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 **DECLARATION OF MARK LUKENS, MAI, REGARDING REMANDED PROPERTIES**

I, Mark Lukens, 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.

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.

3. I disagree with Mr. Gordon's assertion that hotel appraisers should only use comparable sales as a check to see whether the income-based value conclusion is within an extremely wide range of comparable sales prices.

4. In my experience and professional opinion, it is appropriate to use comparable sales data when estimating the current market value of a hotel property.

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5. When an appraiser has access to appropriate comparable recent sales data, and if the appraiser's income analysis value conclusion is significantly inconsistent with that sales data, it is appropriate for the appraiser to reconsider his or her income analysis factors, such as capitalization rates, average daily room rate ("ADR"), expenses, and occupancy rates, to see if changes are warranted.

6. In this case, I prepared the list of recent sales upon which ABS Valuation relied in its income analysis for the remanded hotel properties (the "ABS Comparable Sales List"). This list is Exhibit A to Robert J. Macaulay's December 4, 2020 Declaration. The list includes information, including sale price and price per room, for sales of three- and four-star hotels in the downtown Seattle area between 2016 and 2019.

7. The sale prices listed in the ABS Comparable Sales List include the value of personal property. Mr. Gordon's statement, therefore, that the value of the Alexis Hotel in 2017 was $62,313,750 and not $71,625,000 incorrectly assumes that the sale prices listed in the ABS Comparable Sales List do not include the value of personal property.

8. Mr. Gordon also states that the Homewood Suites was sold for $72,111,265, based on a Costar report. I obtained the $96,076,415 sales price that is included in the ABS Comparable Sales List from Real Capital Analytics, a reliable source of commercial property transaction information. Unfortunately, the most accurate source of information about the sale price of a hotel is from the purchaser or seller, neither of which were available to either Mr. Gordon or myself.

9. I also disagree with Mr. Gordon that the Lotte Hotel should be excluded from the ABS Comparable Sales List based on its meeting space. The Lotte Hotel's Sanctuary is meeting/event space and such space is not the main driver of hotel revenue or value. Additionally, most other Seattle hotels also have meeting space that they market to guests.

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There is no reason to exclude the sale of the Lotte Hotel from the comparable sales list based on meeting space.

10. It is my understanding that Kidder Mathews used information about a limited number of recent hotel sales only as a range to check its value conclusions. The range of sale prices was between $259,000 and $695,000 per room and, as long as Kidder Mathews' value conclusion fell within that wide range of prices, Kidder Mathews considered it to be reasonable. The sale prices relied upon by Kidder Mathews in its comparable sales list included the value of personal property.

11. In my opinion, Kidder Mathews' use of a "range" to check its value conclusions was not a useful because the range of sale prices Kidder Mathews used was so wide. Instead, when an appraiser has access to a number of recent sales, as was the case here, he or she should identify the properties that are most similar to that being appraised and use that more specific sales price information in checking their value conclusions.

12. In this case, ABS Valuation did not use a range technique to check the reasonableness of their income valuations, but instead identified the most relevant comparable sales and used those sale prices to check the reasonableness of their income approach to value for the hotel being appraised. In my experience and professional opinion, ABS Valuation's use of sales information to inform their income approach to value was reasonable.

Hotel Monaco (CWF-133)

13. Mr. Gordon has made inconsistent statements about whether ABS Valuation's use of the Alexis Hotel as a comparable sale for the Hotel Monaco was appropriate. In his recent declaration, Mr. Gordon stated that the sales ABS chose are not informative comparables. Jan. 8, 2021 Gordon Declaration, CWF-133 *et al.*, ¶ 13. However, at his deposition on December 29, he agreed that the Alexis Hotel was reasonably comparable to the Hotel Monaco. Gordon Depo. at 22:4-10. A true and correct copy of excerpts from Mr.

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Gordon's December 29, 2020 deposition are attached as **Exhibit A**. Based on my experience, the Alexis Hotel is a reasonable comparable hotel to the Hotel Monaco because both have similar locations, both were Kimpton properties at the time of the appraisals, and both are similar boutique hotels. While the Alexis Hotel does have a higher ADR, the room rates at the Hotel Monaco are relatively similar.

14. I disagree with Mr. Gordon's statement that the Motif is not an appropriate comparable sale for the Hotel Monaco. Contrary to Mr. Gordon's statements about the Motif's superior value, in my opinion, the Motif is an inferior hotel to the Hotel Monaco. While the Motif has more meeting space, the meeting space is not the main driver of revenue for the hotel, as guest rooms generate more revenue than meeting space. Additionally, it is not correct to say that a hotel with more rooms is inherently worth more per room. In fact, the opposite is frequently the case.

15. Regardless of the minority interest involved in the Palladian Hotel sale, ABS Valuation did not rely solely on the Palladian Hotel in checking the reasonableness of its income analysis for the Hotel Monaco. Others sales, like that of the Alexis Hotel and Motif, were also considered.

Thompson Hotel (CWF-168)

16. I disagree with Mr. Gordon that the Loews Hotel is not an appropriate comparable for the Thompson Hotel. First, the Thompson Hotel is not necessarily an inferior hotel to the Loews. The Thompson, for instance, has a superior location and the property and improvements are newer than those at the Loews.

17. The Thompson is also a fairly new property, so Mr. Gordon's reliance on its ADR to discount its value as compared to the Loews is not appropriate as the Thompson was still ramping up in the market.

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18. Additionally, I disagree with Mr. Gordon that the Loews sale in 2016 was above market because there was an increase in value of 33% in two years, or because the sale was to an out-of-state party. The 2016 Loews sale at approximately $82 million or $685,000 per room was not above market when compared to sales of similar hotels, such as the Lotte Hotel in 2019, which sold for $923,280 per room. Additionally, most sales of large hotels in Seattle are to out-of-state purchasers and there is nothing to indicate that such purchasers are not aware of, or influenced by, Seattle hotel market data when purchasing such properties.

19. I also disagree that using the Pan Pacific Hotel as a comparable property would require a "significant downward adjustment for quality," as Mr. Gordon contends. The Pan Pacific Hotel is of a different design but considered comparable in quality to the Thompson Hotel. The Thompson also occupies a superior location near the waterfront and Pike Place Market.

The Alexis Hotel (CWF-318)

20. As explained in my prior testimony, Mr. Gordon's list of comparable sales did not include the Alexis Hotel, which sold in 2017 for $71,625,000 (inclusive of FF&E). 06/19/2020 Tr. at 85:10-24.

21. In my experience, it is highly unusual for an appraiser to not consider the recent sale of the property that he or she is appraising when determining the current market value of the property. I disagree with Mr. Gordon's statement that what an owner paid for a hotel does not potentially influence a hotel's market value. The buyer in the case of the Alexis Hotel was a sophisticated hotel investor (Hospitality Properties Trust) and hotel values continued to increase in the market following their purchase.

22. I also disagree with Mr. Gordon's statement that what an owner spends to renovate a hotel has no influence on the hotel's market value. The value of a hotel most certainly can be impacted by renovations. I understand the $14 million renovation of the

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Alexis was focused on guestrooms. Such renovations allow a hotel to more effectively compete in the market, which helps to maximize revenues.

23. Additionally, Mr. Gordon's example of a hotel in Austin that sold for 50% less than its replacement value confuses the replacement cost of the hotel with what someone paid for it. It is not unusual for a hotel to sell for less than replacement cost; it would be very unusual for a hotel located in a vibrant market such as Seattle to sell for less than the owner's cost.

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

Executed in Park City, Utah, this 12th day of January, 2021.

Mark Lukens

MARK LUKENS, MAI

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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:

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FOR CITY OF SEATTLE:

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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

Page 22

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

Page 23

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.

Page 24

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?

Page 25

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

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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23 _____
24 JOHN GORDON
Taken: December 29, 2020
25