CITY OF SEATTLE
OFFICE OF HEARING EXAMINER

In Re Seattle Waterfront LID, Local Improvement District No. 6751	Case Nos. CWF-133, 134, 136, 168, 353 DECLARATION OF TODD REUTER REGARDING REMANDED PROPERTIES

TODD REUTER declares as follows:

1. I am an attorney at Foster Garvey PC representing CWF-133, 134, 136, 168, 353. I am over the age of 18 and competent to testify. The matters set forth below are based on my personal knowledge and belief.

2. Attached hereto as Exhibit 1 is a true and correct copy of relevant pages from the deposition transcript of Robert Macaulay taken on December 22, 2020.

EXECUTED at Spokane, Washington, this 8th day of January, 2021.

TODD REUTER

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EXHIBIT 1

BEFORE THE HEARING EXAMINER OF THE CITY OF SEATTLE

In re Proposed Final Assessment Roll for Local Improvement District No. 6751 (Waterfront LID),	)
Parcel Nos: 6094670010; 6094670020; 6094670030; 6094680050; 0660000740; 0660000708; 2285130010; 6792120010; 6195000030; 0942000430; 6792120020; 7683890010; 1976200070; 1976200075; 1976200076; 7666202465; 7666202345; 1975700365; 0696000015; 1974700175; 1117080020; 1975700235; 0696000055; 0660000540; 0660000545; 0660000575; 2538831460; 2438831480; 0939000240; 1974600025; 1974600035	)No. CWF-0318, et al.

Deposition Upon Oral Examination Of

ROBERT MACAULAY

12:40 p.m.

December 22, 2020

Deposition held via videoconference.

All parties attended remotely.

REPORTED BY: Yvonne A. Gillette, RPR, CCR No. 2129.

APPEARANCES

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Also present:
ENGEL LEE, City of Seattle

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6 Real Estate Tax Affidavit, Alexis Hotel 36
7 Restricted Appraisal Report, Hyatt Regency Hotel 50

ROBERT MACAULAY, being duly sworn, testified upon oath as follows:

EXAMINATION

BY MR. REUTER:

Q So I'm Todd Reuter. We've met before. I'm the lawyer for the following hotels, the Monaco, the Vintage, the Edgewater, the Thompson, and the Hilton.

I've reviewed your declaration. And the thing that jumps out to me is your decision to reduce the average daily room rate by some amount. And my question is, how did you decide the amount of the reduction?

A Well, it was -- it was a variety of a number of different scenarios. We looked at what Mr. Gordon had provided. We ran a number of different income scenarios and compared those to the comparable sales that we had and recognized that within the variables between what Mr. Gordon had and what we had, the primary difference, although there were others, was obviously in the room rate. So we used that as a basis for our deduction. And so the -- the amount of deduction was just based on a judgment call looking at the various sale components and what we thought a, you know, reasonable revenue decrease would be based on

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Mr. Gordon's information and compared to what our old information was.
Q And so is there any more to the methodology than that judgment call?
A Well, again, you know running a number of different scenarios, you know, using different revenue rates, cap rates, things of that nature provided a basis, as well as looking at comparable sales and what they were selling for, an average room rate, and making a reasonable decision based on that information.
Q So if we take the Thompson, for instance, your average room rate went from 500 to 425. Is there some reason it didn't go to 430 or 420? How did -- is it formulaic in any way that caused you to land exactly on 452 versus some other number?
A We ended up using the same expense ratios and capitalization ratios that we had originally. And as we discussed in previous testimony, the value of the room via -- or the value of the property via the income approach is very -- so a small change in room rate makes a huge change in value.
So that was the main -- because that was the main factor we were using to make judgments and make decreases, rather than trying to change occupancy

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rates and capitalization rates and other revenue rates, we based it on the room rates and recognized the sensitivity of it. So when we reduced it, we compared that with our comparable sales to make our judgment.
Q And why didn't you just do the room rate that John Gordon used, knowing that he had testified that his room rates were very close to the actual room rate?
A Well, for two reasons. One, if you were to plug his room rate into our income scenario, you come out with a value that just isn't supported by market sales. So that was one reason why we didn't use his room rate. The second obviously was that the market is obviously buying property. It's going to look at the pro forma income. But it's also buying on projections that just aren't included in that data, and they'd be more reflective in the comparable sales per room rate that still got sold, property sales.
Q I think I understood the first part, but not the second part. So the first part you're saying, if you plug in Gordon's room rate, the number you get, the value number, you think is just not -- it's too low to be credible. Is that what you're saying?
A Correct.

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Q Okay. And tell me the second point again.
A Again, we felt it wasn't credible because of the comparable sales. It reflected a much higher rate than that rate would indicate.
Q With regard to the comparables that you selected, how did you come to select the set that you selected? Was that all of the sales? Some method you used to select this sale versus -- and not that sale?
A This goes back to Mark Lukens, the hotel consultant that we used. And those were comparable sales that he derived from the market for the subject properties.
Q And do you know whether Mr. Lukens factored in the differences between the age or quality of the hotels to see if they were true comparables?
A As much as possible, that's my understanding, yes.
Q But we don't have any documents showing that, do we?
A He did not do any appraisal reports, no.
Q Okay. So we've agreed through representations by the city's counsel that there aren't any other documents. And on this call, you have mentioned a couple things. One, it sounds like you did some income-based analysis to get to your ADR.

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And, two, that Lukens actually did go, and he looked at the age and quality of the comparables. And but can you -- can you tell me that there aren't any documents that form or set forth your opinion that we have not been produced? In other words, that are not attached to your declaration.
A No. There's nothing else in our files to that effect, other than what's in the declaration here.
Q Okay. And with regard to going back to the ADR, did anyone at the city communicate with you about what ADR to use?
A No.
Q Did you tell anyone at the city other than, I guess, Mr. Filipini's firm that, if you plugged Gordon's number in, the number got too low?
A Well, it's not that it got too low. I mean, in consulting with Mark Lukens -- and as you tried to demonstrate, or Mr. Lutz tried to demonstrate, or Ms. Lynn during the June testimony when she tried to plug in the -- a different room rate. It was very obvious that the value changed considerably. So we were basing our ADR, our change, not only as one basis of value via the income approach, but also looking at the comparable sales and seeing if they were

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1 reasonable.
2 Q But you just said that if you used Gordon's
3 ADR, the number got -- the value number became too low
4 to be credible.
5 A In comparison with the comparable sales per
6 room rates, yes.
7 Q Okay. And my question is, did you have that
8 discussion with anybody at the city along the line of,
9 jeez, that number is just too low to be credible?
10 A Not with the city. I don't recall having
11 any conversation with anybody in the city regarding
12 that.
13 Q On the comparables that you or your team
14 selected, do the sale prices on the comparables
15 include the FF&E personal property?
16 A Yes.
17 Q And should that not be backed out to make
18 all this consistent?
19 A It is in the context of our analysis.
20 Q Explain that to me. I mean, your analysis,
21 as I read your declaration, is simply this is the sale
22 price of that comparable hotel. There isn't any
23 analysis about what the quality of the FF&E was or
24 what it even consisted of.
25 A Well, we based the FF&E on what Kidder

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1 Mathews had used in their reports. So we arrived at a
2 value and deducted the FF&E that they had reflected in
3 their analysis based on their confidential information
4 and arrived at a value less FF&E.
5 Q But that's not FF&E for the comparable
6 hotels, is it?
7 A It's -- well, it's -- we arrived at a value
8 of the property with FF&E included and then made the
9 deduction based on that value to arrive at a value
10 less FF&E.
11 Q So one of the comparables is the Palladian
12 Hotel. You're saying that you factored a value for
13 the FF&E at the Palladian. What was that amount?
14 A Well, we compared all of the properties
15 that -- with the inclusion of FF&E to each other and
16 then made adjustments based on that to arrive at a
17 value for the subject that would have included FF&E.,
18 and then made a deduction from that value to estimate
19 the value of the subject.
20 Q But there's nowhere where you have placed a
21 value on the personal property at a comparable hotel.
22 A It wasn't shown in any analysis, no.
23 Q All right. Do you agree that the primary
24 appraisal method by which a hotel is valuated is the
25 income approach?

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1 A It would be one of the main methods. The
2 direct self-comparison approach is also very important
3 because it really reflects projections that the market
4 is looking at into the future.
5 Q So could you point me to a transaction where
6 a buyer of a hotel considered or relied on -- in
7 deciding how much to pay, that that buyer considered
8 or relied on what some other hotel had sold for?
9 A Not as I sit here now, no. I mean, it's a
10 method that an appraiser would use to valuate the
11 property.
12 Q But you're just saying that theoretically.
13 You can't -- because not everyone agrees with you,
14 Mr. Macaulay. And so I'm asking you whether what you
15 have just said is just a theory, rather than something
16 that's actually done in practice.
17 MR. FILIPINI: Object to form.
18 A Through confirmations of the sale, that
19 wasn't something that was asked. So, no, I can't say
20 I have an exact example of that situation.
21 Q Yeah. I wanted to -- do you have -- is your
22 report on your screen?
23 A No, but I've got it right handy here.
24 Q Okay. Sorry. Would you look at paragraph
25 17 of your report?

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1 (Exhibit No. 1 marked for identification.)
2 A Yes.
3 Q And this -- this page contains a sentence
4 that says, quote, prospective buyers may forecast
5 considerably more profit than indicated by current
6 operations, particularly in downtown Seattle at the
7 October 2019 date of value when the market was still
8 absorbing substantial new supply. Did I read that
9 correctly?
10 A Yes.
11 Q Okay. So you agree that, as of October
12 2019, that the Seattle hotel market was seeing a surge
13 in supply?
14 A That's correct.
15 Q Okay. So what does it -- why do you say
16 that prospective buyers may forecast considerably more
17 profit than indicated by current operations? What's
18 that mean?
19 A Well, this is something that Mr. Lukens
20 added himself that there was going to be a lot of
21 upside in the market into the future. And what he'd
22 ascertained from his research in the market, even
23 though there was more supply coming into the market,
24 that there was still upside.
25 Q Okay. But it says, than indicated by