BEFORE THE HEARING EXAMINER OF THE CITY OF SEATTLE

SEATTLE WATERFRONT LID ASSESSMENT HEARING	Case Nos.: CWF-0133, CWF-0134, CWF-0136, CWF-0168, CWF-0318, CWF-0328, CWF-0329, CWF-0353, CWF-0392, CWF-0413, CWF-0415, CWF-0417, CWF-0418, CWF-0423, CWF-0429, CWF-0436, and CWF-442 **REPLY DECLARATION OF ROBERT J. MACAULAY, MAI, REGARDING REMANDED PROPERTIES**

I, Robert J. Macaulay, hereby declare as follows:

1. I am over 18 years of age, I have personal knowledge of the facts stated below, and I am competent to testify regarding the same.

Remanded Hotel Properties

2. I have reviewed the two Declarations of John Gordon filed on January 8, 2021, as well as the transcript of Mr. Gordon's December 29, 2020 deposition. A true and correct copy of excerpts of Mr. Gordon's December 29, 2020 deposition is attached as **Exhibit A**.

K&L GATES LLP
925 FOURTH AVENUE, SUITE 2900
SEATTLE, WASHINGTON 98104-1158
TELEPHONE: (206) 623-7580
FACSIMILE: (206) 623-7022

3. I have also reviewed the Declarations of Randy Meyer, Thomas Waite, and Zahoor Ahmed, as well as the Objectors' Statement on Remand filed by Perkins Coie, and the Objectors' Brief on Remand filed by Foster Garvey on January 8, 2021.

ABS Valuation's Methodology for Revised Hotel Analysis

4. Contrary to statements made in the legal briefs and Mr. Gordon's declarations, ABS Valuation's original and revised analysis of the "before value" of the hotel properties in the Waterfront Local Improvement District ("Waterfront LID") were developed using the income approach. ABS Valuation primarily utilized the income approach analysis in arriving at its "before value" conclusions for the hotel properties but also reviewed recent sales of similar hotel properties to serve as a reasonable test on its income analysis.

5. In its revised analysis, ABS Valuation considered the information submitted by Kidder Mathews during these proceedings, including Kidder Mathews' average daily room rate ("ADR") forecasts. As indicated in my December 4, 2020 declaration, using that information, as well as market data, ABS Valuation reduced the ADR forecast for each of the 11 remanded hotel properties.

6. ABS Valuation did not simply adopt Kidder Mathews' ADR forecasts because ABS Valuation determined that Kidder Mathews' value conclusions were not reasonable when compared to recent Seattle hotel sales data. In contrast, ABS Valuation's revised value conclusions are consistent with those recent sales.

7. In Exhibit 1 and Exhibit J to Mr. Gordon's recent declarations, Mr. Gordon provides a column entitled "ABS Adjusted" in which he has stated the "before value" of each hotel by replacing ABS Valuation's ADR forecasts with the Kidder Mathews' ADR forecasts, but retaining the occupancy and expense ratios from ABS Valuation's revised analysis. For each hotel property, this results in a lower "before value" than Kidder Mathews' own appraisals because all other factors, such as occupancy, capitalization rates, and expenses

K&L GATES LLP
925 FOURTH AVENUE, SUITE 2900
SEATTLE, WASHINGTON 98104-1158
TELEPHONE: (206) 623-7580
FACSIMILE: (206) 623-7022

have not been adjusted. It is not appropriate to simply substitute the ADR forecast for each hotel with the Kidder Mathew's room rate estimates without also adjusting other factors, including the capitalization rates because capitalization rates are a function of risk and potential income upside. If ABS Valuation were to lower the ADR considerably, then we would have adjusted the capitalization rate lower to reflect the additional income upside in the marketplace. With the ADR adjustments ABS Valuation made, no change in the capitalization rates were warranted as ABS Valuation is at the higher end of the income generation.

8. The "ABS Adjusted" column of Exhibit 1 and Exhibit J also demonstrate that merely adopting Mr. Gordon's ADR forecasts would result in unreasonably low hotel values. For instance, under the "ABS Adjusted" analysis in Exhibit J, the Grand Hyatt would have a "before value" of $116,227,000 or $254,326 per room, which is $51 million *less* than Kidder Mathews' own value conclusion. *See* Ex. J to Gordon Decl., CWF-233, *et al.* Additionally, when compared to comparable sales of Seattle hotels, the "ABS Adjusted" figure falls well below market. For instance, assuming Kidder Mathews' FF&E value for the Grand Hyatt of $6.9 million, the total "before value" of the Grand Hyatt would be $123,127,000 or $269,424 per room. That proposed value conclusion is lower than any sale price of a three- or four-star downtown Seattle hotel between 2016 and 2019 except for one: the Hilton Seattle, which Mr. Gordon acknowledges was sold well below market value. *See* Exhibit A to Declaration of Robert J. Macaulay Regarding Remanded Properties (showing sales of Seattle hotels between 2016 and 2019); Ex. A (Gordon Decl.) at 43:11-13. The proposed "ABS Adjusted" figures submitted by Mr. Gordon are simply not an appropriate basis for concluding the "before value" of the hotel properties.

9. Kidder Mathews and ABS Valuation have arrived at different value conclusions and different forecasts for ADRs for the hotels. As Mr. Gordon has testified, his ADR forecasts are not equivalent to the 2019 ADRs achieved by the hotels. Ex. A (Gordon

K&L GATES LLP
925 FOURTH AVENUE, SUITE 2900
SEATTLE, WASHINGTON 98104-1158
TELEPHONE: (206) 623-7580
FACSIMILE: (206) 623-7022

Depo.) at 20:17-20. This can also be seen in Exhibit 1 and Exhibit J of Mr. Gordon's January 8, 2021 declarations, which shows Mr. Gordon's ADR forecasts and the 2019 ADRs achieved by the hotels. In each case, Mr. Gordon's ADR forecast, like ours, is greater than the hotels' actual performance in 2019.

10. As Mr. Gordon has acknowledged in his testimony, the ADR forecasts he selected are the result of his judgment and it is not reasonable to expect two appraisers to arrive at the same value conclusion or ADR forecasts for the same property. Ex. A (Gordon Depo.) at 20: 21-23. In this case, both appraisers have arrived at different ADR forecasts based on their judgment, each of which are above the hotels' actual performance in 2019. ABS Valuation's overall value conclusions, however, when tested against recent market transactions, are more reasonable than Kidder Mathews' value conclusions, which are consistently lower than market prices of comparable hotels.

11. At his deposition, Mr. Gordon agreed with my statement in my December 4, 2020 declaration that a prospective hotel purchaser considers not just the historic operations of the hotel, but also the potential occupancy, room rates, and expense margins that the purchaser can achieve. Ex. A (Gordon Depo.) at 21:15-20. Mr. Gordon also agreed with my statement that in 2019, due to new supply, a prospective purchaser of a downtown Seattle hotel may forecast more profit in the future than was indicated by current operations. *Id.* at 21:24-22:3.

12. ABS Valuation did not, as Mr. Gordon claims in his declaration, adopt an unsubstantiated ADR to fit its view of what a hotel should be valued. Gordon Decl., CWF-133 *et al.* at ¶ 9. Nor did ABS Valuation "back[] into room rates based on comparable sales," as Foster Garvey argues. CWF-133 *et al.* Objectors' Br. on Remand at 2. To the contrary, ABS Valuation's revised ADR forecasts and overall value conclusions for the hotels were

K&L GATES LLP
925 FOURTH AVENUE, SUITE 2900
SEATTLE, WASHINGTON 98104-1158
TELEPHONE: (206) 623-7580
FACSIMILE: (206) 623-7022

informed by the property-specific information submitted in these proceedings and were further adjusted based on sales data to reflect the market.

Comparable Sales Data

13. ABS Valuation and Kidder Mathews used recent hotel sales data differently. Kidder Mathews looked at a limited set of Seattle hotel sales to create a "range" of values and considered whether its value conclusion for each of the 11 hotels fell within that range. Ex. A (Gordon Depo.) at 10:21-11:2. If the answer was yes, then Kidder Mathews was satisfied that its value conclusion was reasonable and did not change any of its value conclusions based on the comparable sales data because "all [Kidder Mathews] was using [sales data for] is to establish a broad range. . . ." *Id.* at 11:3-11. The issue with Kidder Mathews' approach, however, is that the comparable sales that it considered were incomplete (e.g., it did not include the 2017 Alexis Hotel sale or the 2019 Lotte Hotel sale) and produced a wide range of values (from $259,414/room to $695,833/room) that made it effectively useless in evaluating the value conclusion of each hotel Kidder Mathews was appraising. For instance, Kidder Mathews valued the Alexis Hotel at $66 million (including FF&E), or $545,000/room. That value conclusion fits within the range of Kidder Mathews' selection of recent sales, but it ignores the fact that the Alexis Hotel sold for approximately $71 million in 2017, or $586,776/room and has since had approximately $14 million in renovations completed to the hotel. Under Kidder Mathews' approach, regardless of the qualities, location, or other factors inherent in each of the hotels that Kidder Mathews was valuing, Kidder Mathews considered its value conclusion to be reasonable so long as it fell between approximately $259,000 and $695,000 per room. Kidder Mathews' "range" approach did not serve as a useful check on reasonableness in this case because the range involved is simply too wide.

14. ABS Valuation, on the other hand, performed an income analysis for each of the hotel properties that are the subject of this proceeding, looked at the sales of three- and

K&L GATES LLP
925 FOURTH AVENUE, SUITE 2900
SEATTLE, WASHINGTON 98104-1158
TELEPHONE: (206) 623-7580
FACSIMILE: (206) 623-7022

four-star Seattle hotels between 2016 and 2019, identified hotels on that list of sales that were comparable to the hotel being analyzed, and then considered whether ABS Valuation's income analysis value conclusion was consistent with the market value of that subset of comparable sales. For each of the hotels ABS Valuation reviewed, its value conclusions were consistent with the market prices of similar recent Seattle hotel sales, which supports the reasonableness of ABS Valuation's value conclusions.

15. Mr. Gordon also states in his January 8, 2021 declaration for CWF-133 *et al.* that the comparable sales ABS Valuation selected "are not informative comparables" because the prices "varied widely, ranging from $259,414/room to $923,280/room," and the prices include personal property. However, as noted above, Mr. Gordon's selection of comparable sales also included a broad range of prices and, as Mr. Gordon confirmed at his deposition, his list of sales also included personal property. Ex. A (Gordon Depo.) at 12:17-20. While the range of prices on the comparable sales list that ABS Valuation used is also wide, ABS Valuation did not use the broad "range" approach employed by Mr. Gordon and instead compared its value conclusions to the recent hotel sales that were most similar to the hotel it was valuing, thereby comparing apples to apples.

16. Mr. Gordon also states in his January 8, 2020 declaration that, in his opinion, "a prospective buyer of a complex full-services hotel like each of those owned by these objectors simply would not base an offering prices on the prices paid by another hotel," Gordon Decl., CWF-133 *et al.*, at ¶ 13. ABS Valuation, however, did not base the value of the hotels on prior sales, but rather performed an income analysis and then checked the reasonableness of that analysis with data about recent, comparable sales of hotels in downtown Seattle.

K&L GATES LLP
925 FOURTH AVENUE, SUITE 2900
SEATTLE, WASHINGTON 98104-1158
TELEPHONE: (206) 623-7580
FACSIMILE: (206) 623-7022

Proposed Special Benefit Assessments

17. In Exhibit 1 and Exhibit J, Mr. Gordon purports to calculate a recommended special benefit assessment for each hotel by substituting the Kidder Mathews' room rate forecast, or alternatively, by relying on Kidder Mathews' appraisals but overlaying ABS Valuation's special benefit computations. The objectors argue that the Hearing Examiner should adopt either the "KM Appraisal" values or the "ABS Adjusted" values, including the revisions to the special benefit assessments. Neither the "ABS Adjusted" values nor the Kidder Mathews values on Exhibit 1 or Exhibit J are an appropriate basis for any revised assessments in this matter. Mr. Gordon has already acknowledged that Kidder Mathews did not estimate the special benefits that would accrue to the hotel properties and that he has no experience with special benefit studies. Neither Kidder Mathews nor any other expert except for ABS Valuation, has performed a special benefit study to determine an "after value" for the hotel properties, which is a necessary step in any special benefit study.

18. Additionally, objectors' proposal to use the "KM Appraisal" or "ABS Adjusted" figures incorrectly assumes that the ABS Valuation's special benefit calculation was merely based on a percentage amount. However, as I testified previously, ABS Valuation's special benefit amounts were a result of the "before" and "after" market value differences.

19. It is arbitrary for Mr. Gordon to simply substitute the ADR forecast in "ABS Adjusted" column, or the Kidder Mathews appraisal values in the "KM Appraisal" column, to arrive at a "recommended" special benefit assessment when neither Mr. Gordon, nor any other expert, has performed a special benefit analysis to arrive at the "after value."

20. With the exception of the Hyatt Regency below, based on the information provided by Objectors, I do not recommend any additional adjustments to the assessments for the remanded hotel properties.

K&L GATES LLP
925 FOURTH AVENUE, SUITE 2900
SEATTLE, WASHINGTON 98104-1158
TELEPHONE: (206) 623-7580
FACSIMILE: (206) 623-7022

Hotel Specific Comments

Kimpton Hotel Monaco (CWF-133)

21. Despite Mr. Gordon's statement in his declaration that the comparable sales reviewed by ABS Valuation "are not informative comparables," Gordon Decl., CWF-133 *et al.*, ¶ 13, at his deposition, Mr. Gordon agreed that the Alexis Hotel was "reasonably comparable" to the Kimpton Hotel Monaco. Ex. A (Gordon Depo.) at 22:4-10.

Kimpton Alexis Hotel (CWF-318)

22. Mr. Gordon confirmed at his deposition that he did not consider the recent sale of the Alexis Hotel in 2017 for $71,625,000 (inclusive of FF&E) in determining the current market value of the Alexis Hotel in 2020. Ex. A (Gordon Depo.) at 39:22-25. It is highly unusual for an appraiser not to consider recent sales data for the property they are appraising when determining the current market value of the property. Doing so would be akin to a residential property appraiser ignoring the recent sale price of a home that he or she is appraising.

23. According to Kidder Mathews, the value of the Alexis Hotel, including FF&E, has decreased nearly $5 million in the last three years despite the fact that the owners recently invested $14 million in renovating the property, a fact that Mr. Gordon was aware of at the time he performed his appraisal. Ex. A (Gordon Depo.) at 40:1-4. In contrast, ABS Valuation's revised "before value" of $70,247,000 (excluding FF&E) is more inline with the market and recognizes the increase in value associated with the recent renovations. In my opinion, Kidder Mathews' appraisal of the Alexis Hotel is far too conservative and does not account for the market data and improvements, which point to a higher value than that concluded by Kidder Mathews.

24. Mr. Gordon also states in his January 8, 2020 Declaration that what an owner spent to renovate a hotel "does not influence its market value." Gordon Decl., CWF-233 *et al.*

K&L GATES LLP
925 FOURTH AVENUE, SUITE 2900
SEATTLE, WASHINGTON 98104-1158
TELEPHONE: (206) 623-7580
FACSIMILE: (206) 623-7022

¶ 17. However, in his recent deposition, Mr. Gordon confirmed that an investment of millions of dollars, like that involved in the Alexis Hotel, does have an impact on the value of the hotel. Ex. A (Gordon Depo.) at 36:17-23.

Hilton Seattle (CWF-353)

25. Mr. Gordon contends that ABS Valuation's revised "before value" of the Hilton Seattle at $114 million is "unreasonably high," based on the fact that the hotel sold for $62 million in September 2016. However, as Mr. Gordon acknowledged in his deposition, the 2016 sale of the Hilton Seattle was well below market. Ex. A (Gordon Depo.) at 43:11-13. Additionally, the hotel underwent significant renovations since its sale in 2016. As a result, in viewing the 2016 sale price it is important to recognize that the hotel was sold at a very low price and has since been significantly renovated, which supports a significantly higher value in 2019 than the 2016 sale price.

26. At the time of ABS Valuation's original analysis, the King County Assessor records showed the Hilton Seattle had 239 guest rooms. ABS Valuation recognized that the hotel was under renovation at the time of its valuation. ABS Valuation has retained the 239 guest room data that was available to it at the time of its original analysis, which results in a lower assessment to the Hilton Seattle than if the 256 guest room figure were used.

Edgewater Hotel (CWF-136)

27. Mr. Gordon's statement that ABS Valuation's income forecast and value conclusion are overstated due to a lack of deductions for rental expenses and taxes assumes that ABS Valuation should have valued the leasehold interest and not the fee simple interest in the Edgewater Hotel. *See* Gordon Decl., CWF-133 *et al.*, ¶ 15(e). As explained in my testimony on June 25, 2020, in accordance with the local improvement statutes and case law, ABS Valuation valued each property in the Waterfront LID according to a fee simple interest. Mr. Gordon's appraisal of the Edgewater Hotel was based on the leasehold interest and, in his

K&L GATES LLP
925 FOURTH AVENUE, SUITE 2900
SEATTLE, WASHINGTON 98104-1158
TELEPHONE: (206) 623-7580
FACSIMILE: (206) 623-7022

deposition, Mr. Gordon acknowledged that if he had valued the fee simple interest his value conclusion would have been "substantially higher." Ex. A (Gordon Depo.) at 30:22-31:4.

Hyatt Regency (CWF-413)

28. In his deposition, Mr. Gordon acknowledged that, because the Hyatt Regency is a new hotel and only became operational in February 2019, there was not a lot of historical operating information, such as ADRs, occupancy rates and expenses, for him to review as part of his analysis. Ex. A (Gordon Depo.) at 49:4-14, 50:16-20. As a result, he testified that it was more difficult to forecast the value of the Regency. *Id.* at 53:6-10.

29. I have reviewed additional evidence submitted by objector in CWF-413 regarding the value of personal property at the Hyatt Regency. Based on that evidence, I have further revised my analysis for the Hyatt Regency as shown in the table below and in the analysis worksheet attached as **Exhibit B**.

CWF-0413/D-146: Hyatt Regency										
Original Market Values					Revised Market Values					
Market Value Without LID	Market Value With LID	Special Benefit	Special Benefit % Change	Total Assessment	Market Value Without LID	Market Value With LID	Special Benefit	Special Benefit % Change	Total Assessment	Assessment Difference
$732,952,000	$736,522,000	$3,570,000	0.49%	$1,398,805	$624,235,000	$627,294,000	$3,059,000	0.49%	$ 1,198,516	-$200,289

Sound Hotel (CWF-415)

30. Similarly, the Sound Hotel is also a newer hotel without much historical operating information. Mr. Gordon similarly testified at his deposition that his task in valuing the Sound Hotel was more difficult than the other hotels because there was a lack of data regarding past performance. Ex. A (Gordon Depo.) at 53:1-17.

Hyatt at Olive 8 (CWF-429)

31. At his recent deposition, Mr. Gordon agreed that ABS Valuation's use of the Loews Regency (aka Loews Hotel 1000), the Pan Pacific Hotel, and the Motif Hotel as comparables to the Hyatt at Olive 8 was appropriate. Ex. A (Gordon Depo.) at 55:6-56:15.

K&L GATES LLP
925 FOURTH AVENUE, SUITE 2900
SEATTLE, WASHINGTON 98104-1158
TELEPHONE: (206) 623-7580
FACSIMILE: (206) 623-7022

Grand Hyatt Hotel (CWF-436)

32. Similarly, Mr. Gordon also agreed at his deposition that the comparables ABS Valuation used for the Grand Hyatt Hotel, namely the Loews Regency, Pan Pacific Hotel, and Motif Hotel, were appropriate. *Id.* at 57:3-5, 58:6-11.

Pike Place Market Properties (CWF-392)

Stewart House Assessment

33. I have reviewed the Pike Place Market Objections on Remand submitted on January 8, 2020 relating to the special assessments for Stewart House and North Arcade.

34. The objector contends that because Units 1 and 3 of the Stewart House property are subject to a low income housing HUD contract that expires in 2032 these portions of the property should receive a zero assessment. I have reviewed the HUD contract provided by the objector. Section 8 of that contract indicates that the contract can be terminated prior to 2032 and, as a result, is not the type of restrictive covenant that warrants a zero assessment.

35. For the same reason, the objector's argument that the undivided interest in land should be reduced by the amounts allocated to Units 1 and 2 based on the improvement value percentages used by the King County Assessor should be rejected.

Land Value of Stewart House and North Arcade

36. The objector also argues that ABS Valuation's use of $700/square foot for land value of the Stewart House and North Arcade properties should be reduced because of certain development and alienability restrictions on those properties.

37. ABS Valuation conducted substantial research and analysis of the land value of the Stewart House and North Arcade properties and the $700/square foot land value is consistent with other similarly zoned properties in historic areas such as Pioneer Square. In our analysis, ABS Valuation accounted for the restrictions in development and alienability on

K&L GATES LLP
925 FOURTH AVENUE, SUITE 2900
SEATTLE, WASHINGTON 98104-1158
TELEPHONE: (206) 623-7580
FACSIMILE: (206) 623-7022

the Stewart House and North Arcade properties, but also took into account the excellent and unique location of the properties in the Pike Place Market. These benefits are reflected in the land value conclusion of $700/square foot, and I do not recommend any changes to the assessments for these properties.

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

Executed in Everett, Washington, this 12th day of January, 2021.

ROBERT J. MACAULAY

K&L GATES LLP
925 FOURTH AVENUE, SUITE 2900
SEATTLE, WASHINGTON 98104-1158
TELEPHONE: (206) 623-7580
FACSIMILE: (206) 623-7022

Exhibit A

BEFORE THE HEARING EXAMINER OF THE CITY OF SEATTLE

In re Proposed final)
Assessment Roll for)
Local Improvement)
District No. 6751)
("Waterfront LID")) Case Nos. CWF-0318, et al.
)
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; 2438831480;)
0939000240; 1974600025;)
1974600035

ZOOM VIDEO CONFERENCE DEPOSITION UPON ORAL EXAMINATION

OF

JOHN GORDON

ATTENDANCE OF ALL PARTICIPANTS VIA

ZOOM VIDEO CONFERENCE

12:36 p.m.

December 29, 2020

REPORTED BY: Lauren G. Harty, RPR, CCR #2674

A P P E A R A N C E S

FOR 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:

MR. R. GERARD LUTZ
Perkins Coie
10885 NE 4th Street, Suite 700
Bellevue, Washington 98004
425.635.1432
jlutz@perkinscoie.com

FOR CITY OF SEATTLE:

MR. MARK S. FILIPINI
MS. GABRIELLE E. THOMPSON
K&L Gates
925 Fourth Avenue, Suite 2900
Seattle, Washington 98104
206.623.7580
mark.filipini@klgates.com
gabrielle.thompson@klgates.com

A P P E A R A N C E S

FOR HOTEL MONACO (133), HOTEL VINTAGE (134), THOMPSON HOTEL and SEQUEL APARTMENTS (168), HOTEL VINTAGE (134), 818 STEWART (218), WESTLAKE CENTER (135), 1918 8TH AVENUE (219), EDGEWATER HOTEL (136), 1800 9TH AVENUE (220), PIONEER SQUARE HOTEL (333), HILTON HOTEL (353):

MR. TODD REUTER
Foster Garvey
618 West Riverside Ave., Ste. 300
Spokane, Washington 99201
509.777.1604
todd.reuter@foster.com

ALSO PRESENT: MR. ENGEL LEE

E X A M I N A T I O N

ATTORNEY	PAGE
BY MS. THOMPSON:	5
BY MR. LUTZ:	59

E X H I B I T I N D E X

EX#	DESCRIPTION	PAGE
A	12/4/2020 "DECLARATION OF ROBERT J. MACAULAY, MAI, REGARDING REMANDED PROPERTIES."	5
B	Gordon Ex. C-7, Page 1, table.	10

JOHN GORDON, witness herein, having been duly sworn by the Certified Court Reporter, testified upon oath as follows:

E X A M I N A T I O N

BY MS. THOMPSON:

Q. Good afternoon, Mr. Gordon.

MR. REUTER: Object to the form.

MS. THOMPSON: Right off the bat. Okay.

Q. (By Ms. Thompson) As you may remember, my name is Gabrielle Thompson, and I'm here on behalf of the City of Seattle. I'd like to ask you a few questions today about Robert Macaulay's December 4th, 2020, declaration. Have you had an opportunity to review that?

A. Yes, I have.

Q. And do you happen to have a copy with you?

A. I have a copy on my computer, but it's not on. If it would be helpful, I can pull it up.

Q. I think what I might do instead is if I reference anything specific in the document, I can share my screen, and that way everybody can follow along.

A. Okay.

Q. So -- and I'm going to go ahead and start

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For example, one unit of measure would be price per guest room, and if you lay out all the sales, divide the total -- the sales -- divide each sale price by the number of guest rooms in that hotel, that gives you the price per guest room for that property.

If you've got ten sales that you can look at where you have a price per guest room, you can establish a range. That range does -- is not a hard-and-fast limit on what your value conclusion can be, but it is -- it is an indication of something -- something to watch if you fall outside the range.

Q. So let's look now at paragraph 11. Do you agree that Kidder Mathews did not use comparable sales to develop its valuation estimates for the hotels?

A. Yes, I do.

Well, let me expand on that. We did not use that approach to develop specific estimates of value for the hotels.

Q. Okay.

How did Kidder Mathews use comparable sales information in your valuations?

A. In -- in my testimony I presented a table of sales that had taken place in downtown Seattle and, going back to what I said previously, we just used

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that to establish a broad range, but our -- our value conclusions were developed using the income approach.

Q. Did you ever adjust any of the hotel valuations based on that comparable sales information?

A. No.

Q. Why not?

A. Again, all we were using is to establish a broad range for it. We were not trying to make quantitative adjustments to individual sales or come up with an adjustment grid that you might -- you might see in a simpler property.

Q. Okay.

And -- you just mentioned the sales table that you had prepared and submitted during the prior proceedings. I'm going to show you a document. This was admitted as Exhibit 7 in case CWF-133. Or that set of cases rather. Can you confirm that this is the list of comparable sales that you used when performing your valuations?

A. Yes.

Q. How did you select the properties on this list?

A. At the time that I put the list together we were dealing with a set of hotels, I believe the ones that are represented by -- by Mr. Reuter of Foster

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Garvey. And so I looked for sales of hotels that I thought would be reasonably relevant to that set.

I also wanted to cut off the research -- I didn't go back farther than 2016. There's a point where they just get to be too old. I -- I limited the -- my search to sales of full-service hotels, those that include a restaurant, because all the properties that I was working on for him include a restaurant. There's substantial differences if you have one and if you don't have one.

Q. So you mentioned that this was the list that you prepared for your valuation of Mr. Reuter's clients. Did you use this same list when performing the valuations for Mr. Lutz's clients?

A. I believe I did. I don't recall ever submitting a second list.

Q. And do you know whether the sale price that's listed in the second column here includes the fixtures, furnishings, and equipment?

A. Yes, it does.

Q. And is the Alexis Hotel on this list?

A. No, it's not.

Q. And why did you exclude that from this list?

A. At the time I was putting the list together I didn't think the Alexis would be relevant. Later

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on, when we were engaged to assist with the appeal for the Alexis, it -- it -- it could have become relevant, but I never went back and updated this -- this list.

Q. So why -- why would you say that the Alexis wouldn't be relevant to your initial review of the -- if I understand your testimony correctly, you're saying that reviewing Mr. Reuter's hotels, the Alexis wouldn't have been a relevant comparable sale; is that right?

A. My con -- my opinion is that the Alexis is a superior quality property to that set of hotels that we were looking at, the -- the first set, the second -- the one we were looking at for Mr. Reuter.

Q. Okay.

And there's another sale of a hotel in December of 2019, the Lotte Hotel, and that's not on this list either. Could you explain why?

A. The Lotte Hotel -- I discussed this actually during testimony in the earlier proceedings. The Lotte sale was listed by Mr. Macaulay in his declaration as -- as a relevant sale, but it's actually the purchase of two properties. The sale price combines the purchase of the -- the hotel itself, what's operating as the Lotte Hotel, which is several floors in the F5 office tower, and the -- I

Page 18

price of a hotel?
A. Yes. I -- I find it -- I -- I consider it a very reliable source because it's signed under penalty of perjury by both parties to the sale. And so when they say this is what they sold the price for, I'm inclined to believe them since they, you know, don't want to end up in jail over it.
If you call -- if an appraiser calls the -- the buyer or seller of a hotel and asks what the price was, they may or may not get a straight answer because the -- the buyer or seller may -- may not have a reason to be open with an appraiser they don't know and they in some cases might have a reason to -- to report a price other than the actual price.
So I tend to look at the excise tax affidavits as -- as the gold standard -- remember, this is only in Washington State, because it's a Washington State -- it's the Washington State tax system that -- that we're dealing with, but -- that's true for all these properties, of course.
I tend to look at it as the gold standard, and then I'll test it by asking people, you know, what -- what this price sell for. If they say, oh, it's around 2,000,000 and the excise tax affidavit says 2,025,000, I'll figure that the ETA is correct

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and the person talking to me was just speaking off the cuff.
Q. So on your table, the sale pieces that you have listed here, where did you get that information?
A. Those are all verified by the excise tax affidavits. And the affidavit, I should say, gives you a breakdown of the total price and the component prices of real estate versus personal property.
Q. Okay.
MS. THOMPSON: And so I'd like to just take care of some of the exhibits so far. I'd like to mark the Macaulay declaration as Exhibit A and the table prepared by Mr. Gordon as Exhibit B.
Q. (By Ms. Thompson) Do you agree, Mr. Gordon, that in your restricted appraisals you did not estimate the special benefits that would be accruing to these properties as a result of the waterfront LID?
A. Yes. That was not a part of the appraisals.
Q. Okay.
So I'm going to turn back now to the declaration, Exhibit A.
A. Could you make that a little bit bigger?
Q. Oh, sure. Let's see.
A. Thank you. That -- that's --
Q. Is that okay?

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A. That looks good, yeah.
Q. Okay. Great.
So we're going to turn to paragraph 16. Sorry for the scrolling. Do you agree that the average daily room rates that you used in your valuations were based on confidential financial information and STR reports?
A. Yes.
Q. Did you use anything else to arrive at your average daily room rates?
A. Well, we -- we were projecting performance for the year following the appraisal and we were looking at actual numbers for the year preceding the appraisal, so there was also some judgment involved as to what the -- how the average room rates would trend going forward.
Q. So the ADR that you selected for each of the hotels was not simply what the hotel had performed in 2019.
A. Correct.
Q. And the ADR you selected for each hotel was, as you say, the result of your judgment.
A. Right. In most cases for the established hotels, the -- the ones that had been in business for a while, I generally trended the -- the average room

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rates forward two, three, four percent, modest -- modest trending.
For hotels that were brand-new to the market in 2019, which included the Regency and the Sound, I had to exercise some additional judgment as to how they would perform in their second year of operation versus their first, which is more than just trending.
Q. Now, turning to paragraph 17., do you agree that Kidder Mathews did not use comparable sales data in arriving at its value conclusion for the Hotel Monaco?
A. Yes. That would be true with all the hotels.
Q. Thank you.
Do you agree that when deciding whether to buy a hotel a prospective hotel purchaser considers the potential occupancy, room rates, and expense margins that the purchaser can achieve and not just what the hotel historically has achieved?
A. Yes.
Q. Do you agree that in 2019 there was new supply being absorbed in the Seattle hotel market?
A. Yes.
Q. Do you agree that in 2019 due to that new supply a prospective purchaser of a downtown Seattle

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1 hotel may forecast more profit than indicated by
2 current operations?
3 A. Over the long term, yes.
4 Q. So focusing now on the Hotel Monaco, would
5 you agree that the Alexis Hotel is an appropriate
6 property to consider as a comparable sale?
7 A. For -- yes, partly because they both at the
8 time had the same branding of Kimpton. The Alexis is
9 nicer than the Monaco but, yes, I would consider it
10 reasonably comparable.
11 Q. And what about the Motif? Is that also a
12 reasonable comparable?
13 A. The Motif is a different animal. It's --
14 it's very nice in terms of its quality, but it has a
15 great deal more meeting space than the Monaco. It's
16 got a hugely popular outdoor bar and -- and
17 restaurant, indoor/outdoor bar/restaurant. So it
18 makes a lot of money beyond just the room rates,
19 beyond just the room revenue. It's -- the Motif I
20 tend to classify more as a -- as a midsize convention
21 hotel as opposed to a boutique the way the -- the
22 Monaco would be -- would be categorized.
23 Q. And the Kimpton Palladium Hotel, is that an
24 appropriate comparable property to the Monaco?
25 A. Not really. The -- the Palladium was an

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1 apartment building that was renovated as a hotel, but
2 they have almost no common areas. They've got a tiny,
3 little restaurant on the first floor. I don't believe
4 they have any meeting space. I -- I would have to go
5 back and check on that. The rooms are relatively
6 small.
7 The Monaco was developed out of a telephone
8 company office building, so they were able to design
9 it however they wanted. The Palladium was an existing
10 building, and they had to cope with the -- the un --
11 the unit sizes and configurations that were already
12 there.
13 Q. What's your opinion of ABS Valuation's
14 revised before LID value for the Monaco?
15 A. The numbers that came out in the
16 declaration?
17 Q. Correct.
18 A. I -- my perception is that they made two
19 general changes to each of the hotels. One was to
20 exclude the personal property, which I agreed with,
21 and the second was to very slightly reduce their
22 estimates of average daily room rate. While I agree
23 with the direction of change, the scale was not nearly
24 sufficient to bring those room rates down to a
25 reasonable level.

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1 Q. And what's the basis for your opinion that
2 the room rates are unreasonable?
3 A. Well, the basis is that -- that they
4 were much higher than the room rates that we
5 developed, and we were using -- we were basing our
6 forecast in part on the actual performance of the
7 property. Mr. Macaulay did not have access to that
8 data, so he was -- he was shooting in the dark
9 basically.
10 Q. You would agree, though, that he was using
11 publicly-available data?
12 A. Yes.
13 Q. And as you stated before, the average daily
14 room rate is a matter of judgment; is it not?
15 A. Yes, but the actual room rates that a hotel
16 achieved is a big component of that judgment.
17 Q. In Exhibit B to Mr. Mcaulay's declaration he
18 provides his worksheet for the Hotel Monaco. Did you
19 review that?
20 A. I did look at it. I didn't memorize it,
21 but --
22 Q. Sure.
23 A. -- yes, I did look at it.
24 Q. Did you -- do you recall having any comments
25 about that worksheet?

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1 A. Well, all of the worksheets were consistent.
2 He -- he made -- he made very minimal changes to his
3 worksheets from the ones that had been submitted in
4 the Final Special Benefit Study. Again, he has a
5 deduction now for personal property at the bottom of
6 the page, and he adjusted the average room rates,
7 changed them from what -- from the original average
8 room rates that he had been using.
9 But the rest of the formula, formulae,
10 in the tables is unchanged, so expenses that he
11 was calculating to be fixed, which included
12 administrative, overhead, and property taxes, are
13 not changed from his original estimates. They're
14 still -- they're just fixed costs.
15 Expenses that were tied to revenue in some
16 cases did change because his room rev -- because when
17 he reduced the average room rate his room revenue was
18 reduced. So expenses such as the franchise fees,
19 management fees, and the capital reserve allowance,
20 which are percentages of room revenue, those expenses
21 necessarily came down as well.
22 The net effect is -- is not -- the net
23 effect is still a reduction in net operating income,
24 because the expenses are far less -- the reduction in
25 expenses is far less than the increase -- than the

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numbers. So I was projecting a higher volume of revenue from other sources than -- than Mr. Macaulay was projecting, which partially offsets my lower forecast of room revenue. They do a bang-up business in their restaurants. Or did until recent times.

And they also charge a resort fee to hotel guests, one of those things that ticks off a large number of guests but brings in a large amount of money to the hotel. So I included those sources of revenue in my forecast. I wasn't going to -- I wasn't trying to lowball their -- their revenue total by leaving them out.

He did not include them because he didn't know about them, presumably because he didn't know about them. In -- in most of his -- most of his appraisals on the hotels he assumed the same or very similar volume of food and beverage revenue per occupied room night. He was putting it in at $35 or in -- for -- for most of the hotel I think he bumped it up to 40 or 45 for one of -- or two of them, but the Edgewater exceeds that by a wide margin.

Q. So would it be fair to say that if you had been valuing the fee simple interest in the hotel if it -- if it wasn't a leasehold interest that you were valuing, would your sale price be higher?

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A. My value conclusion?

Q. Yes. Sorry.

A. Yeah. Yes, it would be substantially higher.

Q. And your opinion that Mr. Mcaulay's value conclusion for the Edgewater is high, would that change if you -- sorry.

MS. THOMPSON: Strike that.

Q. (By Ms. Thompson) Would your opinion about Mr. Mcaulay's valuation of the Edgewater change if you knew that in local improvement districts and special benefit studies the appraiser is expected to value the fee simple interest?

A. In publicly-owned property?

Q. Yes.

A. It -- it -- my opinion would change. I would still consider his value conclusion to be high because of the issue with the average room rate, but it wouldn't be -- we wouldn't be so far apart.

Q. Moving on now to the Thompson Hotel, what's --

A. Yes.

Q. -- your opinion about ABS Valuation's revised before LID value of the Thompson?

A. Well, that's one where I -- I remember the

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average room that they -- that they had plugged in because their original report was $500 a night is what they thought the Thompson would get as a -- as an average room rate, and in the revised report I believe he knocked that down to 425.

In my appraisal I was in the low 200s based on how the hotel had actually per -- been performing. I don't remember exactly what number I -- I forecast, but it was close to -- it was slightly above what the -- the actual 2019 number had been. Again, he did not have access to -- to the same information that I did, but my opinion is that his value is too high.

Q. And that's based on the room rate difference?

A. Yes.

Now, the -- my -- I -- I differ from him on almost every line item in the forecast, so I don't want to leave the impression that only the room rate is -- should be -- in my opinion should be changed, but it has by far the greatest impact.

Q. So it's fair to say then that the difference between Mr. Macaulay and your average daily room rates is driving the difference in the overall value conclusion of the hotel. It's not the only factor, but it's the driver of the difference.

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A. Right. And in fact, in many cases if you bring in the other factors, it lessens the difference because I've been -- for some hotels I project a higher occupancy rate than he does or lower expenses. So the average room rate has a very, very significant impact.

Q. Anything else to add about ABS Valuation's conclusions about the Thompson?

MR. REUTER: Object to the form.

Q. (By Ms. Thompson) You --

A. Well --

Q. -- may answer.

A. I don't -- I don't -- I don't -- I would just remind everybody that the Thompson and the Sequel Apartments next door are related entities. We value them separately as a separate hotel versus an apartment building, but in the assessor's records they put all of the improvements on one parcel. And -- and they divide the land between the two physical parcels, but then they assess both buildings as if they were all sitting on one parcel. I don't know why they do that.

But just -- I just want to point that out because sometimes the issue of the assessment comes up, and it -- you can't compare the -- the assessments

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of the two separate parcels with our assessment of the hotel and the apartments because the assessor's not -- not using the same -- the same division. Bob ran into the same -- Mr. Macaulay ran into the same issue, and he also developed separate values for the hotel and the apartments.

Q. So next I'd like to move on to the Hilton Seattle property.

A. Okay.

Q. The Hilton Seattle was recently renovated; is that correct?

A. Yes. It was renovated and reconfigured.

Q. Did those renovations and reconfiguration have an impact on your valuation of the hotel?

A. Yes.

Q. Can you explain how?

A. Part of the reconfiguration was that they removed their rooftop restaurant and converted it into additional guest rooms, so the room count went from 239 to 256. Since they didn't have the rooftop restaurant anymore, they -- they rearranged their lobby bar so that they could call it a restaurant. It's -- there isn't much to it.

And they have 256 rooms and potentially 500 guests, so -- it's not -- my -- my sense about the

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Hilton Seattle is that it will not always be a Hilton. It's con -- the way it's configured now, it's much more similar to a Hampton or Hampton Inn & Suites, something else in the Hilton brand, in the Hilton network.

But people think of a Hilton hotel as being a full-service property with a large restaurant. This -- this hotel does have a restaurant, in quotes, but it's -- it's pretty minimal. Now what they're focusing in on is the guest rooms.

So in our analysis -- this -- this change took place during the winter of 2018-2019. In our analysis we did our forecast based on 256 guest rooms, the new room count, and taking into account the cutback in -- in restaurant revenue. But the -- in Mr. -- in -- in my testimony I pointed that out earlier this year, that the room count had changed. But in Mr. Macaulay's revised declaration he's still using the old room count of 239.

So that's -- in addition to the problems -- the problem of the average room rate, which is the same issue for all the hotels, the Hilton also has the issue of the room count. And by using the -- the actual room count, the hard -- the larger room count, my forecast is increased in revenue. We're increasing

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our revenue, not decreasing it. So I -- I think that would be the more reasonable approach to take, use the correct room count and use a more reasonable average room rate.

Q. So aside from the information about the additional rooms that were being added as a result of the reconfiguration, did you have information about the value of the renovation improvements that were made at the Hilton?

A. I don't recall if I ever heard the cost. It was substantial. It was millions of dollars. But I don't -- I don't -- I don't know if we have the exact number. And my -- my estimate of value was based on how it would perform going forward, so the -- the sum cost of the renovation really wouldn't have had relevance to me.

Q. So -- maybe you can explain that a little bit more. If a -- if a hotel operator is investing millions of dollars to renovate the hotel and improve, you know, the furniture, the experience, et cetera, that doesn't have an impact on the value of the hotel?

A. Oh. Oh, yes, it does. I -- I'm sorry if I mis --

Q. Okay.

A. -- was unclear. It -- it has an asset -- it

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has an impact on the value, but when we were preparing our forecast for the hotel and how it would perform going forward we already knew about the renovation and we knew what the quality was and I'd walked through the hotel and looked at its new restaurant and looked at the rooms and -- not all rooms but looked at a room. And so I -- you know, I had a sense as to -- as to how I thought the property would perform going forward, which might well be better than it had done in the past.

Now, the Hilton -- Hilton Seattle -- they don't use the "the" when they say it. It's just Hilton Seattle. They -- their occupancy rate is -- is extraordinarily high, and in our -- in our forecast we assumed that they will continue to perform at that -- at that remarkably strong level. But their average room rate is much lower than -- than what Mr. Macaulay estimated.

Q. So the value of the renovations is something that you considered when appraising the Hilton Seattle.

A. Yes, but I wouldn't use the -- the word "value" implies that we had a dollar amount in mind. What I considered is how everything looked and -- and how it looked in comparison to other hotels after the

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1 renovation was complete.
2 Q. So is that -- I mean, if you don't have
3 the specific dollar amount for the cost of the
4 renovations, is it -- is -- and I'll -- I'll use the
5 word "value," but in terms of a value-add, is that
6 figure in your calculation something that's a matter
7 of judgment?
8 A. Yes. Yes, it would be.
9 Q. And -- you touched on this a little bit, but
10 what's your opinion about ABS Valuation's revised
11 before LID value for the Hilton Seattle?
12 A. Well, they continue to pro -- to have a --
13 be projecting an average room rate that's higher than
14 what I think is achievable for the hotel, but at the
15 same time, for the Hilton they're -- they're
16 projecting the same 80 percent occupancy that they use
17 for all the hotels.
18 And Hilton Seattle has been, as I said,
19 very successful at -- at generating high occupancy.
20 So in my forecast, in my appraisal I was projecting a
21 higher occupancy rate offset by a lower average room
22 rate as compared to Mr. Macaulay's figures.
23 I still come in lower than he is, but it's
24 not by a dramatic margin. The hotel, you know,
25 particularly with the -- the new -- the additional

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1 guest rooms, so that -- we've got 256 instead of 239,
2 with more rooms and a higher occupancy, that goes a
3 long way towards offsetting the overshoot that he had
4 in the average room rate.
5 Q. Anything else to add about the Hilton?
6 A. No.
7 MR. REUTER: Object to form.
8 Q. (By Ms. Thompson) So next I'd like to talk
9 about the Alexis Hotel. In your analysis for the
10 Alexis you concluded a current value of 66 million,
11 not including -- or -- sorry -- including the FF&E --
12 A. That's --
13 Q. -- is that right?
14 A. That's right.
15 Q. And at the time of your appraisal of the
16 Alexis were you aware of the 2017 sale of the Alexis?
17 A. I probably had it in my records somewhere,
18 but it -- I never went back and -- and -- and looked
19 it up when I was doing the appraisal. I was just
20 focused on the income. I know now that the hotel sold
21 for 71 and a -- 71 and change.
22 Q. So is it fair to say then that you didn't
23 consider that 2017 sale in your analysis of the
24 current value of the Alexis?
25 A. That's -- that's correct.

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1 Q. And at the time of your appraisal of the
2 Alexis were you aware that it had undergone
3 approximately $14 million in renovations --
4 A. Yes.
5 Q. -- after -- after it was purchased in 2017?
6 A. Yes.
7 Q. And did that affect your analysis of the
8 current market value of the hotel?
9 A. Well, it affected the way we looked at the
10 historical performance because, as I recall, the
11 Alexis during the period of renovation, its revenue
12 was artificially low, temporarily low, because they
13 had rooms out of order, and you often have to offer
14 discounts if you've got jackhammers going.
15 So it's a -- it was something that we
16 considered when we were looking at the historical
17 numbers, but going forward we looked not only at how
18 they'd actually performed in that year but also how
19 they'd been performing prior to the renovation and how
20 other similar luxury hotels were performing in the
21 market.
22 Q. So the $14 million in renovations, did that
23 in your opinion add, quote unquote, value to that
24 property?
25 A. It did, but it's not necessarily

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1 $14 million. There's a value-add when you improve a
2 property, but it is -- isn't necessarily in proportion
3 to the amount you spend. Ideally, the owner will not
4 spend more than they can get back, but as anyone who's
5 renovated a kitchen knows in their house, that if
6 you -- you can spend $20,000, but it's not necessarily
7 going to add $20,000 to the sale price of your house.
8 The -- well, I'll leave it -- leave it there.
9 Q. So a few minutes ago we were talking about
10 the Hilton property, and it was also sold sort of
11 recently in -- in 2016 and renovated in 2018 and 2019,
12 much like the Alexis, correct?
13 A. Correct.
14 Q. One question I have for you, though, looking
15 at the -- your appraisal of the Hilton compared to its
16 sale price in 2016 and then looking at the Alexis, its
17 price in 2017 versus your current market value for
18 that property, there's a big difference in the Hilton
19 property, about 30 million.
20 A. Correct.
21 Q. And there's actually no difference -- I
22 mean, I -- I believe that your current market value
23 for the Alexis is actually -- let's see. It's lower
24 than what the Alexis sold for in 2017. So --
25 MR. LUTZ: Object --

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Q. (By Ms. Thompson) -- how --
MR. LUTZ: -- to the --
Q. (By Ms. Thompson) How do --
MR. LUTZ: -- form --
Q. (By Ms. Thompson) -- you --
MR. LUTZ: -- of the --
Q. (By Ms. Thompson) -- explain that?
MR. LUTZ: -- question.
Q. (By Ms. Thompson) You can answer.
A. I didn't hear the end of the question.
Q. Oh. I just -- I'd like you to speak about why you have two sort of similarly situated properties and -- in terms of recently sold, renovated, and appraised by you, and why in the situation of the Hilton we have -- we see a $30 million jump in value, and in the case of the Alexis we actually see a decrease in value.
MR. LUTZ: Object to the form of the question.
A. I -- I -- I can't explain why the Hilton sold for such a low price in 2016. It sold for 62 million. I'm placing its value -- in -- in my appraisal I placed its current value at I think 96 million or something in that -- something in that range, and Mr. Macaulay had it at 114.

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It did a -- it -- they didn't spend $30 million in that renovation in -- in the Hilton, so either they bought it at a really low price or -- or -- or it's -- or I'm overvaluing it because it's not really going to perform at -- at this level.
But they've done so well so consistently for so many years that it's very hard for me to -- to believe that the value would be back down where it was four years ago even with the renovation, even if you adjusted for the renovation. It's just a really well-performing property. And -- and how they stole it for 62 million is beyond me. I mean, that's -- that was a really good price.
Going back to the Alexis, I looked up the excise tax affidavit for the Alexis because that property -- it was on the sale list that -- that Mr. Macaulay presented in his declaration, and I thought, well, we appraised the -- we appraised the Alexis, so then I should look at that.
And yes, indeed, the property did sell for -- 71,425,000 I think was the price in 2017, but looking at the excise tax affidavit, where there's a breakdown between real estate value and personal property value, the real estate value at the time of the sale was almost exactly what I estimate the

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current real estate value to be.
So in my opinion they're not getting any credit for their -- for their renovation on there because the hotel isn't going to perform at a strong enough level to justify it, which is -- you know, it's unfortunate if you -- if you spent a lot of money and don't get it back, but sometimes that happens.
Q. (By Ms. Thompson) So your opinion is that the Alexis in -- in -- as of the date of your valuation wasn't performing any better than it had in 2017.
A. I -- I wouldn't compare it exactly year to year, but my -- my opinion is that going forward the Alexis -- the performance of the Alexis is going to justify my value conclusion, which is substantially lower than -- than Mr. Macaulay's value conclusion, and lower than the gross purchase price, including personal property.
Now, they -- in their -- in their ETA the buyer and seller in the 2017 sale valued the personal property at over $9 million. I valued it at 3.3. So there's -- you know, part of the difference lies in -- in the personal property. And if -- if a hotel was -- spent $14 million on renovation, it would be helpful to know if that -- if -- how much of that figure

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involved the replacement of items that would be considered personal property.
In the extreme case, if it was all capital re -- all replacing furnishings and equipment or upgrading them, then you wouldn't expect to see much of a difference in the real estate value, which is what's being assessed in the LID. So, you know, that might be -- that might be one possible explanation.
Q. So I think -- you touched on this a little bit, but what's your opinion of ABS Valuation's revised current market value for the Alexis?
A. I think they're still high, again, because of the average room rate issue.
Q. So next I'd like to move to the Hyatt Regency Hotel.
A. Okay.
Q. Do you agree that the Loews Regency is an appropriate comparable hotel for the Hyatt Regency?
A. There is no Loews Regency. There's Loews Hotel 1000 --
Q. Let's see.
A. -- I think.
Q. Apologies.
A. That's all right.
Q. So many hotel names.

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A. We have a lot of names. And they change too, which is --
Q. Oh. So it's -- let's see. I think it was formerly -- this was -- this is the hotel that's formerly the Hotel 1000.
A. Yeah. Now it's called Loews Hotel 1000 I believe --
Q. Oh, okay.
A. -- unless they --
Q. Great.
A. -- changed the name, but --
And no, I don't think that's a very good comparable for the Hyatt Regency.
Q. And can you explain why?
A. The Hyatt Regency has 1260 guest rooms and 100,000 square feet of meeting space. It's across the street from the new Convention Center site, the -- the expansion site for the Convention Center, and it's heavily focused on group events.
Hotel 1000 is a luxury-level boutique with 120 rooms. It has some meeting space, not nearly so much. It has a small restaurant. But its -- its -- its only real competition is the Four Seasons. It's -- it's that level of hotel, and it's nothing like the Hyatt Regency. So no, I don't consider that

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a comp.
Q. And what about the Pan Pacific Hotel? Is that an appropriate comparable hotel to the Hyatt Regency?
A. Not really. It's -- it has the -- about the same number of rooms as the -- as the Hotel 1000. I think it's 150 or 152. And they're stuck out in South Lake Union. The Pan Pacific would be a very good comp for the Hilton Garden Inn. It would be a good comp for the Thompson Hotel possibly.
It -- its location makes it an odd case, so I -- I tend not to rely on that sale. I -- I do recognize that it's a sale. It's a condominium sale. It's a sale of a commercial condominium in a building that also includes a big grocery store, so it's -- it's different than any other hotel downtown.
Q. So one thing that you mentioned in discussing these comparable properties is the number of rooms that each of them has.
A. Yes.
Q. How does that -- how does the number of rooms impact whether or not you would select that as a comparable property for sort of this -- your -- sorry. I'm having a bit of a brain --
A. Brain freeze. Okay.

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Q. -- brain freeze. I'm -- okay.
MS. THOMPSON: Strike that.
Q. (By Ms. Thompson) My question is, when selecting comparable properties to evaluate whether your value conclusion is sort of within the range that you discussed before, why does the number of rooms that the hotel has matter?
MR. LUTZ: Object to form of the question.
A. You would have a different set of potential buyers for a 1200-room convention hotel than you would for a 121 -- 120-room luxury boutique. They're just -- they're not in the same market. They -- they aren't -- they aren't the same people looking at it. So the -- the buyer's parameters of cap rates and -- and yield rate requirements are going to be different. I don't know that they'd be higher or lower, but they'll -- they're just not the same.
If you -- if I was looking at the Hyatt Regency and was looking for sale comps, I'd probably be in a -- in a world of hurt because there aren't that many. The Motif would probably be included. The -- I'd probably look out of state for hotels that are that -- that size. Even the Motif's only 300 or so rooms, and it's one-fourth the size of -- of the Hyatt Regency.

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Q. (By Ms. Thompson) And what's your opinion of ABS Valuation's revised before LID value for the Hyatt Regency?
A. Well, the Hyatt Regency is one of the two hotels that opened in 2019. They -- they opened the doors in December 2018, but they weren't fully functional until sometime in February of 2019. And so that makes it tricky, because you're trying to forecast future performance based only on the first year of operation of the hotel.
So I took my best, you know, estimated projection as to how -- how the hotel will function over the long run and then ramped it up to that level in my -- in my analysis. And Macaulay did the same thing. My opinion is that he overshot on the average room rate as he did pretty consistently through this analysis through -- through -- among the different hotels.
On occupancy I think he's a little bit aggressive, because he's projecting it at 80 percent, I -- I -- as I recall. I'm going off memory now. But I believe he projected that they would stabilize at 80 percent occupancy, the same as the rest of the hotels.
But with 1260 rooms and a lot of group

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functions, it's very difficult for a convention hotel to keep the occupancy at that high a level because the groups don't always dovetail precisely. You have one that comes in from Wednesday to Friday and one that comes Sunday to Monday. You don't want to rent out -- you don't -- the -- you don't want to block out all your rooms for three days on that Saturday because you want both groups, so you end up tolerating some additional vacancy.

So I projected the vacancy -- the -- the -- the stabilized occupancy rate for the Regency, I believe I -- I projected it at 75 percent or thereabouts. So I'm a little lower than his -- than -- than Bob on both the vacancy and the occ -- I'm sorry -- the occupancy and the average room rate.

But I'd just caution that both his forecast and mine are -- are made difficult by the fact that it's a brand-new hotel with not much of a track record and it's much larger than any of the -- any of the other hotels that -- that we're discussing here.

Q. So next I'd like to talk about the Sound Hotel.

A. Okay.

Q. Do you agree that the Pan Pacific Hotel is an appropriate comparable property to the Sound Hotel?

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A. No. No. The Sound Hotel is not a luxury or one could argue that it's not even an upscale property. It's -- it's nice. I'm not saying it's not. But it is a relatively simple hotel tucked into an apartment building.

So you've got 142 rooms. You've got a cafe on the first floor that -- that is part of the hotel but feels like it serves both the apartment residents and the -- and the hotel guests. And its average room rate is -- is really not dramatically high.

It's not competing in the same market as the Thompson or the Charter or the -- or even the -- really even the Hilton. Well, maybe the Hilton, Hilton -- maybe Hilton Seattle.

And -- and I -- because it was brand-new and had no history and because Bob didn't have access to their actual numbers anyway, I think he greatly overestimated the average room rate that it would be able to achieve.

I do think his occupancy is fine. In fact, I might have come in slightly higher on occupancy than he did, but the hotel just can't charge the kind of prices that -- that he's envisioning.

Q. And so -- you mentioned some other properties that might be comparable. Would you agree

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that the Hilton Garden Inn would be a comparable property to the Sound Hotel?

A. Possibly. That might be -- that might be a comparison on there. And there was a sale of the Hilton Garden Inn 2017 possibly. Don't recall the date.

Q. And -- what about the Homewood Suites? Is that a reasonable comparable property?

A. It doesn't have a restaurant and the rooms are all extended stay, so it's a different type of hotel. Locationally it's rea -- it's reasonably close by, close to the Sound. And overall quality, yeah, I'd -- I'd say that it probably is pretty similar.

Now, the Homewood is the one that we talked about earlier that was a portfolio transaction, and the actual purchase price is unclear.

Q. And so you mentioned before that the Sound Hotel is a newer property, and so there's not much historical information to go off of --

(Telephonic interruption.)

Q. (By Ms. Thompson) -- is that right?

THE WITNESS: I'm sorry. Let me hang this up.

MS. THOMPSON: Sure.

THE WITNESS: Okay. Got it.

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A. It opened in February of 2019, so it opened the same month that the Regency got all its rooms open. And, again, we have less than a year, only had eleven months or slightly less than eleven months of data for it. So yes. It's brand-new.

Q. (By Ms. Thompson) And so when you were talking about the Regency before you were saying that when a new hotel opens up it makes it more difficult for you as an appraiser to forecast what the value of the hotel is going to be; is that right?

A. Yes.

MR. LUTZ: Object to the form of the question.

Q. (By Ms. Thompson) And so would you agree then that both your task and Mr. Macaulay's task in valuing the Sound Hotel was more difficult?

A. For that same reason, yes.

Q. And I think you touched on this before, but I just want to make sure that I captured everything. What's your opinion about ABS' revised before LID value for the Sound Hotel?

A. I'm sorry to get confused as to how -- where the numbers came in, but as I recall, I'm -- my value conclusion is still considerably lower than theirs, so my opinion is that theirs is too high.

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Q. And, again, is that based on the difference in room rate?
A. Primarily.
Q. Okay.
Moving on now to the Renaissance Hotel, what is your opinion of the ABS Valuation's revised before LID value for the Renaissance?
A. Again, I think that their average room rate estimate is high, and as a result, their value conclusion is high.
Q. Do you have anything else to add about ABS' conclusions for the Renaissance?
A. No. The Renaissance is -- is the simplest hotel in this whole set. It's -- it's large, but it just doesn't have any of these weird complications that -- that so many of the hotels have. It's a good property. It stayed open all this year despite circumstances. It's a good hotel. It's not new. It's 1983, but it's -- 1983 construction, but they've -- they've kept it up.
Q. So next I'd like to talk about the Hyatt at Olive 8. Do you --
MR. LUTZ: Can --
Q. (By Ms. Thompson) -- agree that --
MR. LUTZ: Can we take just a quick break?

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MS. THOMPSON: Sure. Yeah. No problem.
MR. LUTZ: Sorry.
MS. THOMPSON: Let's go off the record.
(Recess.)
Q. (By Ms. Thompson) So before the break we were just switching gears to the Hyatt at Olive 8. Do you agree that the Loews Hotel 1000 is an appropriate comparable hotel to the Hyatt?
A. Yes.
Q. And why -- why would you say that?
A. Well, reasonably similar room counts. I mean, it's not -- it -- the Hyatt Olive 8 is not as small as Loews, but it's very high quality. Loews is a, you know, luxury-level property. If I had to choose between the two, I'd rather stay at the Loews, but not by much.
Hyatt Olive 8 is a -- is very good. They both have -- have central locations, although -- they're at the opposite ends of the CBD, but it's not that far apart. It's a small town. So there's -- they're close enough. So yes. In summary, I would say that they are comparable.
Q. And what about the Pan Pacific Hotel? Is that comparable in your opinion to Hyatt at Olive 8?
A. Probably, yes. The Pan Pacific and Olive 8

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are both condominium buildings so that the hotel is just a portion of the structure, which -- and that's true of Loews as well. And that's a -- that's a point of similarity.
In terms of quality, average room rate might be a -- average room rates are actually probably pretty similar. The Pan Pacific might be a little bit higher. It has fewer rooms they have to fill, and they're sitting by themselves on Westlake, so they're not -- they might get first crack at a lot of the Amazon business but, yes, I would consider them similar.
Q. And what about the Motif Hotel? Would you consider that to be similar to the Hyatt at Olive 8?
A. Yes.
Q. What's your opinion of ABS Valuation's revised before LID value for the Hyatt at Olive 8?
A. Again, that their value -- they -- they came down on their average room rate, but not -- not to the point where I would consider it reasonable. So I think their value is overstated -- their revised value conclusion is overstated due primarily to an aggressive average room rate.
Excuse me.
Q. And finally I'd like to talk about the Grand

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Hyatt Hotel.
A. Okay.
Q. Would you agree that the Loews 1000 is an appropriate comparable to the Grand Hyatt?
A. Yeah. I mean, to the same extent the Hyatt at Olive 8 was. Olive 8 and the Grand are pretty similar properties; same location, same brand, same operator. Olive 8 tries to be a little bit more boutiquey, which would make it more similar to Loews.
The -- the -- the problem with using Loews as a -- as a -- is -- well, there's two issues with using Loews as a comparison if you're speaking of the sales, is that it sold twice, once in 20 -- I think it was 2014 and again in 2016, if I have the years right. And the -- the purchase price -- and they didn't do anything to the hotel that I'm aware of between the two sales, and the purchase price went up by 20 or $25 million.
So it's tough to -- it's tough to understand -- and, you know, I've never spoken with the buyer, so I don't know what their -- what they were -- what the most recent buyer was thinking, but it's -- it's tough to see how values could appreciate that rapidly.
So if we look at -- if we try to compare a

hotel now with the 2016 sale of Loews, we might come to a different conclusion than if we compare it to the sale two years earlier. But it is a -- I would say -- I would -- short answer, yes. I would consider it a fair comparison to the Grand Hyatt.

Q. And what about the Pan Pacific Hotel? Is that also a fair comparison to the Grand Hyatt?

A. Yes.

Q. And the Motif Hotel? Would you say the same?

A. Yes.

Q. And what's your opinion of ABS Valuation's revised before LID value for the Grand Hyatt Hotel?

A. Well, it will -- it will sound somewhat repetitive, but I think the average room rate is still high. Their value is still high. But they've made progress by coming down somewhat in the average rate.

Q. And any other -- any other comments about the revised conclusions about the Grand Hyatt Hotel?

A. No. It's a -- that's a challenging property because it's -- it's sort of integrated in with these other parc -- other -- other tax accounts in the same building, which are the -- the parking and the real -- and the real -- retail. And they -- they analyzed it correctly, as far as I could tell.

MS. THOMPSON: Thank you. Those are all of my questions for today. I'll hand it over to Mr. Lutz or -- or Todd.

MR. REUTER: I don't have any follow-up.

E X A M I N A T I O N

BY MR. LUTZ:

Q. My only follow-up was a point of clarification. Were we discussing -- we were -- the -- the sole discussion was 2019 valuations, correct, John?

A. Well, my valuation -- we had different valuation dates. He valued everything October 1 of 2019 and I valued everything January 1 of 2020. From a -- from a -- from an appraiser's perspective that's not much of a difference and, you know, I regard it as immaterial. I don't know what the legal ramifications would be of having different dates or if anyone cares.

Q. Yeah. Right. I mean, actually, to be more clear, this is all pre-COVID, in other words.

A. Yes. Yeah. Not -- neither of us in -- in -- in -- in none of the analysis -- revised, original, whatever -- none of us looked at -- at the -- at the impact of COVID.

The -- the Hyatt Olive 8 that you were just -- we were just talking about, Hyatt Olive 8,

they closed in the middle of March and have not opened. Sound Hotel closed in March. They're still not open. The Regency was closed for six months through the middle of the year. They opened back up in October.

So this is a -- the whole COVID 2020 is like nothing anybody's ever seen before, and I've been saying this until I'm blue in the face and -- and it's -- it's -- it's still hard to overestimate the damage that's been done to the hotels in this market. And --

Q. Okay.

A. -- I assume it's the same in most cities, but --

MR. LUTZ: Okay. Thank you. Nothing further.

MS. THOMPSON: Okay. Great.

I think we can go off the record.

(Deposition recessed at 1:57 p.m.)

(Marked Deposition Exhibits A-B.)

(Signature reserved.)

S I G N A T U R E

I declare under penalty of perjury under the laws of the State of Washington that I have read my within deposition, and the same is true and accurate, save and except for changes and/or corrections, if any, as indicated by me on the CHANGE SHEET flyleaf page hereof.

Signed in _____, Washington, this _____ day of _____, 2020.

_____

JOHN GORDON

Taken: December 29, 2020

Re: "Waterfront LID"

Cause No.: CWF-0138, et al.

Lauren G. Harty, RPR, CCR #2674

1 CERTIFICATE
2 STATE OF WASHINGTON)
) ss.
3 COUNTY OF KING)
4 I, the undersigned Washington Certified Court
5 Reporter, hereby certify that the foregoing deposition
6 upon oral examination of JOHN GORDON was taken before
7 me on December 29, 2020, and transcribed under my
8 direction;
9 That the witness was duly sworn by me pursuant
10 to RCW 5.28.010 to testify truthfully; that the
11 transcript of the deposition is a full, true, and
12 correct transcript to the best of my ability; that I
13 am neither attorney for nor a relative or employee of
14 any of the parties to the action or any attorney or
15 counsel employed by the parties hereto, nor am I
16 financially interested in its outcome;
17 I further certify that in accordance with
18 CR 30(e), the witness was given the opportunity to
19 examine, read, and sign the deposition within 30 days
20 upon its completion and submission, unless waiver of
21 signature was indicated in the record.
22 IN WITNESS WHEREOF, I have hereunto set my hand
23 this 31st day of December, 2020.
24 _____
25 LAUREN G. HARTY, CCR #2674

1
2 SEATTLE DEPOSITION REPORTERS, LLC
3 600 University Street, Suite 320
4 Seattle, Washington 98101
206.622.6661
5
6 CHANGE SHEET
7 PLEASE MAKE ALL CHANGES OR CORRECTIONS ON THIS SHEET,
SHOWING PAGE, LINE AND REASON.
8 _____
9 PAGE LINE CORRECTION AND REASON
10 ____ ____ _____
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22
23 _____
24 JOHN GORDON
Taken: December 29, 2020
25

Exhibit B

CONFIDENTIAL

Hyatt Regency

Map Nos.	D-146
Tax Parcel Nos.	066000-0708
Property key:	7392
Address	808 Howell Street
Zoning:	DOC2 500/300-550
Proximity to park	2,900± feet to park, 13-minute walk
Ownership	HT-Seattle Owner, LLC
Description:	63,883 SF site bounded by 8th Avenue, 9th Avenue, Howell Street and Stewart Street, zoned DOC2 500/300-550, improved with a 1,260-room hotel built in 2018, with 445-stall basement parking structure.

Hyatt Regency
Scenario A - Rate and Vacancy Changes

Hyatt Regency
Scenario B - OAR Changes

INCOME ANALYSIS Before	Year Built	2018				
	Rooms	1,260				
	Parking	445				
Revenues						
Occupancy rate:	80.0%					
Occupied rooms:	367,920					
Revenues						
Room revenue	367,920	occupied rooms @	$335.00	per occupied room		$123,253,200
Food & beverage revenue	367,920	occupied rooms @	$40.00	per occupied room		$14,716,800
Parking & other income	162,425	occupied rooms @	$50.00	per occupied room		$8,121,250
Total revenues						$146,091,250
Less: Departmental expenses						
Rooms	367,920	occupied rooms @	29.0%	of room revenue		($35,743,428)
Food & beverage	367,920	occupied rooms @	79.0%	of food & beverage revenue		($11,626,272)
Parking & other	162,425	occupied rooms @	50.0%	of parking & other income		($4,060,625)
Total departmental expenses						($51,430,325)
Total departmental net income						$94,660,925
	GBA	NRA				
Retail rental income	0	0	SF NRA @	$0.00	per SF =	$0
Office rental income	0	0	SF NRA @	$0.00	per SF =	$0
Other rental income	0	0	SF NRA @	$0.00	per SF =	$0
Total Bldg Area & Gross Income	1,400,666	1,062,251	SF NRA @	$89.11	/SF =	$94,660,925
Less: Undistributed expenses						
Admin, marketing, utilities, maintenance, insurance @		$20,000	per available room			($25,200,000)
Franchise fees @	7.5%	of room revenue				($9,243,990)
Management fee @	3.0%	of total revenue				($4,382,738)
Real estate taxes						($3,087,740)
Replacement reserve @	4.0%	of total revenue				($5,843,650)
Total undistributed expenses						($47,758,118)
Total operating expenses	67.9%	of total revenue				($99,188,443)
Net operating income						$46,902,808
Indicated Value						
					Capitalized @	7.25%
					Indicated value	$646,935,276
					(R)	**$646,935,000**
					Less FF&E	($22,700,000)
					(R)	**$624,235,000**
					Per SF NRA	$587.65
					Per room	$495,425
Land Value						
		63,883	SF @	$1,600.00	per SF =	$102,213,000
Residual Improvements		1,062,251	SF NRA @	$491.43	per SF =	$522,022,000
		1,400,666	SF GBA @	$372.70		

INCOME ANALYSIS After	Year Built	2018							
Revenues							**Low**	**High**	
						Occupancy rate:	80.00%	80.00%	
						Occupied rooms:	367,920	367,920	
Revenues					Per Room	Per Room	0.20%	0.45%	
Room revenue					$335.67	$336.51	$123,499,706	$123,807,839	
Food & beverage revenue					$40.08	$40.18	$14,746,234	$14,783,026	
Parking & other income					$50.10	$50.23	$8,137,493	$8,157,796	
Total revenues							$146,383,433	$146,748,661	
Less: Departmental expenses									
Rooms	29.0%	of room revenue					($35,814,915)	($35,904,273)	
Food & beverage	79.0%	of food & beverage revenue					($11,649,525)	($11,678,590)	
Parking & other	50.0%	of parking & other income					($4,068,746)	($4,078,898)	
Total departmental expenses							($51,533,186)	($51,661,761)	
Total departmental net income							$94,850,247	$95,086,899	
	GBA	NRA			Per SF	Per SF			
Retail rental income	0	0	SF NRA @		$0.00	$0.00	$0	$0	
Office rental income	0	0	SF NRA @		$0.00	$0.00	$0	$0	
Other rental income	0	0	SF NRA @		$0.00	$0.00	$0	$0	
Total Bldg Area & Gross Income	1,400,666	1,062,251	SF NRA @		$89.29	$89.51	$94,850,247	$95,086,899	
Less: Undistributed expenses									
Admin, marketing, utilities, maintenance, insurance @				$20,000	per available room		($25,200,000)	($25,200,000)	
Franchise fees @	7.5%	of room revenue					($9,262,478)	($9,285,588)	
Management fee @	3.0%	of total revenue					($4,391,503)	($4,402,460)	
Real estate taxes							($3,087,740)	($3,087,740)	
Replacement reserve @	4.0%	of total revenue					($5,855,337)	($5,869,946)	
Total undistributed expenses							($47,797,058)	($47,845,734)	
Total operating expenses							($99,330,244)	($99,507,496)	
Net operating income							$47,053,189	$47,241,165	
Indicated Values									
						Capitalized @	7.25%	7.25%	
							$649,009,498	$651,602,275	
						(R)	**$649,009,000**	**$651,602,000**	
						Less FF&E	($22,700,000)	($22,700,000)	
						(R)	**$626,309,000**	**$628,902,000**	
						Per SF NRA	$589.61	$592.05	
						Per room	$497,071	$499,129	
						% change	0.33%	0.75%	
Land Value									
		63,883	SF @	$1,606.40	per SF =		$102,622,000	$102,622,000	0.40%
Residual Improvements							$523,687,000	$526,280,000	
						Per SF NRA	$493.00	$495.44	
Special Benefit Summary							**$2,074,000**	**$4,667,000**	

INCOME ANALYSIS After	Year Built	2018						
Potential Gross Income								
Revenues								
Room revenue	367,920	occupied rooms @	$335.00	per occupied room				$123,253,200
Food & beverage revenue	367,920	occupied rooms @	$40.00	per occupied room				$14,716,800
Parking & other income	162,425	occupied rooms @	$50.00	per occupied room				$8,121,250
Total revenues								$146,091,250
Less: Departmental expenses								
Rooms	29.0%	of room revenue						($35,743,428)
Food & beverage	79.0%	of food & beverage revenue						($11,626,272)
Parking & other	50.0%	of parking & other income						($4,060,625)
Total departmental expenses								($51,430,325)
Total departmental net income								$94,660,925
	GBA	NRA						
Retail rental income	0	0	SF NRA @	$0.00	per SF =			$0
Office rental income	0	0	SF NRA @	$0.00	per SF =			$0
Other rental income	0	0	SF NRA @	$0.00	per SF =			$0
Total Bldg Area & Gross Income	1,400,666	1,062,251	SF NRA @	$89.11	/SF			$94,660,925
Less: Undistributed expenses								
Admin, marketing, utilities, maintenance, insurance @			$20,000	per available room				($25,200,000)
Franchise fees @	7.5%	of room revenue						($9,243,990)
Management fee @	3.0%	of total revenue						($4,382,738)
Real estate taxes								($3,087,740)
Replacement reserve @	4.0%	of total revenue						($5,843,650)
Total undistributed expenses								($47,758,118)
Total operating expenses								($99,188,443)
Net operating income								$46,902,808
Indicated Values							**Low**	**High**
						Capitalized @	7.230%	7.200%
						Indicated Value	$648,724,862	$651,427,882
						(R)	**$648,725,000**	**$651,428,000**
						Less FF&E	($22,700,000)	($22,700,000)
						(R)	**$626,025,000**	**$628,728,000**
						Per SF NRA	$589.34	$591.88
						Per room	$496,845	$498,990
						% change	0.29%	0.72%
Land Value								
		63,883	SF @	$1,606.40	per SF =		$102,622,000	$102,622,000
Residual Improvements							$523,403,000	$526,106,000
						per SF NRA	$492.73	$495.27
Special Benefit Summary							**$1,790,000**	**$4,493,000**

Special Benefit Summary	Land Per SF	Land Total		Improved	% Change	Total Estimated Value	Special Benefit	% Change	
Without LID	$1,600.00	$102,213,000		$522,022,000	N/A	$624,235,000	N/A	N/A	
With LID									**Per Room**
Scenario A1	$1,606.40	$102,622,000		$523,687,000	0.32%	$626,309,000	$2,074,000	0.33%	$1,646
Scenario A2	$1,606.40	$102,622,000		$526,280,000	0.82%	$628,902,000	$4,667,000	0.75%	$3,704
Scenario B1	$1,606.40	$102,622,000		$523,403,000	0.26%	$626,025,000	$1,790,000	0.29%	$1,421
Scenario B2	$1,606.40	$102,622,000		$526,106,000	0.78%	$628,728,000	$4,493,000	0.72%	$3,566
Percent change in land value	0.40%		average	$524,869,000	0.55%				
Summary									
Without LID	$1,600.00	$102,213,000		$522,022,000	N/A	$624,235,000	N/A		
With LID	$1,606.40	$102,622,000		$524,672,000	0.51%	$627,294,000	$3,059,000	0.49%	$2,428