Before	Change	After	Benefit	LID Ratio	LID Tax
Marriott Seattle Waterfront	\$167,975,000	3.2%	\$173,352,000	\$5,377,000	39.2%	\$2,106,827





**REQUIRED  
REVENUE  
INCREASE**

The impact of the LID results in a net value increase of \$5.377MM. The overall revenue increase needed to support this valuation can be calculated as follows:

Value Increase: \$5,377,000

Cap Rate: 6.5%

NOI Increase:  $(\$5,377,000 \times .065) = \$349,505$  Net NOI Increase

NOI Ratio 20% =  $(\$349,505 / 20\%) = \$1,747,525$  Net New Revenue

Revenue Increase =  $\$1,747,525 / \$54,591,875$  (study implied, before) = 3.2%

Based on the before/after assumptions in the Study, the Marriott will need to increase revenue across the board by about 3.2%. To determine the required demand to meet revenue growth expectations, we examined the peak season months of May to October, as this timeframe is when most new tourists are expected to visit the Waterfront.

Waterfront Seasonal Rev	Waterfront Seasonal Demand	Waterfront Seasonal ADR	Seasonal Index	KM Proj Stab cur \$	Feasibility Test Seasonal ADR
\$6,405,741	21,238	\$301.62	115.90%	\$273.86	\$317.41

The subject's indicated ADR of \$308 during these months is about 116% higher than its annual ADR of \$267. We then apply the 116% index to our estimate of stabilized ADR forecast in the accompanying appraisal of \$274, resulting in a Waterfront Seasonal ADR estimate of \$317.

Assuming a \$274 average daily rate, the new peak season target rate will be \$317. While it may appear that a \$15/night is a minor increase and should be relatively easy to achieve, the same 3.2% revenue increase would also apply to all revenue centers including F&B, Parking, Retail, and Other. These are real increases across the board that are implied to occur immediately if the LID Final Assessment Roll is approved.

This amount of increase seems highly unlikely considering the recent decline in ADR observed at the Marriott from 2018 to 2019. Dropping rates by 5% only softened the impact of the new supply, as RevPAR plunged by 8.9% in the most recent year. This declining performance observed at the Marriott in 2019 is consistent with the overall softening of the Seattle CBD Hotel market recently, as operators have dropped rates aggressively to maintain occupancy as new supply continues to come online. The declining performance is a direct result of new supply entering the market. According to all operators we interviewed, this supply must be absorbed over the next few years, and it will likely be 2022 to 2023 before average rates recover to levels observed in recent years.



**REQUIRED  
DEMAND  
INCREASE**

From another perspective, we looked at the new revenue threshold expectation from a supply and demand perspective, to demonstrate how many actual new rooms would be needed to meet the value increase estimate opined in the Study.

New Revenue = \$349,505 | ADR = \$317 (Assumption)  
New Demand Required = ( $\$349,505 / \$317 \text{ ADR}$ ) = 5,513 new guestrooms  
Existing Demand = 109,649 total rooms booked per year (2019)  
Net Demand Increase = ( $5,513 / 109,649$ ) / = 5.03% New Demand

The majority of new tourist demand would occur in the summer and fall months, as these months offer favorable weather for outdoor attractions, events held on the Waterfront, and other compression generated demand.

The summer and fall months are also considered the peak demand months for hotels in the region, creating limitations on supply to meet the new revenue demands. Using our segmentation data from the STR report, we illustrate available supply at the Marriott during the peak season in the following table.



**Available Guestroom Supply, Peak Season**

	Subject Supply		Subject Demand		Available Supply	
	Rooms	ARN	ORN	Share	Rooms	Supply Ratio
May	361	11,191	9,632	9%	1559	14%
June	361	10,830	10,073	9%	757	7%
July	361	11,191	10,738	10%	453	4%
August	361	11,191	10,702	10%	489	4%
September	361	10,830	9,750	9%	1080	10%
October	361	11,191	9,674	9%	1517	14%
					5,855	

Available Supply (6 months) = 5,855 guestrooms

Projected Demand Requirement = 5,513 new guestrooms

WF LID Supply/Demand Ratio = (5,133/5,885) = **94.15% Total Supply**

The Marriott would need to exceed its available supply with demand generated by the LID improvements to meet the 3.2% revenue growth.

Assuming a best-case scenario, with rooms revenue equating to about 65% of total operating revenue at the Marriott, and that all other revenue centers (F&B, Parking, Other) meet the required 3.2% revenue growth we apply the 65% ratio to the new 5,855 guestrooms calculated above. The result (5,885 x 65%) = 3,583 new guestrooms.

WF LID Supply/Demand Ratio = (3,583/5,885) = **61.20% Total Supply**

**OPERATIONS  
FEASIBILITY TEST**

To illustrate how the above scenarios would fare under typical operations, we apply a max operating capacity ratio of 97.5% occupancy, accounting for Sundays and holidays, which are typically slower in all markets. This figure is also supported by typical capacity figures reported at Full Service in the region. Waterfront LID generated demand to be absorbed over the six months most over-night tourists are expected to visit Seattle. Under the both scenarios, the Marriott would be unable to accommodate the additional demand, experiencing shortages in three of six months under the best case scenario and four of the six months in the worst case scenario.



**Absorption Feasibility Test A: Best Case Scenario (3,583 guestrooms)**

	Subject Supply		Subject Demand		Available Supply						
	Rooms	ARN	ORN	OCC	Total	Peak 97.5%	Actual	WF NEEDS	NET		
May	361	11,191	9,632	86.1%	1,559	280	1,279	597	682		
June	361	10,830	10,073	93.0%	757	271	486	597	-111		
July	361	11,191	10,738	96.0%	453	280	173	597	-424		
August	361	11,191	10,702	95.6%	489	280	209	597	-388		
September	361	10,830	9,750	90.0%	1,080	271	809	597	212		
October	361	11,191	9,674	86.4%	1,517	280	1,237	597	640		
					Subtotal		5,855	1,661	4,194	3,583	611

**Absorption Feasibility Test B: Worst Case Scenario (5,513 guestrooms)**

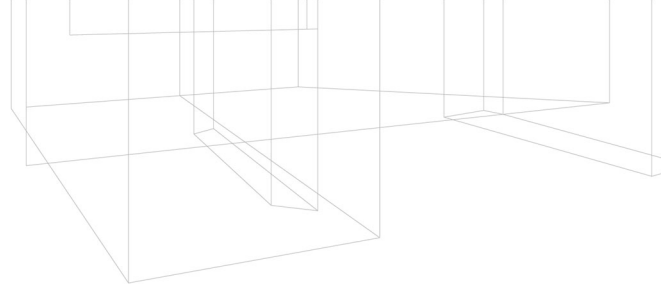
	Subject Supply		Subject Demand		Available Supply						
	Rooms	ARN	ORN	2019 OCC	Total	Peak 97.5%	Actual	WF NEEDS	NET		
May	361	11,191	9,632	86.1%	1,559	280	1,279	919	360		
June	361	10,830	10,073	93.0%	757	271	486	919	-433		
July	361	11,191	10,738	96.0%	453	280	173	919	-746		
August	361	11,191	10,702	95.6%	489	280	209	919	-710		
September	361	10,830	9,750	90.0%	1,080	271	809	919	-110		
October	361	11,191	9,674	86.4%	1,517	280	1,237	919	318		
					Subtotal		5,855	1,661	4,194	5,513	-1,318

**CONCLUSION**

The impact of the LID improvements as opined in the Study imply the expectation that new revenue of 3.2% across the board will be achieved (Rooms, F&B, Parking, Other). From a supply/demand standpoint, we estimate the Waterfront LID project would need to generate an additional 3,583 guestrooms, accounting for 61.20% of supply in the best-case scenario, which assumes all other departments can meet the 3.2% revenue increase goal. Looking at just room revenue to fill the void, the new demand needed increases to 5,513 guestrooms, or 94.15% of available supply.

The typical profile of new overnight tourists expected to visit the Waterfront Park does not match the upscale business traveler targeted by the Marriott and similar boutique properties. Given the limited capacity for new rate growth in the current softened CBD lodging market, coupled with the limited supply available during peak season illustrated above, we find it highly unlikely the LID improvements would generate new demand to support the required 3.2% revenue growth required to support the special benefit assigned to the Marriott Hotel.

The increase in value opined in the appraisal is not credible and should not be relied on.



## EXHIBIT 1 – ATTACHMENT TO APPRAISAL REVIEW

This attachment provides support for the opinions in the accompanying appraisal review. It is not intended to be a standalone document and can only be used in conjunction with that appraisal review report.

This letter provides a descriptive overview of the Waterfront Seattle Project (Project) proposed by the City of Seattle and the appropriateness of the Special Benefit/Proportionate Assessment Study (Study) prepared by ABS Valuation for assigning assessments to properties for partial funding of the Project through a Local Improvement District (LID) special assessment.

### Executive Summary

Following the removal of the Alaskan Way Viaduct, the City of Seattle plans to construct a park promenade along the water, construct a new surface street along Alaskan Way, rebuild Pier 58 and Pier 62, build an elevated connection from Pike Place Market to the waterfront, and improve east-west connections between downtown and Elliott Bay. The Project will be a \$724M investment planned for completion by 2024.

The City adopted the ordinance to create the formation of the LID for partial payment of the Project. ABS Valuation prepared their Study with an October 1, 2019 date of value released to the public on or about January 10, 2020. The Study estimates the before and after value of property within a defined LID boundary area. The report includes 6,238 properties within the LID boundary and concludes a value increase because of the Project equal to \$447M. The City has allocated \$175.5M of the Project cost to these properties through the formation of the LID.

A LID is an unusual funding mechanism, especially for a project of this magnitude. The last major LID formed in the region was for the South Lake Union Streetcar in 2007. Funding for the park projects noted in the Study and accompanying reports was from tax incremental financing, transportation funds, City, State or Federal funds and grants, public, private, or philanthropy. None were funded with a LID.

It is important to understand the property conditions before and after the LID improvements that the Study is attempting to value. The Project is a component of a larger effort to restore the Seattle waterfront following the removal of the Alaskan Way Viaduct. As part of its removal, the City must restore the waterfront with roads, sidewalks, landscaping and other streetscape improvements to current design standards regardless of the LID improvements. The LID improvements add on to a project that is already schedule for construction.

Up to the release of the Study, the condition of the property before the LID improvements was largely unknown because the City had not prepared drawings and exhibits showing the difference in the property before and after with the LID improvements in place. These conditions were just provided as an addendum to the Study and help explain the marginal difference between the property condition before and after the LID improvements.

From this, the Study attempts to determine the value increase from these LID improvements for a very large grouping of properties from what would already have been a very desirable property condition without the LID improvements.

It is our conclusion that the assignment results in the Study are misleading and do not provide the necessary evidence to provide credible opinions of property value increases before and after the LID improvements are in place.

1. The difference in the property condition before and after the LID improvements are in place is overstated.
2. The LID improvements provide a general, not special benefit. There is insufficient evidence in the Study to conclude that the LID improvements provide special benefits to the properties in the LID boundary.
3. The LID boundary area is too large.
4. The value increase from the LID related improvements opined in the Study of 4% or less is within a margin of error for mass appraisals, and therefore is remote and speculative.
5. There is inequitable analysis between property types and uses.
6. Many values are overstated.
7. The Study relies on a report prepared by HR&A Advisors that fails to consider the economic impacts if the LID improvements were not funded.

#### 1. Difference in the Before and After Condition

The Study gives the impression that the LID improvements will transform the Project to a greater level of improvement than will actually be realized.

The LID improvements will convert public space to a dedicated park, but it does not bring better connectivity to Pioneer Square, north towards Colman Dock and the retail piers (54 through 57) to Union Street. Those connections already exist.

The Study states: "... With the LID project completed, accessibility to the waterfront from nearby areas including the Pike Place Market, downtown business district and Pioneer Square will vastly improve. On an overall basis, referring the economic studies and rating system discussed herein, *the waterfront area in general improves from a subjective quality rating of average in the "before" scenario to excellent with the LID project completed.*"

The Overlook Walk will provide a grand entrance from the Market to the waterfront, but for decades, tourists and visitors have found their way to the waterfront. Access to the waterfront from downtown Seattle will improve near Pike Place Market in the after condition, but the improvement is not such that it creates a special benefit.

Properties around the Project will still enjoy the spectacular views west towards Puget Sound, the Olympic Mountains to the south towards Mount Rainer, some of the many reasons visitors are *attracted* to Seattle. Adding the LID improvements marginally enhances that experience above and beyond what would be in place without the LID improvements. Even today, with all the construction from the removal of the Alaskan Way Viaduct, Sea Wall replacement and Washington State Ferry Terminal construction, the waterfront remains an active and vibrant

tourist destination. There is no market evidence in the report that waterfront access would change from average to excellent because of the LID improvements.

There are too many other amenities in the region attracting tourism to suggest that the LID improvements singularly will cause property values to increase. Seattle is already blessed with attractions like the Pike Place Market, Pioneer Square, International District, Seattle Center, Space Needle, Chihuly Garden and Glass, Seattle Monorail, Seattle Art Museum, Washington State Ferries, the Great Wheel, T-Mobile Park, CenturyLink Field, Hiram Chittenden Locks, Discovery and Myrtle Edwards Parks. There is competition for tourist dollars from these area attractions. It's virtually impossible to identify a percentage of value increase from the LID improvements, and to conclude that the LID improvements will substantively change visitor preferences is remote and speculative.

There are consequences from the LID improvements not considered in the report, such as losing street parking. The renderings show a loss of at least 60 parking stalls along Alaskan Way in a market already short of parking. Also not considered are the impacts to properties where tree density will increase, and views will be lost from the lower level of some buildings.

The Study also ignores the impacts for development not expected to be completed until 2023/2024. Work will be ongoing including the completion of Pier 62, construction of a new pedestrian bridge, stairs and an elevator on Union Street from Western Avenue to Alaskan Way. In 2021, the Overlook Walk, a main park promenade along the water and piers with a bike bath, a new park on Pier 58 and additional connections to Colman Dock will be built. The new Seattle Aquarium Ocean Pavilion will not be completed until 2024. The Study also ignores the uncertainty of completing a five-year project on time, nor does it consider changes in project scope or cost overruns, real elements in any development the magnitude of the Project.

It also ignores the impacts of construction over the next five years in its analysis. The construction along the waterfront has been disruptive and has negatively affected property value. Retail sales are down and will expect to be soft during project construction.

The following exhibits present a better visual of the difference before and after the LID improvements. The most impactful consist of the Promenade, Pier 58 decking, Union Street Staircase and Overlook Walk. While the LID improvements create a more park like setting, the condition of the roads, bike trails, landscaping and streetscape after completion is marginally improved from the condition before. The reader can see the marginal increase in property condition that visitors will experience because of the LID improvements.

*Promenade*

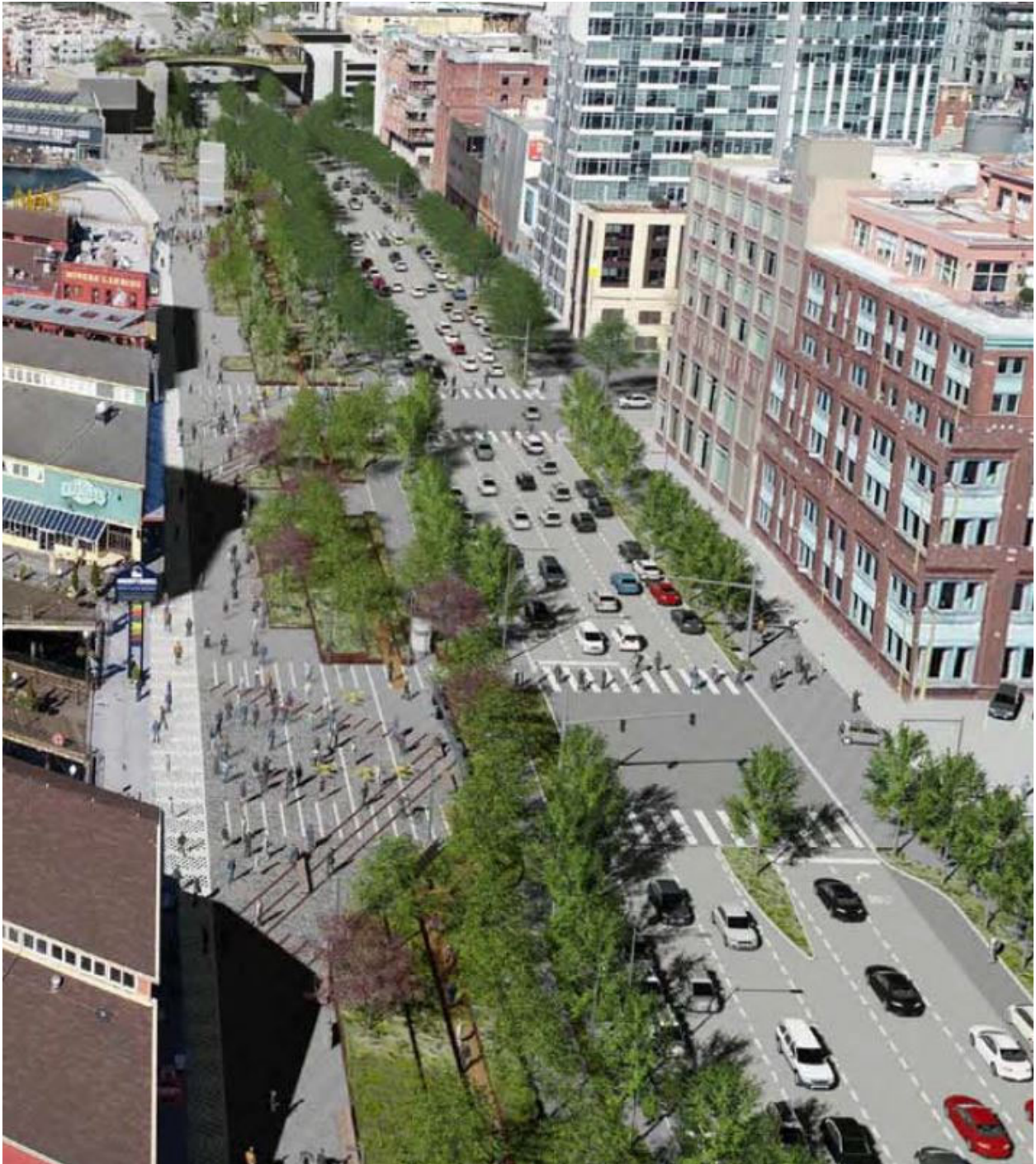
Before



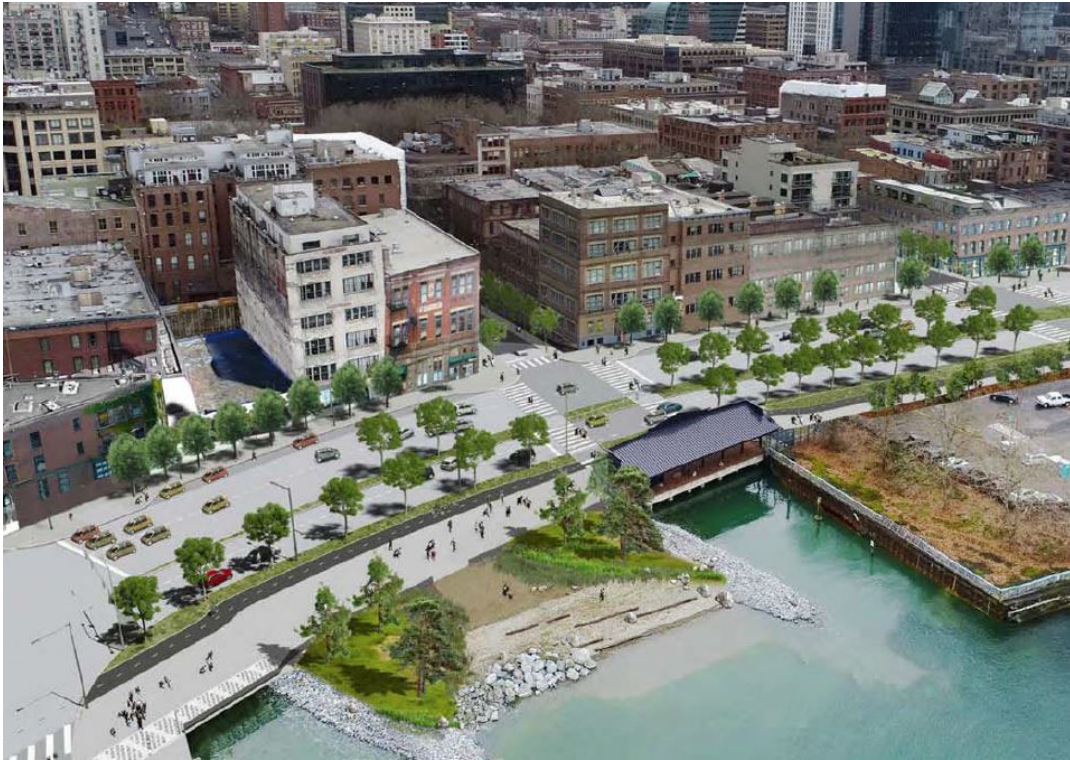


After

The area along Elliott Bay stretching from about Pine Street south to Dearborn Street will add landscaping, pedestrian corridors, bike paths, and park elements (benches, artwork, etc.).



Before



After



Pier 58

Waterfront Park is improved with a boardwalk & a pair of sculptures, plus views of the skyline & ships in dry-dock. There is a mix of plantings, public gathering areas and concrete amphitheater, fountain and seating areas.

Before



After

The LID improvements will create a larger platform with children's play area and raised lawn area. The possible bathroom would not be funded by the LID.



*Union Street Pedestrian Extension*

Present access from downtown Seattle is along a staircase leading down from the Four Seasons Hotel, to another staircase from Western Avenue to Alaskan Way.

Before



After

Improvements will include a new staircase, pedestrian areas, benches and artwork.



*Overlook Walk*

Current access to the waterfront from the Pike Place Market is the Pike Street Hill Climb, a series of steps or by elevators from the Skybridge to the Market Garage. These access points remain unchanged in the after condition.

Before and After







The rendering for the property in the before condition after the Alaskan Way realignment is shown below. The Pike Street Hill Climb and Skybridge/Market Garage elevators would remain as the primary points of access to and from the market. The rendering is a little misleading because it does not include the new \$113M Seattle Aquarium pavilion in the before condition. The Project will include \$34M in already identified City of Seattle funding as part of the Project outside of the LID improvement cost. The remaining costs will be funded by \$60M in private donations and \$19M from King County, Washington State and Federal sources. It is expected to be completed by 2024. The rendering shows a “no aquarium” alternative when in reality, it should be in place around the time the LID improvements are completed.



After

The Overlook Walk is the most significant improvement of the project. A pedestrian bridge and landscaped public space will cross over the Elliott Way surface street. It will include substantial public open space connecting the north end of the Pike Place Market with the waterfront. The Pike Street Hill Climb and Skybridge elevators are still in place in the after condition, and the aquarium improvements are shown as completed.



## 2. General versus Special Benefits

General benefits are easy to recognize such as an improved system of highways, or regional airport or new ferry terminal, since everybody in a community benefits from that improvement. General benefits are those that accrue to an entire neighborhood, community or region.

Special benefits are more difficult to define. They add value to a property because of a specific improvement as distinguished from those enjoyed by the public. Special benefits are easy to recognize when there is an actual physical improvement to a property, such as when water or sewer lines are installed, or a storm water retention system to keep a property from flooding is added, or a new freeway off-ramp serving an area once distant from freeway access is built. The benefit must result directly, uniquely and specifically from the public project to individual parcels.

The Study fails to properly determine that the LID improvements create special benefits to the properties within the LID boundary area. The case examples in the Study provide only anecdotal information about the project's general benefits. It does not employ a traditional "matched pair" analysis that would provide discrete value increase metrics from sale transactions for properties near these projects compared with those removed from the project influence. The proper measure of benefit is to compare like property transactions with and without the variable that is the project.

Moreover, the value increases noted in case studies contained in the report are not reflective of conditions even close to the LID improvement component of the project and are misleading. Virtually every case example cited in the Study are substantially more impactful than the LID improvement project. The High Line in New York City, for example, was an abandoned and unused elevated railroad that was a barrier and blight to the adjoining properties. The project improvements were so substantial, that it is now one of the more noted gentrification initiatives in the country. The Rose Kennedy Greenway in Boston also brought a major change to the area. The surface interstate highway was put underground and converted to a regional park. Not only had the interstate generated noise, it had posed a physical barrier that separated neighborhoods, whereas the project eliminated the noise and allowed for recreation and walking between neighborhoods.

We researched the case studies cited in both the Study and referenced HR&A reports. The changes in the condition before and after were so substantial that they dwarf the difference between the condition of the property before and after the LID improvements, and are not credible sources for opinions of value. Examples of the case studies used in the Study are discussed below.

Tom McCall Waterfront Park, Portland OR

## Before

The original 37-acre park was completed in 1984. The park was doubled in size following its southern expansion in 1999, resulting in a public space that spans about 1.5 miles on the west side of Willamette River. While the park offered water views, the park itself and the immediate neighborhoods adjacent to the park, and extending north and south from Burnside, were considered unsafe and not attractive. Upgrades were needed to the seawall. Public events such as the Saturday Market and the Portland Blues Festival were established.

## After

Redevelopment of the park was completed in 2011. The primary arterial, Naito Parkway, was reconfigured and overall improvements to the park included new pathways, public gardens, fountain upgrades, and construction of three plazas for events. Salmon Springs Plaza on the north end allowed for the expansion of the Saturday Market. A waterfront esplanade extends the full length of the park from RiverPlace Hotel on the south end to the Japanese-American Historical Plaza on the north. Coinciding with park renovation were new housing development projects (The Yards) and upgrades to trees, sidewalks, and signage on adjacent access streets. Perception has changed from unsafe and limited upside to a marketable destination. While these improvements are superior to the condition of the property before, it's not clear that values have increased because of them.

Rose Kennedy Greenway, Boston MA

## Before

Elevated JFK Expressway separated the east and west portions of town for 1.5 miles. Downtown was disconnected from the Waterfront. The expressway was demolished and I-93 was relocated underground following the Big Dig that started in 1991. The result was a cleared, graded site, with gravel and no enhancement factor, but the neighborhoods were at least connected.

## After

Independent non-profit, The Greenway Conservancy was established in 2004 to guide development and raise funds via endowment. The 17-acre park opened in October 2008 and can be best described as a linear park that spans over one mile across several Downtown Boston neighborhoods (Chinatown, Fi-Di, Waterfront, and Northend). Only a small eastern portion of the park has waterfront view or access; however, the park did connect Downtown with the Waterfront. Park features include gardens, promenade, sculptures, seating, trees, and greenspace. In 2008, State Legislation established a 50/50 Public-Private-Partnership (PPP), with Greenway Conservancy being appointed steward and operator in 2009. A new agreement was announced in 2017 dictating operational financing. The breakdown includes State/City 20%, New Greenway Business Improvement District (BID) 20%, and Greenway Conservancy 60% generated through private donations.

Hudson River Park, New York NY

## Before

500+ acres of West Manhattan with water view but considered as wasteland.

## After

After 30 years of planning, Friends of Hudson River Park were behind the effort to redevelop. Completed in the early 2000s, this project led to the complete redevelopment of the neighborhood. Park features included sports fields, recreation, walking and bike paths, waterfront promenade, and other amenities. Dramatic change in land use, private investment, and politics were required to make this project so. The project magnitude was well beyond the Seattle project.

The Embarcadero, San Francisco, CA

## Before

Post-Earthquake (1989), the city demolished the highway in 1991. The Bayfront was disconnected from Downtown San Francisco and considered under-utilized. This area of San Francisco was considered an industrial service corridor.

## After

Complete transformation; however the park project coincided with demolition opening once blocked waterfront view. This was around the time of the economic boom associated with the 1990's economy and Dot-Com era. All work was completed by early 2000's. City streets connected to the Embarcadero, a boulevard that runs along the waterfront, and sidewalks offered immediate waterfront and park access. Led to easier access to southern bay front and redevelopment of SOMA, (south of market), AT&T Park, and the new Arena, etc. This is a dramatically different level of improvement than those that will be realized from the LID improvements.

Millennium Park, Chicago II

## Before

Existing Grant Park and location in between downtown and major highway. This area was home to the Illinois Central rail yards, parking lots, and vacant underutilized land.

## After

The rail yard was converted to one of the world's largest green roofs. New park features include significant green space, major art installations such as the Bean, skating rink, pedestrian bridge, theatre, promenade, and an outdoor auditorium. The park is operated by the Chicago Department of Cultural Affairs and managed by MB Real Estate. The total cost of the park was \$475MM, equating to three times its original \$150MM budget; however, it has become the number one tourist attraction in the Midwest, as of 2015.

False Creek Viaduct Replacement, Vancouver BC

## Before

The Southeast False Creek project is the third and final segment of the waterfront revitalization plan. The City owned 80-acre area has historically been industrial with significant areas of undeveloped land. It is also the location of the aging Georgia and Dunsmuir Viaducts.

## After

The City plans to demolish the viaducts and through private and public funding rezone and designate the entire area for redevelopment including new road infrastructure, opens space and development sites. There will be defined districts – Events and Entertainment District, Park District and Main Street District, each with development expected to provide the development of several million square feet of office and hundreds of multifamily housing, along with supporting retail uses. This redevelopment will have a dramatically different scale of impact to property values when compared with the LID improvement component of the larger Project.

High Line, New York City, NY

## Before

Elevated rail infrastructure built in 1930's. The southern section was demolished in the 1960's, with last portion of demo in 1991. Remaining section spans from Meatpacking District, extending north through West Chelsea. Abandoned warehouses, lots of graffiti and area considered an eyesore. By 2006, an area of West Chelsea was rezoned to a special district to accommodate a public park. CSX, a supplier of rail-based freight transportation in North America, donated the right-of-way and infrastructure in 2005. Ground broke in 2006, first segment opened in 2009. In 2012, the second segment was completed (20th - 30th) and zoning changes were approved to allow the third segment to open in 2014 (30th - 40th).

## After

The completed product is a 1.45-mile long greenway maintained and operated through a public/private partnership between Friends of the Highline and NYC. The space is considered a tourist destination. In addition, the High Line is used to support many public programs including teen-engagement, art, and performance.

From an economic standpoint, real estate values near the park were driven up by speculators during the planning and development phases. The park is now an anchor and tourist attraction in the West Chelsea and Meatpacking Districts. Property values and retail/condo markets have experienced significant positive benefits.

According to Friends of the High Line co-founder Robert Hammond, the High Line “gets too much credit and too much blame” for the redevelopment of West Chelsea. The park development coincided with the rezoning of West Chelsea, with no affordable housing mandates. This led to gentrification and outpricing of the local community, including art galleries and businesses, due to people moving in from Manhattan. These issues led to an extended debate over income

inequality etc. Many cities have followed and completed or proposed elevated parks due to the overall positive impact of the High Line (Jersey City, Chicago, Philly).

#### Buffalo Bayou Park, Houston TX

##### Before

Buffalo Bayou Promenade was completed in 2006, establishing a 23-acre recreation area with 1.4 miles of hiking and biking trails that connects from West of Downtown to the Theater District.

##### After

Buffalo Bayou Park was completed in 2015 and established the new park immediately west of the promenade. This project added 160 acres of new parkland stretching 2.3 miles. Park features include a dog park, greenspace, gardens, restaurants, and an art space. Since 2015, this area has experienced three significant flood events. In 2017, Hurricane Harvey caused devastation and significant damages to property in the adjacent neighborhoods.

#### Atlanta Beltline, Atlanta Georgia, GA

##### Before

Vacant land including parking lots, demolished buildings or what remained of old foundations, vacant land, crime, and considered an eye sore. Some trails (The Westside Trail) and bridges that spanned the topography.

##### After

Partnership formed in 2005 to transform the area into a destination. First portion opened in 2012, with completion in 2014. The completed park offers a major pedestrian path for walking, running, and biking, and trails that connect to other areas of the city. Notably, the Eastside Trail extension broke ground in 2016 and was completed in 2017, which connected two disconnected railways. Funding sources for this portion included a \$3MM Woodruff Foundation grant, Beltline Tax Allocation District, The Kendeda Fund, and Waterfall Foundation. The redevelopment of this area has resulted in significant multifamily development around the trails and recreation space, including the "Edge" project near the new proposed Edgewood Avenue Bridge, which is to be added following the project. This project essentially is continuous.

#### 11th Street Bridge, Washington DC

##### Before:

Existing 11th Street Bridges. Construction began in 2009 on replacement bridges, new ramps, and interchanges. Phase 1 completed in 2013; Phase II completed in 2015.

**After:**

Breaking ground in 2021, the elevated park is proposed for construction atop the existing piers of the former 11th Street Bridge. This project is designed after the High Line in NYC. The finalized product will include art and performance spaces, recreation areas, plazas, urban farming plots, an amphitheater, and greenspace. The completed park will help connect Wards 7 and 8 to the rest of the city. Much of the hype is over the bridge design of the superstructure. Other issues have arisen over potential gentrification.

Willoughby Plaza, New York City NY**Before**

Vacant land owned by Marriott. There was significant traffic congestion near Downtown Brooklyn and the Brooklyn Bridge. The project area included an active use shared pedestrian/bike/vehicle street, parking lot underutilized vacant land.

**After**

Land was donated by Marriott as part of the renovation to their south tower completed in 2013. Street access was eliminated and this area designated an outdoor plaza. Marriott retains the ability to use the space as additional function space. Pedestrian traffic and access increased. Storefront retail businesses and restaurants saw positive impact. There was no revenue impact to Marriott from the project.

### 3. LID Boundary Area

There is no justifiable basis or support for the LID boundary areas as they have been determined. The primary improvements of the Project will be along the waterfront and near Pike Place Market, not away from the water. LID improvements, as identified by the City of Seattle, extend up the Pike/Pine corridor, and from Alaskan Way into Pioneer Square. But these improvements appear to be more of an improvement program to neglected streets, not part of the larger LID project.

It is unreasonable to conclude that properties in the north end of the boundary area will receive any benefit from the LID improvements. On the south end, neither T-Mobile Park (Mariners) nor Century Link Field (Seahawks & Sounders) will ever realize an increase in value from any part of the Project, let alone the LID improvements. Stadiums like these are bound to contracts that will not allow the property value to increase. The Seahawks games sell out every year, and fans will not pay more for a ticket or be drawn to the area because of these improvements.

Even if one were to accept there are special benefits, they would only accrue to properties closest to the Promenade and Overlook walk. However, the Study fails to provide sufficient evidence that even those properties would receive any special benefit from the LID improvements. The formation of the LID boundary in the study is arbitrary with the incremental value increase along boundaries so nominal that their inclusion to the study is well beyond the margin of error in rounding.





#### 4. Inequitable Analysis

The property uses within the LID boundary area are diverse and the Study fails to provide equitable value allocations. Vacant redevelopment site values are significantly lower than improved property value estimates passing the assessment burden to these higher value properties. This creates inequities on how the assessments are allocated as shown in three examples presented below. The sites should instead be analyzed on the common denominator of assessment per sq ft of land area.

The first example of the inequitable valuations is two nearly identical sites between Alaskan Way and Western Ave. Cyrene Apartments is a recently completed 17-story mid-rise apartment complex along the better part of the Seattle waterfront. One block south is a redevelopment site with nearly identical site characteristics that could be developed with a similar mid-rise apartment complex. The difference between the values and assessment allocation between the two properties is substantial. The improved property will be burdened with an assessment of \$932,361 or over four times the assessment of the development site.

Example #1	Land SF	Zoning	Value Before	Value After	Value Increase	%	Assessment	\$/SF Land
Cyrene Apartments 50 University 7666202450	15,413	DMC 170	\$101,209,000	\$104,242,000	\$3,033,000	3.0%	\$1,188,396	\$77.10
Surface Parking 1101 Western Ave 7666202506	14,156	DMC 170	\$18,757,000	\$19,413,000	\$656,000	3.5%	\$257,035	\$18.16

The next example is for property in the northern portion of the LID boundary area. The Amazon Office property is an older but functional 7-story office building. Directly across the street are three parcels that combine for the equivalent of a similar sized redevelopment site. The assessment for the Amazon Office property is three times that of the development site.

Example #2	Land SF	Zoning	Value Before	Value After	Value Increase	%	Assessment	\$/SF Land
Amazon Office 1903 Terry Ave 0660001255	42,360	DMC 340/ 290-400	\$127,103,000	\$127,303,000	\$200,000	0.16%	\$78,364	\$1.85
Development Site	13,334	DMC 340/	\$21,334,000	\$21,356,000	\$22,000	0.1%	\$8,620	
1906 Terry Ave to	14,160	290-400	22,656,000	22,679,000	23,000	0.1%	9,012	
1001 Virginia St	14,160		22,656,000	22,679,000	23,000	0.1%	9,012	
0660001512, 25, 30	41,654		\$66,646,000	\$66,714,000	\$68,000		\$26,644	\$0.64

The last example is the comparison of sites closer to the downtown core where the highest densities are allowed. The 27-story Olivian Apartments were built about 10 years ago. Immediately south are two nearly identical parcels, one interior and the other a corner lot. A comparison of these properties show that the Olivian Apartments are burdened with an assessment nearly four times that of the two redevelopment sites.

Example #3	Land SF	Zoning	Value Before	Value After	Value Increase	Assessment	\$/SF Land	
Olivian Apartments 809 Olive Way 0660000835	13,160	DOC2 500/ 300-550	\$160,493,000	\$161,295,000	(\$802,000)	0.5%	\$314,241	\$23.88
Old Bldg/Surface Pkg 1618 8th Ave 0660000820	14,160	DOC2 500/	\$25,488,000	\$25,679,000	(\$191,000)	0.75%	\$74,838	\$5.29
Surface Parking 802 Pine St 0660000804	13,200	300-550	\$23,976,000	\$24,156,000	(\$180,000)	0.75%	\$70,528	\$5.34

It is very apparent there is a disparity between how the study has treated properties already improved with those that will likely be developed in the near term. There is an inequitable allocation of the LID assessment. The owner of the development site will enjoy a significant value advantage into perpetuity compared with the owner of the improved property.

Moreover, there are no latecomer fee provisions in the analysis. These are often used to help reimburse the agency or funding source for the cost of a development. They are very common in utility infrastructure improvements. It allows the property owner to defer the cost of paying for the improvement to when the benefit is actually realized.

An alternative and more equitable value allocation approach would have been to measure the value increase based on the underlying land value, a common denominator for all properties in the LID boundary area. Under that approach, it is doubtful that the Study would conclude that there are value increases due to the LID improvements anywhere near the \$447M conclusion in the report.

#### 5. Mass Appraisal Margin of Error

The value increase from the LID related improvements opined in the Study of 4% or less is within a margin of error for mass appraisals. ABS Appraisal includes 6,238 properties in their study area with a before value of \$56,359,239,000. The overall increase in value of all the properties is \$447,908,000 or an overall increase of less than 0.8%. The estimated value increases fall within the standard margin of error not only for a mass appraisal, but also for a single property being valued by appraisers armed with all the necessary data not using mass appraisal techniques. It's simply impossible to adjust changes in property values with this level of precision. There are so many impactful elements requiring adjustment such as building age, location or site characteristics that would overwhelm and more than offset the implied value increases estimated in the Study. Determining such small value increases with this level of precision is simply impossible in the realm of traditional appraisal practice. The increases in value estimated in the appraisal are so small they are remote and speculative.

#### 6. Values are overstated

We analyzed about a dozen hotel properties in the Study area. The properties are overvalued, some by as much as almost 100%.

There are other examples where the Study fails to consider certain deed restrictions, or title encumbrances. We know of a site that has a small commercial building in the downtown core

that has sold the development rights thus preventing development, yet the property was valued much higher as a redevelopment site. There is another property along Pine St. valued as a redevelopment site, apparently with no development restrictions. However, it is above the Sound Transit light rail tunnel. That prohibits excavation for below grade and requires extraordinary foundation construction that will limit development height to somewhere around ten stories, well below the site's maximum development potential of up to 550 feet, which was used in the Study.

These omissions bring question to the reliability of the other property value conclusions in the Study.

## 7. Economic Studies

The Study relies on three economic studies as support of property value increases because of the LID improvements. These include an updated study "Beyond Real Estate Increment: The Value of the Central Seattle Waterfront" prepared by HR&A Advisors, "The Impact of Parks on Property Values: A Review of the Empirical Evidence" study by the Department of Recreation, Park and Tourism Sciences at Texas A & M University", and "The Economic Benefits of Sustainable Streets" published in 2014 by the New York City Department of Transportation.

The first study explains the economic, fiscal and community benefits of the waterfront project. The study focuses on the larger waterfront Project and does not differentiate between the larger Project and the incremental value increase associated with or without the LID improvements. It simply is a study discussing the economic benefits from the Project. It also confirms that the improvements in their entirety reflect general benefits to the community and region, not special benefits by citing a \$1.1B one-time economic impact because of the construction of the Project, \$288M ongoing economic impact, 2,385 permanent jobs and \$10M in ongoing local taxes. These accrue to the community and region, and are general, not special benefits.

The second study compares neighborhoods with and without a park, a more definitive distinction than the Study is trying to identify. The primary focus of this second study is to measure increases in sales revenue resulting from these new park projects. While it also considers other elements such as storm water runoff, air quality and health benefits, there is no documentation that these benefits directly lead to increases in property values. Further, the study additionally appears to imply these benefits accrue to the larger community rather than properties specifically adjacent to the park. This is support that the benefits generated from these park improvements are general, not special benefits.

The last study considered focuses on road improvements or street beautification projects in New York. The study compares unwelcoming, traffic-dominated corridors to safer, more attractive public spaces that better accommodate all users. The study focuses on safety, access/mobility, economic vitality, public health, environmental quality and livability/quality of life. The economic component is based on full availability of retail sales tax filings, limited data on commercial leases and rents, along with data on assessed market values. It is not based on real estate transactions and market sales. And while the results imply general increases in retail sales, it does not substantiate that this directly results in increases in property value. Again, there is no support that these result in special benefits, and in fact they are general benefits.

## 8. Summary

As stated in the accompanying appraisal review, it is our conclusion that the assignment results in the Study are misleading and do not provide the necessary evidence to provide credible opinions of property value increases before and after the LID improvements are in place. The appraiser has failed to provide the proper support to conclude that the LID improvements provide special benefits to the properties in the LID boundary area, in contrast to the more common general benefits that park improvements typically create for the larger community and region.

The Study determines special benefits based on case studies that represent completely different neighborhood settings. As explained in the attached exhibit, every case study considered was in a significantly inferior condition before the project improvements were installed. Most are significant urban renewal projects that have changed the landscape of surrounding neighborhoods and communities. This contrasts the Seattle waterfront that even today, is a very desirable community asset with views to the west towards the Puget Sound and the Olympic Mountains. As part of the Viaduct removal, the City must restore the waterfront with roads, sidewalks, landscaping and other streetscape improvements regardless of the LID improvements. The LID improvements marginally add to what would already have been a very desirable property condition before the improvements. The case studies in the Study starkly contrast with the level of benefit that the LID improvements will provide.

Further, the economic studies considered in the Study focus on the overall benefit of the project rather than the incremental impact that the LID improvements provide. None represent a fair representation of incremental property value impacts as it relates to those contemplated from the LID improvements. And the studies focus on benefits to a larger study area than those established in the LID boundary area.

The estimate of value increases are so small it is virtually impossible to estimate at the level of precision implied in the Study. The value increase estimates of 0.5% to 4.0% are below the margin of error typically accepted within real estate appraisal practice.

# Appraisers' Experience Data



# PETER K. SHORETT, MAI, CRE, FRICS

**President**  
**Valuation Advisory Services**

Peter Shorett entered private appraisal practice with Shorett & Riely in 1980 and was promoted to manager of the office in San Jose, California in 1985 and returned to practice at the Seattle office in 1990. He founded the Valuation Advisory Services division of Kidder Mathews in 1995.

In 1985 Mr. Shorett was awarded his MAI designation by the American Institute of Real Estate Appraisers (now known as the Appraisal Institute) and earned his CRE (Counselor of Real Estate) designation in 1999. He is a certified member of the Commercial Investment Real Estate Institute (CCIM) and has completed the requirements under the continuing education program of the Appraisal Institute. He has served as a Director of the Seattle Chapter of the Appraisal Institute and has served or led on the Candidates Guidance, Finance and Public Relation Committees. He also was appointed Chairman of the Seattle Chapter of the Counselors of Real Estate. In 2008 he became a Fellow of the Royal Institute of Chartered Surveyors (FRICS), the European equivalent of MAI. He serves on the Board of the Runstad Center for Real Estate Research at the University of Washington.

Mr. Shorett specializes in providing valuation and consultation for mediation, arbitration, litigation support and expert witness testimony. He has a wide diversified background in appraisal, market analysis and counseling for the development, acquisition, sale, leasing and financing of major urban real estate throughout the continental Western United States, including the cities of Seattle, Portland, San Francisco and Los Angeles.

Property types studied include apartments, churches, shopping centers, office and industrial buildings, marinas, condominiums, convention hotels, motels, golf courses, parking garages, medical clinics, service stations, residential subdivisions, nursing homes, retirement apartments, vacant land and numerous special-purpose and single-use properties. Mr. Shorett has extensive experience in working with owners whose property is acquired by condemning agencies such as Sound Transit or Local Improvement Districts (LID). Other assignments have included the valuation of leasehold interests, market analysis and lease-up studies for various investors and business groups.

## PROFESSIONAL AFFILIATIONS

**MEMBER OF** Appraisal Institute (MAI)

**COUNSELORS** of Real Estate (CRE)

**CERTIFIED** Commercial Investment Member Designee (CCIM)

**FELLOW** of the Royal Institute of Chartered Surveyors (FRICS)

## SELECT CLIENT LIST

### Attorney/Law Firms

- Bush Kornfeld
- Cairncross & Hemplemann
- Davis Wright Tremaine
- Dorsey Whitney
- Drumheller
- Ellis Li & McKinstry
- Foster Pepper
- Hansen Baker
- Karr Tuttle Campbell
- K&L Gates
- Lane Powell
- Lasher Holzapfel Sperry & Ebberson
- Miller Nash Graham & Dunn
- Perkins Coie
- Pillsbury Winthrop Shaw Pittman
- Schwabe Williamson & Wyatt
- Stafford Frey Cooper



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**COURT EXPERIENCE**

United States Bankruptcy Court  
United States Federal Court  
King County, Washington Superior Court  
Kitsap County, Washington Superior Court  
Pierce County, Washington Superior Court  
Snohomish County, Washington Superior Court  
Santa Cruz County, California Superior Court

**EDUCATION**

**BUSINESS ADMINISTRATION**, Western Washington University (1980)

**PROFESSIONAL LICENSES**

**STATE OF WASHINGTON** Certified General Real Estate Appraiser (No. 1100389)

**STATE OF OREGON** Certified General Real Estate Appraiser (No. C000599)

**STATE OF CALIFORNIA** Real Estate Appraiser License (AG014564)

**STATE OF IDAHO** Real Estate Appraiser License (CGA-3932)

Reciprocal agreements with other states as needed

**ADDITIONAL CLIENTS**

**Corporations/Property Owners**

3M Corporation	Goodman Financial	Miller Brewing Company
Albertsons, Inc.	Health Science Properties	Nitze-Stagen
Bekins Company	Hertz Corporation	Nobel House Hotels & Resorts
Bristol Meyers Squibb	International Paper Company	Northwest Airlines
Clise Properties	KCTS Channel 9	Northwestern Trust
Consolidated Restaurants, Inc.	Kilroy Industries	Olympic Resource Management
Delta Airlines	KMPG	PACCAR
Fred Hutchinson	Lindal Cedar Homes	Pine Street Associates
Gai's Bakery	Lone Star Northwest	Portac, Inc.
Goodale & Barbieri	McDonalds Corporation	Rayonier

**Attorney/Law Firms Continued**

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**Corporations/Property Owners Cont'd**

Seattle Seahawks	Swinomish Tribal Community	Union Carbide
Skokomish Tribal Community	The Boeing Company	Vulcan, Inc.
Southland Corporation	Unigard Security Insurance	Wesley Homes
		YWCA

**Development Companies**

Bentall Corporation	Quadrant	Trammell Crow
Lincoln Property Co.	Sobrato Development Co.	Wright Runstad & Co
Opus		

**Financial Institutions/Life Insurance Companies**

AETNA Life Ins. Co.	Group	T. Rowe Price
Amresco	Home Street Bank	The Union Bank of California
Allstate Life Ins. Co.	InterWest	TIAA-CREF
Bank of America	Key Bank	Transamerica Insurance Co.
CitiCorp	L.J. Melody & Co.	US Bancorp
Coldwell Banker Financial	Manufacturer's Hanover Trust Co.	Washington Capital Management
Collateral Mortgage	Mellon Financial	Washington Mutual
Crown Life Ins. Co.	Merrill Lynch	Washington Trust Bank
First Horizon	Morgan Stanley	Wells Fargo Bank
Frontier Bank	New York Life	
GE Capital	Pacific NW Bank	
Glaser Financial	Sterling Savings	

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**Governmental Agencies/Port Authorities/Nonprofits**

City of Bainbridge Island	King County Dept. of Transportation	Port of Seattle
City of Half Moon Bay	King County Property Services	Port of Tacoma
City of Kirkland	King County Prosecutor's Office	Sound Transit
City of Santa Cruz	Port of Anacortes	The Nature Conservancy
City of Seattle	Port of Chelan	Trust for Public Land
Dept. of Natural Resources (WA State)	Port of Friday Harbor	United States Postal Service
General Services Administration	Port of Port Townsend	Washington State Attorney General's Office
Internal Revenue Service	Port of Renton	

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# STATE OF WASHINGTON

DEPARTMENT OF LICENSING – BUSINESS AND PROFESSIONS DIVISION



THIS CERTIFIES THAT THE PERSON OR BUSINESS NAMED BELOW IS AUTHORIZED AS A

**CERTIFIED GENERAL REAL ESTATE APPRAISER**

**PETER K SHORETT**  
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**1100389**

License Number

**01/06/1992**

Issued Date

**04/10/2021**

Expiration Date

*Teresa Berntsen*  
Teresa Berntsen, Director



# JOHN D. GORDON, MAI, AI-GRS

**Senior Vice President, Shareholder  
Valuation Advisory Services**

John Gordon has over 30 years experience in the analysis and appraisal of complex income property. He has served as a staff appraiser, as a regional appraisal manager for a national accounting and consulting firm, and as a principal of an independent appraisal company. Prior to joining Kidd Mathews' Valuation Advisory Services, he was Special Properties Manager in the Commercial Appraisal Department of Washington Mutual Bank (now JP Morgan Chase), where he oversaw the valuation of their national portfolio of hotels and other special purpose properties.

John's educational background includes a BA in Economics from the University of California, and an MBA, with an emphasis in finance, from the University of Washington. He was awarded his MAI designation in 1989, and is certified as a commercial real estate appraiser in the states of Washington, Oregon, Idaho, and California.

John brings special expertise to the valuation and analysis of lodging properties. He has appraised over 600 hotels in 13 states, including small motels, large full service hotels, and some of the finest boutique resort properties in the region. In addition to hotels, John has extensive expertise in the valuation of senior living communities and affordable multifamily housing.

John is a Past President of the Seattle Chapter of the Appraisal Institute. He served for several years as an instructor in the real estate program at North Seattle Community College, and has been a guest lecturer at the Fachhochschule Munchen in Munich, Germany.

## PROFESSIONAL LICENSES

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**STATE OF IDAHO**, Certified General Appraiser  
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## SELECT CLIENT LIST

Bank of America

Bank of the Pacific

Bank of the West

Banner Bank

BECU

Coast Hotels

First Federal

Heritage Bank

HomeStreet Bank

JP Morgan Chase

Key Bank

Kitsap Bank

Mereté

Mountain Pacific Bank

Numerica Credit Union

Pacific Northwest Bank

Peoples Bank

Pacific Premiere Bank



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## HOTEL MARKETS

### WASHINGTON

Aberdeen	Edmonds	Mukilteo	Seki
Allyn	Ellensburg	Oak Harbor	Sequim
Anacortes	Everett	Ocean Shores	Silverdale
Ashford	Fall City	Olympia	Spokane
Auburn	Federal Way	Orcas Island	Spokane Valley
Belfair	Fife	Pacific Beach	Sumner
Bellevue	Forks	Pacific	Tacoma
Bellingham	Issaquah	Pasco	Toppenish
Blaine	Kennewick	Port Angeles	Touchet
Bothell	Kent	Port Hadlock	Tukwila
Bremerton	Kirkland	Port Townsend	Tumwater
Brewster	Lacey	Pullman	Union Gap
Burlington	Lakewood	Puyallup	Vancouver
Chehalis	Langlely	Quincy	Vashon
Chelan	Leavenworth	Redmond	Walla Walla
Clarkston	Long Beach	Renton	Wenatchee
Cle Elum	Longview	Richland	Westport
Des Moines	Lynnwood	Ritzville	Woodinville
Dupont	Marysville	San Juan Island	Yakima
Eastsound	Monroe	SeaTac	Zillah
East Wentachee	Moses Lake	Seattle	

### OREGON

Ashland	Gresham	Newberg	The Dalles
Baker	Hermiston	Newport	Tigard
Bandon	Hillsboro	Ontario	Tillamook
Bend	Hood River	Pendleton	Troutdale
Beaverton	Klamath Falls	Portland	Tualatin
Boardman	La Grande	Redmond	West Linn
Coos Bay	Lake Oswego	Salem	Woodburn
Eugene	Lincoln City	Seaside	
Forest Grove	Medford	Sisters	
Grants Pass		Springfield	

### IDAHO

Boise	Idaho Falls	Nampa	Sandpoint
Bonnars Ferry	Lewiston	Pocatello	Twin Falls
Caldwell	Meridian	Post Falls	
Coeur d'Alene	Moscow	Rexburg	

## HOTEL BRANDS

Aloft	Embassy	La Quinta	Silver Cloud
Baymont	EVEN	McMenamins	Sleep
Best Western	FairBridge	Microtel	SpringHill
Candlewood	Fairfield	Motel 6	Staybridge
Clarion	Four Points	Oxford	Super 8
Coast	Four Seasons	Quality	TownePlace
Comfort	Guesthouse	Radisson	Travelodge
Country	Hampton	Ramada	Vagabond
Courtyard	Hilton	Red Lion	W
Crowne Plaza	Hilton Garden	Residence	WestCoast
Days	Holiday	Rodeway	WoodSpring
Doubletree	Home2	Sheraton	
EconoLodge	Hyatt	Shilo	

Red Lion Hotels

SaviBank

Seattle Bank

Shilo Inns

Silver Cloud Inns

Symetra Insurance

Tacoma Housing Authority

Timberland Bank

Travel Tacoma

Umpqua Bank

US Bancorp

Washington Capital

Washington Federal

Washington Trust Bank

Wells Fargo Bank

Yakima Convention Center

Zions Bank

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*Teresa Berntsen*

Teresa Berntsen, Director



# JESSE L. BAKER

**Associate**  
**Valuation Advisory Services**

Jesse Baker joined the Valuation Advisory Services department of Kidder Mathews in September 2014. Prior to joining the firm, he spent five years in leadership roles with the Cintas Corporation. He graduated the Management Trainee Program (2010), and was promoted to Service Manager (2011) and Operations Manager (2013). Mr. Baker also served as an integral member of the acquisition due-diligence team, providing analysis and recommendations as the Cintas Document Management Division pursued an aggressive growth strategy in Northern California markets.

With an educational background from the Cornell Hotel School, Mr. Baker is developing an expertise in the valuation and analysis of lodging properties. In his first 18 months with Kidder Mathews, he has appraised or provided consulting services on over 20 hotels across Washington. In addition to lodging, Jesse has appraised senior living properties (IL/AL/MC), multifamily, and LIHTC affordable housing.

## STATE CERTIFICATION

Jesse is actively pursuing the educational requirements for Washington State Certification. He is currently registered as a Washington State Real Estate Appraiser Trainee under Registration No. 1001777.

## EDUCATION

**BS** in Hospitality Management, The Hotel School at Cornell University

**REAL ESATE MINOR**, The Hotel School at Cornell University

Cornell Varsity Football; WR, 4yr Member, 2005-2008, All-Ivy 2008

## WASHINGTON STATE QUALIFYING EDUCATION

Basic Appraisal Principles

Basic Appraisal Procedures

2014-2015 National USPAP

2016-2017 National USPAP Update

General Appraiser Market Analysis & HBU

Statistics, Modeling & Finance



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**1001777**

License Number

**08/28/2014**

Issued Date

**03/05/2020**

Expiration Date

  
Pat Kohler, Director



# Exhibit 6



**Appraisal Review of:**

ABS Valuation Appraisal  
Waterfront Seattle LID Project  
Helios Apartments  
Seattle, WA 98199

**Reviewed By:**

O'Connor Consulting Group, LLC  
500 Union Street, Suite 650  
Seattle, WA 98101

Brian O'Connor, MAI, CRE

**Reviewed For:**

Adam C. Strasser, Esq.  
Vice President, Real Estate Tax  
Equity Residential  
Two Riverside Plaza, Suite 400  
Chicago, IL 60606

**Effective Date of Appraisal**

January 31, 2020

**Date of Appraisal Review**

January 31, 2020

**OCG Ref. No. 20-112B**



**O'CONNOR  
CONSULTING  
GROUP, LLC**

*Commercial Real Estate Appraisers and Consultants*  
WWW.OCGP.COM



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OCG Ref. No. 20-112B

Adam C. Strasser, Esq.  
Vice President, Real Estate Tax  
Equity Residential  
Two Riverside Plaza, Suite 400  
Chicago, IL 60606

RE: *Appraisal Review of:*  
Helios Apartments LID Appraisal  
206 Pine Street  
Seattle, WA 98101

Dear Mr. Strasser,

In accordance with your request and authorization, we have prepared a review of the above-mentioned appraisal.

This appraisal review was prepared in conformance with Standard Rule 3 per the Uniform Standards of Professional Appraisal Practice.

The scope of our assignment included (or did not include) the following:

- 1) The reviewer performed a comprehensive desk review of the November 12, 2019 appraisal by ABS Valuation. This report is signed by Robert J Macaulay, MAI. Reference number 19-0101.
- 2) The reviewer did not verify data from published sources utilized in the appraisal and additional pertinent market sales data was not collected.
- 3) The reviewer did not conduct a field inspection of the subject property and the comparable sales and rents were not inspected.
- 4) The scope of this review is limited to compliance issues, reasonableness of the conclusions and the methodology and consistency of the analysis based solely on the data and analysis contained in the report under review. However, the review appraiser did perform an Income Approach to value to test the reasonableness of the before Market Value basis stated by ABS valuation.

The purpose of this review is to assist the client in evaluating the appraisal under review for USPAP compliance and comment on its overall presentation of data, analysis and final value conclusion. This appraisal review is subject to the assumptions, limiting conditions and certification contained herein.

The intended use of this review is to assist the client in evaluation of the appraisal under review for real estate tax purposes. The intended user of this appraisal review is the client, Equity Residential and Perkins Coie LLP. This appraisal review has been prepared for the exclusive benefit of the client and stated intended users. It may not be used or relied upon by another party. Any party who uses or relies upon any information in this report, without the preparer's written consent, does so at their own risk.

A summary of our included findings is as follows:

- The market value conclusion without LID is substantially overstated. It appears that the ABS appraisal overstates the market value without LID by approximately \$59 million. This leads to an overstated Special Benefit of just over \$1,139,000.
- The appraiser did not empirically solve for the Special Benefit but rather assigned a new market value based upon older and very general park impact studies and then subtracted his overstated market value without LID to reach a Special Benefit conclusion.
- It appears that the ABS appraiser did not have a before LID park graphic to compare to the after-LID park graphic when he did his preliminary valuation. This could have led to an overstated enhancement of what the LID was actually going to improve.
- We believe that the incremental park improvement due to the LID is so small as to be impossible to reasonably assess the enhance market value of said improvements. The improvements to the Pike Pine corridor will not create a measurable change in market value to the Helios.
- The appraiser made no mention (we could find) of the impact of losing approximately 450 parking stalls due to the enhanced park. Losing significant parking should be seen as an offset to any possible increased in market value to any property in the LID area.
- The new Overlook Walk is a clear benefit but the Overlook Walk will be adjacent to the Pike Place market which is substantially West of Helios and it would be difficult for Helios to gain any enhanced market value for an improvement that is three to four blocks west.
- Much of the enhanced park due to the LID is relatively minor and is generally be comprised of more trees, bigger trees, some more green space along Alaskan Way, better ground cover, higher curbs, public benches, and artwork and an enhance Union Street pedestrian connection. These items are not significant enough to increase rents and thus market value.
- The enhanced park seems more like an enhance boulevard. Nice to have but not likely to compare to substantial parks that may impact value as stated in his appraisal.
- It is the opinion of this review appraiser that the mass appraisal technique does not accurately capture the current market value of the Helios apartments and by extension the prospective market value of Helios after the LID improvements would be constructed.
- It is not reasonable to expect an appraiser to be able to accurately solve for the enhance market value of Helios via a mass appraisal technique because the incremental change in value is so small as to be within the margin of error for any appraiser.
- The appraiser does not present an Income Approach to value for the subject property and thus does not appear to define the increase in market rents that would lead to an enhance market value due to the LID improvements.

- We would also point out that market rents will increase even without the LID improvements and thus the increased rents that ABS appraisal implies would need to be above those that would be captured without the LID improvements. We do not believe that Capitalization Rates would be lower (thereby increasing value) due to the enhanced LID improvements.
- The LID park improvements are more marginal in nature but are attractive and will be a clear improvement for the waterfront. However, it appears to us that the LID Benefit is a General Benefit rather than a Special Benefit. The entire city benefits, even the region, but to place Special Benefits on a limited number of property owners is faulty logic.
- To place a Special Benefit tax burden on the Helios Apartments and to over value the before market value basis by as much as \$59 Million, compounds the inaccuracy of the method of assessment, and leads to unreasonable estimate of the benefit by as much as \$1,139,000.

We believe the final value conclusion, or the estimate of the enhance value due to the LID improvements for the Helios Apartments is not reasonable considering the data in the report, appraisal methodology and the narrative discussion.

Thank you for the opportunity to work with you on this assignment.

Sincerely,

**O'CONNOR CONSULTING GROUP, LLC**



Brian R. O'Connor, MAI, CRE

**SUBJECT PROPERTY**

Helios  
206 Pine Street  
Seattle, WA 98101  
Parcel No. 7683890010

**APPRAISAL BY**

ABS Valuation  
2927 Colby Ave, Suite 100  
Everett, WA 98201  
Written by: Robert J. Macaulay, MAI  
Effective Date: October 1, 2019  
Appraisal Report Date: November 18, 2019

**APPRAISAL SUMMARY**

<u>Subject Property</u>	<u>Market Value w/o LID</u>	<u>Market Value with LID</u>	<u>Special Benefit</u>	<u>Date of Value</u>
Helios 768389-0010	\$298,884,000	\$304,612,000	\$5,728,000	October 1, 2019
Highest and Best Use	As if Vacant: As Improved:	Development of a mixed use residential with commercial at grade development Continued operation of the mixed use residential with commercial at grade development.		
Interest Appraised:	Fee Simple			
Description of Land:	The subject land area is 26,751 SF in size. The site is mostly level and is zoned DMC 240/290-440, Seattle.			
Description of Improvements:	The site currently improved with a relatively new high-rise apartment building with 401 units counting the retail as 3 units.			

## Review Comments

The ABS appraisal clearly overstates the market value in the before due to the LID improvements. We developed an Income Approach to value that used the subject's actual rents and expenses. We believe that the ABS appraisal overstated the before market value by about \$59 million. Then the ABS appraisal applied the benefit conclusion of 1.92%, inflating the after-improvement value to \$298,884,000. This implies that the Benefit attributed to the marginal improvements to the Waterfront park to be \$5,728,000.

If the ABS appraisal utilized the correct market value and then applied the 1.92% special benefit factor the benefit would be \$1,139,788. Therefore, \$5,728,000-\$1,139,000 is \$4,589,000, which is the excess benefit amount by which the over valuation of the subject in the before condition implies for the Special Benefit. We would also add that the 1.92% is clearly high given the more likely case that any benefit that Helios would enjoy would be almost zero. But even if one was to say that the Special Benefit was .50% applied against the correct market value would mean that the Special Benefit would be \$1,197,000. This Special Benefit compares to the \$5,728,000 Special Benefit that is the conclusion of the ABS appraisal.

The table below illustrates the King County Assessor's market value for 2018 and 2019 compared to the ABS appraisal and the ABS market values before and after value conclusion including the Special Benefit and the percentage that was applied as the Special benefit.

Helios Property	Total Assessment		City's Market Value		Special Benefit \$	% of Special Benefit
	2018	2019	w/o LID	w/ LID		
768389-0010	\$243,381,000	\$255,000,000	\$298,884,000	\$304,612,000	\$5,728,000	1.92%

The ABS appraiser did not empirically solve for the Special benefit according to the definition. The appraiser is to develop a market value in the before and then for the after condition. The difference is then the Special Benefit. However, the method the ABS appraisal uses is a mass appraisal technique that does not really do this. Instead, the appraiser relies upon other much older park studies that attempted to solve for the property increases that a park would generate. However, these parks are far more substantial parks than the marginal improvements that will be generated by the LID. The waterfront improvements are called a promenade or park, that will be more similar to an enhance boulevard, since a major arterial will run right through the middle of the "park".

It also appears that the ABS appraiser did not have the benefit of seeing the graphic of the before and after condition of the LID improvements when he did his preliminary appraisal of the subject property. He did have a narrative description, but as we all know, a picture can communicate the difference much more clearly than the narrative.

We believe that the basic appraisal assignment of ABS Valuation to conclude to a calculation of the Special Benefit was nearly impossible to do. His own conclusions of .5% to 4.0% Special Benefits are within typical margins of error for all commercial appraisal of significant property. Any appraiser trying to conclude to such a fine line of value is taking on a task that will lack credibility.

Another issue in regard to the Special Benefit is that the appraiser did not mention (we could not find it) of the loss of about 450 parking stalls along Alaskan Way. This should have been an offset to any positive benefit that the appraiser believes is incurred. Losing parking will certainly not help the many visitors to the waterfront and will likely result in fewer people and less returning visitors.

The New Overlook Walk is certainly a good solid benefit to the waterfront. However, the Overlook Walk will be located adjacent to the Pike Place market and will be about 3 to 4 blocks west of Helios. This location of the Walk contributes to the shift of gravity or energy more to the west and away from Helios. This is likely to lessen the impact of the waterfront park on Helios.

Much of the improvements due to the LID are not likely to positively impact Helios or any other commercial property in the LID zone. Many of the improvements are items such as 16 more trees with a diameter of four inches, more landscaping, enhance ground cover, benches, higher curbs and relocated fountain. While there are other more substantial improvements, these types of improvements do not improve market value.

It is our opinion that the mass appraisal technique fails to solve for the most basic of all questions. That being what is the current market value (in the before) compared to the enhance market value (in the after). In the case of a mass appraisal such as this, an appraiser needs to be so general in their methods and conclusion that the detail of an accurate valuation is lost. And when the before value is incorrect then everything that relies on that figure will be incorrect. That is especially true for a Special benefit calculation.

Then when the impact of the "project" is considered, the appraiser applies a factor that was generated from past studies of much more significant parks relative to single family home buyers. That is not reflected of the impact on commercial buildings. This becomes a weak link in the method of determining the enhance market value in the after condition. It seems to us to be guess work. The ABS appraiser could have just as easily picked a factor of .50% or less.

It seems to us that no effort was made to perform an Income Approach to value to determine what would rents need to increase by in order to result in his concluded enhanced market value in the after condition. This would have perhaps shed a little real-world light on his conclusions.

In addition, rents will certainly continue to increase and thus not all rent increases will be due to the impact of the park. Clearly, market conditions will be more responsible for rent increase than the marginal improvements to the waterfront. Any rent increases that occur due to the park will need to be on top of the rent increases due to market conditions. We do not believe that Capitalization rates will be influenced by the enhance park improvements. In fact, if the LID went into effect as proposed it may increase Capitalization Rates and thus lower market values.

In conclusion we believe that LID benefit is a general benefit not a special benefit. Clearly, the enhanced park is a great thing and will be a terrific improvement to the waterfront, but the entire city and probably the region benefits from this enhancement. To attempt to put the burden of a Special Benefit on a select number of properties is misguided. Especially since no appraiser can accurately determine the amount of special benefit in any empirical manor. The entire process of a special benefit calculated by a mass appraisal technique is inherently inaccurate and unfair to the property owners.



To the best of my knowledge and belief, I hereby certified that:

1. The facts and data reported by the reviewer and used in the review process are true and correct.
2. The analyses, opinions, and conclusions in this review report are limited only by the assumptions and limiting conditions stated in this review report, and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.
3. I have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved.
4. I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
5. My engagement in this assignment was not contingent upon developing or reporting predetermined results.
6. My compensation is not contingent on an action or event resulting from the analyses, opinions, or conclusions in, or the use of, this review.
7. Our compensation for completing this assignment is not contingent upon the development or reporting of predetermined assignment results or assignment results that favors the cause of the client, the attainment of a stipulated result or the occurrence of a subsequent event directly related to the intended use of this appraisal review.
8. My analyses, opinions, and conclusions were developed and this review report was prepared in conformity with the Uniform Standards of Professional Appraisal Practice and with the requirements of the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute.
9. I did not personally inspect the subject property of the report under review.
10. Soryun Fitzpatrick provided professional assistance for this appraisal review.
11. Brian O'Connor, MAI, CRE is currently certified under the State of Washington as a general real estate appraiser with identification number 1100529, expiring 6/15/21
12. The use of this report is subject to the requirements of the Appraisal Institute relating to review by their duly authorized representatives.

### **Special Assumptions and Limiting Conditions**

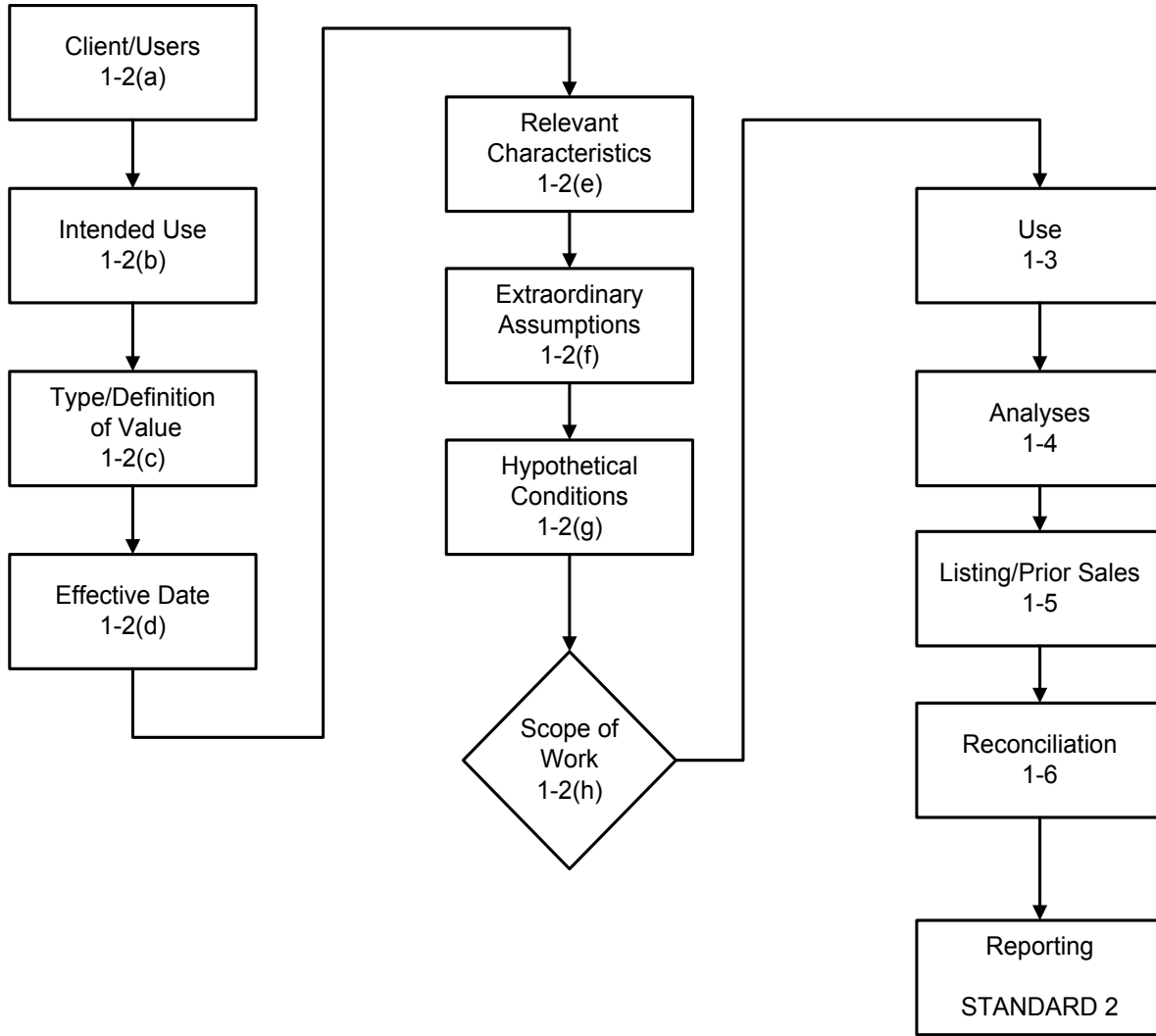
In developing an opinion of the appropriateness of the appraisal's estimate of value, the reviewer has relied on the factual presentations and analysis set forth in the original report. In expressing an opinion regarding the subject's value, the entire report under review is incorporated herein by reference. Unless otherwise stated, the reviewer has not made an inspection of the subject property or gathered data regarding the subject or comparable data. Consequently, the reviewer's opinions and conclusions regarding the value of the subject are directly related to the quantity and quality of information contained in the original report and if a full appraisal were to be performed, the opinions and conclusions could differ significantly.

A handwritten signature in blue ink, appearing to read "Brian O'Connor". The signature is fluid and cursive, with a large initial "B" and "O".

Brian O'Connor, MAI, CRE

23 **The Sequence and Relationship of Action Steps Required by SR 1-2 in a Real Property Appraisal** – The following  
 24 table illustrates the sequence and relationship of the action steps leading to the appraiser’s scope of work decision  
 25 and the steps taken after that decision through to completion of the appraisal process.

26



27 It is important to recognize that the action of identifying the client and intended users, the intended use, the type and  
 28 definition of value, and the effective date of value (SR 1-2(a)-(d)) affects the appraiser’s decisions as to the subject’s  
 29 relevant characteristics, the scope of work, and extraordinary assumptions or hypothetical conditions (SR 1-2(e)-(h)).  
 30 The appraiser’s decisions about the last four elements to be identified follow from, and must be consistent with,  
 31 factual information identified in the first four elements shown in the table.

32 The sequence illustrated in the table requires the appraiser to begin the decision-making process in the early  
 33 stages of an assignment. It also means the appraiser has a burden of proof for conclusions about which property  
 34 characteristics are relevant and which are not.

35 **Sequence and Relationship of Action Steps Required by SR 1-2 in a Real Property Appraisal**

36 **Competency and the Scope of Work Decision** - Accomplishing the first four action steps (SR 1-2(a) through (d))  
 37 illustrated in the table provides the basis for deciding which of the property’s characteristics are relevant in the  
 38 assignment. This information, together with the appraiser’s competency (knowledge and expertise) in appraising  
 39 the specific type of property involved, permits the appraiser to determine whether any extraordinary assumptions or  
 40 hypothetical conditions are necessary to complete the assignment and to make a reasonable and supportable scope  
 41 of work decision.

42 It is important to note here that the appraiser’s competency in performing similar assignments is a key factor in the  
 43 scope of work decision. Without competency, the appraiser is not prepared to correctly interpret the information

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# Coronavirus (COVID-19)

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### "Opinions of Value" Blog

### Fact Sheets

As the Appraisal Institute continues to monitor guidance from the [Centers for Disease Control and Prevention](#) and the [World Health Organization](#), AI is taking seriously the health, safety and well-being of its professionals, customers and staff during the coronavirus pandemic.

In this fluid environment, the Appraisal Institute encourages its professionals to remain aware of developments and resources offered by health professionals and public health organizations and to respond accordingly.

Additionally, here is some guidance cultivated by AI Professional Practice staff:

- Appraisers should take care not to put themselves in harm's way while completing their assignments. Appraisers are advised to consult with their medical practitioners if they have concerns about exposure to the virus, and they should decline assignments if they feel their own health would be put at risk. Here is the Centers for Disease Control and Prevention's current [risk assessment](#).
- An important part of any appraisal assignment is analysis of market conditions. The coronavirus threat may be impacting market conditions. However, in most markets it is not yet clear to what extent, if any, market conditions are affected. Related, complicating factors include fluctuations in the stock market and changes in mortgage interest rates.
- Market analysis includes observing market reactions. This analysis becomes more complicated when market participants themselves are facing uncertainty.
- Appraisal reports should include a discussion of market conditions, and so mention the Coronavirus outbreak and its possible impact. However, it is not appropriate to include a disclaimer or extraordinary assumption that suggests the appraiser is not taking responsibility for analysis of market conditions.
- The Appraisal Institute has published [Guide Note 10, Appraising in the Aftermath of a Disaster](#), and [Guide Note 12, Analyzing Market Trends](#). These two Guide Notes, which can be found on the Appraisal Institute's web site, provide helpful guiding principles.

## News & Updates

Learn the latest developments in these important areas:

### Federal Resources

13. [Fannie Mae's "COVID-19 Frequently Asked Questions" \(April 8, 2020\)](#)
12. [Senate Small Business & Entrepreneurship Committee: Guide to CARES Act \(April 7, 2020\)](#)
11. [SBA: Small Business Guidance & Loan Resources – CARES Act \(April 7, 2020\)](#)
10. [SBA: Coronavirus Relief Options – CARES Act \(April 7, 2020\)](#)
9. [USDA Grants Temporary Exceptions to Interior Inspection Appraisals \(March 27, 2020\)](#)

8. [FHA: "Exterior-Only and Desktop-Only Appraisal Scope of Work Options" \(March 27, 2020\)](#)
7. [Veterans Affairs Dept. "Valuation Practices during COVID-19" \(March 27, 2020\)](#)
6. [VA Dept. "Modified Set of Instructions ... for Desktop Appraisals" \(March 27, 2020\)](#)
5. [ASC memo: "State Appraisal/AMC Program Guidance" \(March 26, 2020\)](#)
4. [Freddie Mac Multifamily "Property Inspection Guidance Third-Party Reports" \(Mar 25, 2020\)](#)
3. [Freddie Mac's "Selling Guidance Related to COVID-19" \(March 23, 2020\)](#)
2. [Fannie Mae Lender Letter "Impact of COVID-19 on Appraisals" \(March 23, 2020\)](#)
1. [VA Dept. "Special Relief for those Potentially Impacted by COVID-19" \(March 16, 2020\)](#)

## **State Resources**

4. [Statewide Stay-at-Home and Non-Essential Business Closure Orders \(April 9, 2020\)](#)
3. [CISA memo: "Identification of Essential Critical Infrastructure Workers" \(March 28, 2020\)](#)
2. [Real Estate Groups Seek Appraisal 'Stay at Home' Exemptions \(March 26, 2020\)](#)
1. [Real Estate Organizations' "Essential Services" Letter \(March 25, 2020\)](#)

## **Appraisal Institute Resources**

16. [AI's Flexibilities Guide: Permissible Appraisal Requirements – Excel \(April 9, 2020\)](#)
15. [AI's Flexibilities Guide: Permissible Appraisal Requirements – PDF \(April 9, 2020\)](#)
14. [SBA Promotes Programs, Initiatives to Aid Business Owners \(April 8, 2020\)](#)
13. [AI Asks FHFA to Rethink Non-GSE Appraisal Requirements \(April 8, 2020\)](#)
12. [GSEs, Agencies Issue Coronavirus Guidance for Appraisers \(April 1, 2020\)](#)
11. [Webinar: "COVID-19 Latest Developments and Collaborative Efforts" \(March 31, 2020\)](#)
10. [AI Summary of Coronavirus Emergency Aid Package \(March 26, 2020\)](#)
9. [GSEs Ease Appraisal, Employment Verification Standards \(March 25, 2020\)](#)
8. [Fannie Mae Lender Letter "Impact of COVID-19 on Appraisals" \(March 23, 2020\)](#)
7. [AI webinar: "COVID-19 – Rapid Response and Latest Developments" \(March 23, 2020\)](#)
6. [Appraisal Institute Seeks Guidance from Policy Makers \(March 18, 2020\)](#)
4. [AI Issues Coronavirus-related Direction for Appraisers \(March 18, 2020\)](#)
3. [AI President's Email to AI Professionals \(March 16, 2020\)](#)
2. [AI President's Email to Chapter Leaders \(March 16, 2020\)](#)
1. [NCREIF, Appraisal Institute Delay Symposium \(March 11, 2020\)](#)

