BEFORE THE HEARING EXAMINER
CITY OF SEATTLE

In re Objections of SEATTLE TOWER I, LLC	Nos. CWF-0415 **DECLARATION OF RANDY MEYER**

I, Randy Meyer, declare as follows:

1. I have personal knowledge of the facts stated below and am competent testify regarding the same.

2. I am the Chief Financial Officer and Vice President of the Hotel Group. I have held that position since 2002. Prior to my current position, I served as Vice President of Finance for The Hotel Group Holdings, LLC. In that capacity I was directly involved in the management and work out of numerous loans held by the FDIC as well as the Resolution Trust Corporation. I obtained my Degree in Accounting from the City University of Seattle in 1995. I obtained my license as a Certified Public Accountant in 1995. I also hold the designations of Certified Hotel Administrator and Certified Hospitality Technical Professional. Over the course of my career I have been involved with the origination of

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over $500,000,000 in real estate debt and have an expertise in the valuation of hotel properties for that purpose.

3. My responsibilities as the chief financial officer include responsibility for all enterprise accounting functions, compliance, finance, banking relationships, and treasury and risk management. Additionally, I have been intimately involved with a multitude of acquisitions and dispositions of hotel properties. Over the past 10 years I has developed an expertise in Commercial Mortgage Backed Securities and traditional bank financing as well as completed numerous private placements in conjunction with The Hotel Group Opportunity Funds. In the course of my duties, I regularly review, commission, and analyze hotel appraisals and conduct hotel valuations.

4. The Seattle Tower I, LLC owns the mixed-use tower consisting of 344 residential apartments comprising the Arrive Luxury Apartments above a 142-room hotel and restaurant comprising the Sound Hotel Seattle Belltown, Tapestry Collection by Hilton (the "Sound Hotel"). The Sound Hotel opened in February 2019 and is operated under a franchise agreement with Hilton Hotels and managed by the Hotel Group.

LOCAL IMPROVEMENT DISTRICT PROCESS

5. Seattle Tower I, LLC and the Hotel Group received notice of proposed final assessment for Waterfront LID No. 6751. The notices were dated December 30, 2019.

6. I have reviewed the proposed final assessments for each of the properties and the final special benefit study prepared by ABS Valuation and Robert Macaulay for the City of Seattle.

7. No one from the City of Seattle or ABS Valuation contacted the Hotel Group to request financial data (e.g., occupancy rates, room rates, income data, expense data) or other information about the Sound Hotel.

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8. No one from the City of Seattle or ABS Valuation contacted the Hotel Group to request physical access to the Sound Hotel.

9. No one from the City of Seattle or ABS Valuation contacted the Hotel Group to request input or feedback on the proposed assessments, the computation of special benefit, or the valuation of the Sound Hotel.

PRE-LID VALUE

10. Hotel room occupancy rates fluctuate substantially based on the season, convention business, the business cycle, and other factors. During 2019, the Sound Hotel had an average occupancy rate of 73.2%, which is substantially below the 80% occupancy rate assumed by Mr. Macauley in valuing the property.

11. Like occupancy rates, hotel room rates fluctuate substantially based on the season, convention business, the business cycle, and other factors. During 2019, the Sound Hotel had an average room rate of approximately $205 per night, which is substantially below the $300 per night assumed by Mr. Macauley in valuing the property.

12. The Sound Hotel has suspended operations as the result of the COVID-19 outbreak and currently has average occupancy and room rates of zero.

13. Mr. Macauley's assumed hotel room rate of $300 per night is $95 higher than the actual average room rate ($205) for the last calendar year, far exceeds the most optimistic assumptions about future growth in hotel room rates for the Sound Hotel and is not a reasonable assumption in valuing a hotel of this type in the downtown Seattle market.

14. Mr. Macauley valued the Sound Hotel at $69,751,000 prior to the LID improvements. In my professional opinion, this valuation is grossly excessive—both as of October 1, 2019 and certainly now. Unfortunately, no buyer would pay $69,751,000 for this hotel.

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15. After receiving the notice of proposed final assessment, I engaged Kidder Mathews to perform a restricted appraisal of the Sound Hotel. Kidder Mathews valued the real estate at $46,700,000, which is $23,051,000 less than the City's pre-LID valuation. This valuation was based on correct income and expense data from the hotel, including actual average occupancy and hotel room rates. In my professional opinion, the Kidder Mathews valuation of the property reflects the fair market value of the hotel prior to the COVID-19 outbreak.

"SPECIAL BENEFIT"

16. The Sound Hotel is approximately 1,500 feet to the Pine Street improvements and 2,500 feet to the proposed overlook LID improvements.

17. The proposed LID improvements are not necessary to the functionality or continued use of this property as a hotel. There is simply no basis to conclude that the waterfront LID improvements will provide $363,000 worth of special benefit to this hotel.

18. The Sound Hotel will not be able to recover the costs of the proposed LID assessment through higher occupancy or room rates. First, the assessment is due upon approval of the assessment roll, but there will be no improvements for at least five years. Hotels are constantly balancing rate and occupancy to maximize revenue. If we had the ability to simply increase room rates without negatively impacting occupancy, we would have done so already. That is not how the hotel business works. Second, our hotel business is driven by business travelers visiting Seattle employers and attending conventions. Most of those conventions regularly rotate to Seattle. The modest waterfront improvements will have no impact on demand for hotel rooms. No one who is not already coming to Seattle will chose to come to Seattle or stay at our hotel because of the proposed LID improvement.

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19. The proposed LID assessment of $142,296 is a substantial additional cost to the Sound Hotel which will decrease the fair market value of the property. No rational hotel owner would invest $142,296 today in a project that will have no return for either the five years of planning and construction or the period afterward. The "general rule" in valuation of hospitality assets is a multiple of 10. Each additional dollar of Net Operating Income or loss results in an addition or subtraction to the value of the asset. Based on this formula the additional of the LID assessment would result in a reduction of value to the hotel in the amount of $1,422,960.

20. In my professional opinion, the Sound Hotel will receive no special benefit from the proposed LID improvements. In fact, this property is more valuable without the proposed LID improvements than with the proposed improvements and the corresponding assessment.

21. The revenue and demand increases that the Sound Hotel would need to generate in order to recover the LID assessments are completely unrealistic given the downtown Seattle hospitality market conditions, which have been devastated by to the COID-19 outbreak.

COVID-19 IMPACT

22. As provided above, the Sound Hotel is currently operating at zero occupancy and is shut down due to the COVID-19 outbreak and Governor Jay Inslee's Stay Home, Stay Healthy Order. Across Seattle, hotel occupancy has plummeted to well under 10% with over 90 percent revenue reductions and at least 21 downtown hotels have closed.

23. Over 114 hotels in the greater Seattle area are financed primarily through Commercial Mortgage Backed Securities ("CMBS"), an unusually rigid capital structure due to legal and contractual obligations, which makes it particularly difficult for borrowers to

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obtain debt service relief during revenue constrictions. Unlike traditional lenders such as local and regional banks, the CMBS markets do not provide readily accessible liquidity to weather economic storms, such as COVID-19. This could result in massive foreclosures across the Seattle hotel industry, with lenders and receivers unable to liquidate assets or satisfy debts due to continued travel and leisure restrictions, which could persist well past legally-imposed shelter-in-place orders due to social reluctance to travel for business or pleasure. Such defaults create a substantial and real risk of further devaluation of hotels.

24. At the very least, the city should conduct a new special benefit study that incorporates and discounts for the immediate and long-term economic impacts on the hotel industry caused by COVID-19.

I declare under penalty of perjury under the laws of the State of Washington that the foregoing is true and correct.

Signed at Mukilteo, Washington, on April 15, 2020.

Randy Meyer

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