

BEFORE THE HEARING EXAMINER
CITY OF SEATTLE

In re Proposed Final Assessment Roll for
Local Improvement District No. 6751
("Waterfront LID")

Case Nos. CWF-0418

DECLARATION OF ZAHOOR AHMED

Parcel Nos.:

6094670010; 6094670020; 6094670030;
0660000708; 2285130010; 6792120010;
6195000030; 0942000430; 6792120020;
7666202465; 0696000015; 1974600025;
1974600035

I, Zahoor Ahmed, declare as follows:

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

2. I am the Chief Financial Officer and Vice President of R.C. Hedreen, Company, which owns and manages the Renaissance Seattle Hotel ("Renaissance"), which is the subject of the above-captioned LID assessment appeal.

DECLARATION OF ZAHOOR AHMED – 1

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1 3. Mr. Macaulay's/ABS's original valuation of the real estate of the Renaissance
2 stated his conclusions that the fair market value of the hotel as of October 2019 was
3 \$227,224,000. He revised that estimate down to \$215,497,000 in his December 4 remand
4 assessment. Both his estimates are supposedly as of October 2019, pre-covid, his "date of
5 valuation." However, his revised opinion of the Renaissance's October 2019 value is still a
6 fiction, because he is working backwards, and simply made up numbers for his "income
7 analysis" in Exhibit J to support his comparable sales approach conclusion. See, Transcript,
8 Robert Macaulay Deposition, December 22, 2020, at pp. 7-8 and 26-28. In doing so, he has
9 flipped traditional hotel income value analysis on its head. What he presents in Exhibit J is
10 not an "income" analysis; it is contrived, although he presents it as legitimate.

11 4. Even more significant to the Renaissance at this point are the impacts of Covid,
12 which have been devastating. The hypotheses and assumptions Mr. Macaulay used his 2019
13 valuations, about the Renaissance's potential performance in a Seattle full of new visitors with
14 a vibrant new waterfront, are simply irrelevant to our current circumstances. There are
15 significant differences between Macaulay's/ABS's 2019 estimates and the Renaissance's
16 actual 2019 performance shown in our 2019 STR Report and the John Gordon / Kidder
17 Mathews appraisal that relied on that data. However, while none of us saw the what was
18 coming, the contrast between the Seattle Mr. Macaulay assumed in his 2019 analysis and
19 current circumstances have dramatically changed our business and property value for the
20 worse. Any hotel sale now would be at fire sale prices, but assuming we can manage through
21 to post-Covid stabilization, the Renaissance likely will still be worth 20- 30% less after we
22 stabilize post-Covid than it was in January 2020.

23 5. Back to the original 2019 valuation, the fundamental problem with the analysis
24 by Mr. Macaulay and ABS that they are ignoring the hotel's actual results because they do

1 not support Mr. Macaulay's value conclusions. Rather than start with the hotel's actual 2019
2 performance shown by the STR reports to develop his income analysis, Mr. Macaulay instead
3 begins by estimating the price he thinks the hotel would sell for, by comparing the hotel
4 (without showing his work) to sale prices of other hotels he thinks are similar. In both his
5 original and revised analysis, he first estimates that Renaissance hotel sale price, and then
6 derives a "value per room" by dividing his estimated sale price by the number of rooms at the
7 Renaissance. Next, he infers an average daily room rate that would be sufficient to support
8 his estimated "value per room". In his original analysis, his inferred our rooms would be sold
9 for \$300 per room, per night, and for his remand estimate, he assumed \$295 per room, per
10 night, again supposedly as of October 2019. However, as our STR report shows, our actual
11 room rate in 2019 was \$204, \$91 per night lower than his revised reduced average daily rate
12 per room. Mr. Macaulay has ignored the hotel's actual results shown in our STR reports (room
13 rates, occupancy, trends), and instead worked backward from his conclusion as to what the
14 hotel and per room sale values "ought to be," to conclude a room rate that will generate
15 revenue sufficient to justify that supposed value, even though it is \$91 per night higher than
16 our actual 2019 results.
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32 6. In contrast, John Gordon's / Kidder Matthews' ("KM") January 2020 real
33 estate appraisal of \$200,700,000, was estimated through an income analysis that relied on our
34 2019 hotel results shown in the STR Reports. As an example, Mr. Gordon estimated an
35 average room rate of \$209, just slightly above the 2019 actual average room rate of \$204, to
36 project its 2020 income stream. Given the downward pressure on rates the Renaissance and
37 its competitors faced in 2019, Mr. Gordon's estimated average room rate reflects a reasonable
38 exercise of professional judgment, and was not unreasonably conservative. In contrast, Mr.
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1 Macaulay's decision to ignore actual Renaissance 2019 performance in his valuation analysis
2 renders his remand value estimates wholly unreliable.

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5 7. **Average Room Rate.** Mr. Macaulay notes in his remand declaration that the
6 primary difference between Mr. Macaulay's / ABS's analysis and Mr. Gordon's was the
7 average daily room rate each appraiser used. ABS used \$300 in Mr. Macaulay's initial report
8 and reduced it just \$5 to \$295 in his revised opinion. As to why Mr. Macaulay did not rely on
9 Mr. Gordon's average room rate of \$209 (just \$5 more than the rate the Renaissance actually
10 achieved in 2019 per the STR Report) in developing his / ABS's revised, remand value
11 estimate for the Renaissance and other hotels, I was shocked to read his deposition explanation
12 that "if you plug in Gordon's room rate, the number you get, the value number . . . - it's too
13 low to be credible. Is that what you're saying? Correct." Transcript at p.7. What's more, our
14 2019 STR Report reports that the average room rate in 2019 was down -2.7% from the
15 previous year, 2018. These data fundamentally undercut the ABS assumption that the Seattle
16 hotel market generally, and the Renaissance specifically, would continue to experience
17 increased value and growth into 2020 and beyond, let alone that we'd be able to successfully
18 raise our rates by \$91 per room. As of November 2020, average room rate is down almost
19 another 19% to \$169.
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34 8. Mr. Macaulay's decision to ignore actual data because it resulted in a valuation
35 "too low to be credible" is wrong. If the facts don't support the conclusions of your analysis,
36 you change the analysis to fit the facts. You don't make up "facts" to fit your preconceived
37 notions of value. Mr. Macaulay's Renaissance value valuation estimates should be
38 disregarded.
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45 9. **Occupancy Rate.** While the primary difference between the Macaulay ABS
46 and Gordon KM value estimates is the average room rate each appraiser used, there are other
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1 differences, many of which narrow the gap between their respective values. Occupancy rates
2 are one of those. In both his original and revised value estimates, Macaulay/ABS estimated
3 Renaissance room occupancy at 80%, which is below the KM appraisal of projection of 84%
4 and below the actual 2019 performance at 87% (per our 2019 STR Report). The fact that,
5 despite assuming lower room occupancies than we actually achieved, ABS still came to a
6 substantially higher opinion of the value of the Renaissance is another illustration of the
7 inaccuracy of Mr. Macaulay's appraisal methodology and data inputs. As of November 2020,
8 the occupancy rate was down substantially by 76% to just 21%.

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17 10. **Revenue Per Average Room (RevPAR).** ABS estimated the daily RevPAR
18 in its original appraisal at \$240 and reduced it by just \$4 to \$236 in the revised appraisal. KM
19 by contrast estimated the daily RevPAR at \$176, which is just a dollar under the actual
20 RevPAR of \$177. Notably, the gap between ABS's estimated RevPAR and the STR Report's
21 actual data is even wider than its gap with the KM appraisal, primarily due to KM's use of
22 higher occupancy rates than Macaulay/ABS guessed. As of November 2020, the RevPAR was
23 down 81% to just \$35.

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31 11. **Personal Property Value.** In his remand valuations, Mr. Macaulay revised
32 his valuation approach to exclude personal property, using Mr. Gordon's estimated personal
33 property valuations. That conforms with Mr. Gordon's analysis, and we agree that change is
34 appropriate.

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39 12. **Capitalization Rates.** Another component of their valuations are the
40 appraisers' respective chosen capitalization rates. Mr. Gordon chose lower capitalization rates
41 to value our hotels than did Mr. Macaulay, which, as a relative matter, increased Mr. Gordon's
42 opinion of the market value of the hotel's income stream when compared to Mr. Macaulay's
43 analysis. I note that Mr. Macaulay's Exhibit A list of "comparable sales" includes only one
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1 hotel that sold at a capitalized income rate above 7%. Yet without explanation, Mr. Macaulay
2 used a rate above 7% for each of his original and remand value estimates for our hotels.
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5 13. **COVID-19 IMPACTS.** Prior to the spread of COVID-19, Mr. Macaulay's
6 unsupported estimates of occupancy rate, average daily room rate, and revenue per average
7 room already reflected significant errors that led him to propose an unfair over-assessment of
8 the Renaissance. The numbers provided above are from the November 2020 STR Report and
9 December is projected to be even more dismal, adding to these negative outlays. In addition,
10 the Net Operating Income ("NOI") for the hotel through December 2020 is expected to be
11 around negative \$3,000,000 (as opposed to the positive \$16,582,301 NOI estimate Mr.
12 Macaulay presents in Exhibit J to his remand declaration). What's more, like many hotels, the
13 Renaissance is heavily financed, resulting in annual debt service obligation of approximately
14 an additional \$6,000,000. Between the negative NOI and the significant debt service required,
15 the hotel ownership has a net cash outlay of approximately \$9,000,000 this year to keep the
16 hotel. Frankly, there is no path forward where we can both operate this hotel with that level
17 of negative net cash outlay while also paying an artificially high LID assessment, based on
18 unrealistic pre-Covid estimates, to pay for civic improvements that are of marginal benefit to
19 the Renaissance at best. The city cannot simply ignore the impacts of COVID-19 on the hotel
20 industry when financing its civic projects.
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24 14. Compounding the negative net cash outlay caused by a negative NOI and
25 significant debt service, many of this hotel's traditional customers are business travelers, and
26 prospects over the next three years are for a sluggish recovery period. Already, negotiations
27 for future stays from typical business travelers, such as airline crews, industry groups, and
28 convention business, indicate an expectation of significant room rate reductions. For example,
29 it is typical that airlines and hotels execute approximately five-year room reservation deals for
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1 their crew members, and these deals are now averaging less than \$100 per room per night.
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3 Therefore, Mr. Macaulay's revised average room rate estimate of \$295 was not only wildly
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5 inflated in 2019, it appears we will be unable to match even our actual 2019 results for many
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7 years to come, if ever. At a minimum, for purposes of the limited issue before the Examiner
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9 on remand, the Examiner should recommend that Mr. Macaulay's analysis be disregarded and
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11 Mr. Gordon's estimated before value in 2019, \$200,700,000, should be reduced by 30% to
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13 \$140,490,000 to account for COVID-19. This opinion is based on Mr. Gordon's original work,
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15 my knowledge of the Covid impacts on the Seattle hotel market and the three attached CRBE
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17 reports. They note that hotel values are down 20-30% nationwide, and Seattle is among the
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19 hotel markets most adversely affected by Covid-19.
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23 I declare under penalty of perjury under the laws of the State of Washington that the
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25 foregoing is true and correct.
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29 Signed at Seattle, Washington, on January 8, 2021.
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32 /s/ Zahoor Ahmed
33 Zahoor Ahmed
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