BEFORE THE HEARING EXAMINER
CITY OF SEATTLE

In re Proposed Final Assessment Roll for Local Improvement District No. 6751 ("Waterfront LID") Parcel No.: 0696000015	Case No. CWF-0415 **DECLARATION OF RANDY MEYER IN RESPONSE TO CITY APPRAISER'S REMAND DECLARATION**

I, Randy Meyer, declare as follows:

1. I have personal knowledge of the facts stated below, or I have relied on materials commonly relied upon by hotel managers and am competent to testify regarding the facts and opinions set forth below.

2. I am the Chief Financial Officer and Principal of the Hotel Group. Seattle Tower I, LLC owns the mixed-use tower comprised of 344 residential apartments known as the Arrive Luxury Apartments above a 142-room hotel and restaurant known as the Sound Hotel Seattle Belltown, Tapestry Collection by Hilton (the "Sound Hotel"). The Sound Hotel opened in February 2019. The Sound Hotel is operated under a franchise agreement with

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Hilton Hotels and managed by the Hotel Group. The Sound Hotel has been closed since March 2020 due to the Covid-19 pandemic.

3. I have reviewed Mr. Macaulay's revised estimate of the value of the Sound Hotel as of October 2019, set forth in his December 4, 2020 declaration. Unfortunately, he has chosen to disregard the Sound Hotel's actual operating performance from the STR reports he was provided. His revised analysis is inaccurate, even putting aside COVID impacts, because he is relying on "professional judgment" rather than data, and overstating estimated average room rates, and thus potential income, for the hotel.

4. The table below demonstrates the Macaulay/ABS $10 average room rate reduction (from $300 to $290) is still wildly exaggerated when compared to the Sound Hotel's actual results shown in STR reports and John Gordon's/Kidder Mathews' adjustments to those results (which were optimistic at the time, but reasonable) for the KM's forward-looking analysis:

Old ABS	Revised ABS	Actual 2019 STR	Competitive Set 2019 STR	KM
$300	$290	$204.92	$191.68	$218

5. Mr. Macaulay's disregard of STR report data in his ABS remand valuation is still unreasonable, because even absent Covid, his hypothesized average room rate was never remotely feasible. He has made a slight ($10 /4 percent) reduction to his estimated room rate, but his original estimate was $95/146% higher than our hotel's actual 2019 performance. He tries to justify this room rate by inferring a room rate Sound Hotel would have needed to charge to bring our hotel's "per room sale value" into line with his "judgment" of what it

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"ought to be", somehow derived from reported sale prices of the Pan Pacific, Hilton Garden Inn and Homewood Suites. Some of his data with respect to those sales are wrong. However, the more important point is that regardless of what those hotels sold for, our 2019 average room rate was not $290 per room or even close. We earned an average of $205 per room in 2019, and we were not artificially holding down room rates. We charged what the market would bear.

6. Mr. Macaulay's artificially inflated room rate flows through his hypothetical income analysis to his bottom-line valuation conclusion in Exhibit I to his declaration. He reports these results as if they represent "fair market value" derived from an income analysis, but his analysis is simply contrived. He has estimated what our hotel might sell for, deriving a hypothetical "price per room" from that estimated value. He has then used that per room price to infer what we would need our average room to rent for to justify such a per room value. Then, he has prepared a hypothetical income analysis using that artificial average room rate to justify his market value conclusions with something masquerading as an income analysis. Industry professionals would start with actual results and work the other direction to let the data drive the conclusions, supplemented by measured professional judgment. As a result, Mr. Macaulay's analysis literally is divorced from reality.

7. John Gordon's/Kidder Mathews' appraisal follows the classic approach. Mr. Gordon started with STR report data we provided. Looking forward, he made a professional judgment to modestly increase projected room rates going forward, from $205 to $218, about a 6% increase, to estimate potential revenue. He also used actual STR results and profession judgment to conclude an estimated hotel value of $48,400,000 with, and $45,800,000 without, including a value for personal property. Mr. Gordon's projected room rates, income and

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expenses were reasonable as of the beginning of 2020, and (as the STR reports themselves demonstrate) were not artificially low.

8. Sound Hotel's STR reports include another component that shows how inflated Macaulay's/ ABS' original $300 and remand $290 estimated average room rate are - the performance of Sound Hotel's "competitive set" (hotels we selected as most like us and against which we could measure our relative performance). The Sound Hotel opened in February 2019 and had been in operation less than a year when Mr. Macaulay and Mr. Gordon performed their respective assessments. Sound Hotel's 2019 STR competitive set achieved an average room rate of $191.68, almost $100 lower than Mr. Macaulay's revised estimate, and $26 lower than the estimated room rate Mr. Gordon used in KM's appraisal. In my opinion as manager of the Sound Hotel, it is unrealistic to assume we could have achieved an average room rate of $290 in 2020, even absent COVID. In our best month (July 2019) at near peak occupancy, we achieved an average room rate of $244.94. But, hotels, especially in Seattle, are seasonal, and we cannot charge those room rates year-round.

9. Another important factor in 2019 / 2020 performance was the addition of additional capacity (including Sound Hotel) into the Seattle hotel market. According to Sound Hotel's STR reports, the average room rate for Sound Hotel's competitive set in 2019 was down -8.5% from the previous year.

10. Considering the foregoing, as of October 2019, Mr. Macaulay's revised estimated average room rate for purposes of this remand, $290, was simply unattainable, even without COVID. Mr. Gordon's/ KM's $218 estimate was also optimistic, but reasonable as of January 2020. What's more, according to the 2019 STR Report, the occupancy rate for Sound Hotel's competitive set was down -1.1% over the previous year. These data fundamentally undercut Macaulay's ABS assumption that the Seattle hotel market generally,

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and the Sound Hotel specifically, would continue to experience increased value and growth into 2020 and beyond.

11. Following his average room rate conclusions, ABS estimated the daily RevPAR in its original appraisal at $240 and reduced it by just $8 to $232 in the revised declaration. KM by contrast estimated the daily RevPAR at $185, which was still optimistic compared to the hotel's 2019 STR Report actual data of $150.07 in 2019 and the Sound Hotel's competitive set RevPAR of $168.08. Again, Mr. Macaulay's/ABS' hypothesized October 2019 RevPAR for the Sound Hotel far exceeded our actual or reasonably attainable results.

12. In October 2019 and January 2020, we were at the end of a long economic expansion, and the Seattle real estate market was likely at a peak in October 2019. See ABS Valuation, Final Special Benefit/ Proportionate Assessment Study, Addenda at 115-117 (Nov. 18, 2019). Even though Mr. Macaulay wildly overestimated our potential performance in 2020, the Seattle hotel industry was strong. But Mr. Macaulay's analysis reflected his hypothesized that the City's planned waterfront improvements, planned for completion in 2024, would increase tourism and, through increased occupancy and increased room rates, the value of Sound Hotel. Due to Covid-19, Mr. Macaulay's already artificially inflated value estimate, and Mr. Gordon's formerly more reasonable analysis, are simply divorced from the reality we face in 2021.

13. COVID-19 has decimated the hotel industry and the Sound Hotel in particular. Our occupancy in March was at 1.4%, before we closed the hotel on March 18, 2020. We have had no hotel income since the hotel was closed, even though we had continued expenses for taxes, insurance, equipment rentals and servicing. Seattle hotels have experienced the 5th worst performance during COVID of all US markets. *See* Exhibit A (CBRE U.S. Hotel

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Figures, Q3 2020). In addition to COVID, although likely related, Seattle faces a number of other challenges to recovery. Restaurants are closed. Retail stores are in many cases boarded up. Seattle faces budget challenges that are impacting Seattle's infrastructure plans, including the Convention Center, the Waterfront Park, bridge repair, etc. Pier 58, assumed by Mr. Macaulay to have been completed in 2019, instead collapsed. Hotel experts are no longer predicting the "V shaped" recovery we hoped for last April. We do expect pent up travel demand to bring some travel business back as soon as the vaccines are widely distributed and people feel safe traveling, perhaps as soon as summer 2021. In fact, we are starting to plan to reopen Sound Hotel as early as April 2021, if the business case can be made. But conventions are booked years ahead, and until they come back (if they come back in any way similar to pre-pandemic), there will continue to be an oversupply of rooms and downward projections on room rates. Optimistic projections" have hotels in survival mode through 2024 at least, and report hotel values are down 20 to 30%. *See* Exhibit B (CBRE, *US Hotel Outlook*, Bram Gallagher (Dec. 9, 2020)); Exhibit C (CBRE, *The COVID Impact on Hotel Values*, Tommy Crozier (Nov. 10, 2020)). Even that timeline also would require Seattle to overcome other challenges to make living, working and visiting downtown Seattle inviting again.

15. Mr. Macaulay's hypothetical 2019 analysis is hopelessly unrealistic and contrived. The Sound Hotel simply cannot afford to help finance City luxury improvements unless and until Sound Hotel can recover. We believe that the City should reduce Sound Hotel's assessment to zero. For the more limited purposes of this remand proceeding, based on my experience in the market, knowledge of market information, and the attached exhibits, the Examiner should disregard Mr. Macaulay's analysis, and recommend that the City Council discount Mr. Gordon's January 2020 valuation by 30%, from $48,400,000 to $33,880,000 to account for the drastic effects of Covid-19 on the current value of the Sound Hotel.

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

Signed at Seattle, Washington, on January 8, 2021.

Randy Meyer

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