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),

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

For CWF 0138, 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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Also present:
ENGEL LEE, City of Seattle

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

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

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

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

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1 discussing that issue with the assessor or getting a
2 change done in that respect. So we were just being
3 consistent with how we looked at all the other
4 properties.
5 Q On the North Arcade -- so the reduction from
6 the city in those amendments note that it was based on
7 the historical and regulatory restrictions in the
8 market. Did the city also correct the square footage
9 error that we raised in our objection relating to the
10 size of the building?
11 A Well, we -- in looking at the analysis, we
12 really just looked at it as land value. The land
13 would be worth more than the capitalized improvement
14 value. So I don't recall if -- I assume that analysis
15 was done. I just -- it's been over a year since I've
16 really looked at that property, but I know I did check
17 that when I made these changes.
18 Q Is there any other information that the city
19 can provide in terms of how the calculations -- what
20 went into the calculations that were changed other
21 than just the statement about the market's regulatory
22 environment?
23 A There would be an analysis sheet on your
24 property that was prepared.
25 Q Has that been provided?

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1 A I don't believe it has been provided into
2 the record, no.
3 Q Can we get a copy of that, please?
4 A That would be up to the city to -- I have no
5 problem with that. That would be up to the city.
6 MR. FILIPINI: Sure, yeah. We'll get you a
7 copy of that.
8 MS. EVANSON: If you could get that for
9 Stewart House as well, that would be helpful.
10 MR. FILIPINI: You bet.
11 MS. EVANSON: Thank you.
12 Q (Ms. Evanson continuing.) And just as far
13 as the Port of Seattle, which is paragraph 51 of your
14 declaration, this is -- let's see. The Port of
15 Seattle was really just a technical correction having
16 to do with Pier 48 because it was -- showed the Port
17 of Seattle as the owner, but it's in fact owned by the
18 State of Washington. And it looks like your
19 declaration agreed that that was correct, that the
20 Port of Seattle is not in fact the order. But then in
21 paragraph 52, it says, no changes to the assessment
22 are recommended. What do you mean by that? Is this
23 to mean that the Port of Seattle is still to be
24 assessed for property it does not own?
25 A No. If the State of Washington is the

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1 owner, then they would be the property that would pay
2 the assessment, unless there was some lease agreement
3 that stipulated otherwise.
4 Q So am I correct in understanding where you
5 say no changes to the assessment, you're talking about
6 no changes to the amount of the assessment, but the
7 payer of the assessment should be corrected to the
8 State of Washington; is that correct?
9 A That's correct.
10 Q Okay. Great. Thank you, Mr. Macaulay. I
11 have no further questions.
12 A You're welcome.
13 MS. EVANSON: And thank you, counsel, for
14 accommodating my schedule.
15 MR. LUTZ: Pleasure.
16 EXAMINATION
17 BY MR. LUTZ:
18 Q Mr. Macaulay, Jerry Lutz starting up now.
19 I'd like to go back to your declaration and just go
20 through a couple of the basic statements at the
21 beginning.
22 So paragraph 6, page 2, I have reviewed
23 research, factual data, and valuation analysis
24 pertaining to the 17 remanded properties. In
25 undertaking this further review, ABS Valuation applied

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1 the same valuation methodologies used in the
2 comprehensive final benefits study. Can you describe
3 first what your revised assessments are meant -- what
4 your revised determinations of market value without
5 LID are intended to represent?
6 A Well, they would primarily represent
7 additional information we were provided through the
8 attorneys that Mr. Gordon had included in his analysis
9 showing, you know, primarily a reduction in income
10 from what we had estimated in our original analysis.
11 Q And so backing up, this is, again, your
12 estimate of value for these properties as of October
13 1, 2019?
14 A Correct.
15 Q And are these now actual valuations, or is
16 there still a hypothetical component to them?
17 A They would be subject to the same
18 assumptions and limiting conditions that were included
19 in our original report.
20 Q All right. Now, I probably should have said
21 this at the beginning. Perkins represents on this
22 remand the Kimpton Alexis Hotel, Appeal 318; the Hyatt
23 Regency Hotel, appeal 413; the Sound Hotel, appeal
24 415; the Foster and Marshall Building, 417; the
25 Renaissance, 418; Century Square Retail, 423; Hyatt at

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1 Olive 8, 429; and the Grand Hyatt, 436. I think
2 that's all.
3 So my next question -- I'm going to move on
4 to paragraph 10 of your declaration. You said, the
5 primary difference between ABS Valuation's original
6 analysis and what was presented by Kidder Mathews
7 deals with the average daily room rate used in each
8 analysis. Other factors of the analysis, room rates,
9 expense ratios, and overall capitalization rates are
10 roughly similar.
11 Have you compared your capitalization rates
12 with Mr. Gordon's?
13 A Yes.
14 Q And how did they compare?
15 A All of Gordon's capitalization rates are
16 lower than our capitalization rates.
17 Q And you said before that if you applied his
18 STR report-based room rate data to your analysis, it
19 resulted in unrealistically low valuations. I'm
20 paraphrasing. Is that a fair characterization?
21 A Yes.
22 Q And wouldn't the capitalization rate
23 differences offset that discrepancy to some extent,
24 since he was using lower cap rates?
25 A No. As I mentioned, if we run through and

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1 do different scenarios, when you look at income
2 projections, you're also looking at the risk that
3 income projection reflects in the market. So we
4 lowered our income via the average daily rate, but we
5 did not change our capitalization rate, you know,
6 recognizing our capitalization rate is towards the
7 high end of the range. So we're recognizing that
8 we're also at the higher end of the range of the
9 income expectation for that property. You know, where
10 Gordon has a -- reasonably has a lower capitalization
11 rate, he's projecting higher income potential in the
12 market.
13 Q I mean, I guess I'm just -- so part of
14 the -- I mean, was it essentially an exercise of
15 professional judgment to say, rather than adjust
16 multiple factors in my tables, I'm just going to look
17 at room rate, but I can't use my table and his ADR
18 without creating an unrealistic scenario?
19 A Well, after running multiple different
20 scenarios, using different occupancy rates and revenue
21 rates that he had compared to what we had, if we would
22 have used those revenue projections, we would have
23 estimated a much lower capitalization rate than what
24 Mr. Gordon showed. So at the end of the day, the
25 values that we show and the way we did our income

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1 analysis would have been very similar to -- the
2 overall value would have been very similar to what we
3 showed and what we provided in our declaration.
4 Q Well, I guess that's an interesting way to
5 solve to a number. But if what you're saying is, I
6 just held the -- I ignored the ADR -- I mean, I
7 ignored the STR report rates, but used a higher cap
8 rate to compensate, and if I'd used the actual
9 numbers, I would have just really reduced my cap rate
10 lower than Mr. Gordon's so that I could reach the same
11 result, does that mean you had a target you were
12 solving for?
13 A No, of course not. We're simply trying to
14 reflect the market. And what the hearing examiner
15 remanded back was to look at these differences and,
16 you know, make a -- review them. And if there were
17 changes that we have made, report that back to him,
18 and then you obviously have a chance to rebut those.
19 Q Right. I get that. I'm just -- it just
20 occurred to me that there was -- there were at least
21 two areas of fairly significant difference that
22 affected the overall valuation. And one was the
23 average daily room rate and occupancy. And then the
24 second was these capitalization rates. But I see
25 you've just held your capitalization rates steady to

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1 the 2019 estimate.
2 A Correct. We felt that the reductions that
3 we made in the ADR didn't warrant a lower
4 capitalization rate, which would have reflected even a
5 higher value. So we felt that the capitalization
6 rates that we had originally estimated, even with the
7 lower ADR rate, were still reasonable. And we
8 compared that to the comparable sales that we
9 indicated in the declaration and felt they were
10 reasonable.
11 Q Okay. Paragraph 11 is, comparable market
12 sales of local hotels were key information point in
13 our special benefit analysis. However, Kidder Mathews
14 did not use comparable hotel transactions to develop
15 its valuation estimates. And you have got a chart,
16 right? Is it Exhibit A to this? That's your
17 comparables?
18 A Yeah, correct.
19 Q Okay. Let's go to Exhibit A for a second.
20 Oh, shoot. There it is. My paper's falling apart
21 again, just like always. So let's go through a couple
22 of these. The Homewood Suites Convention Center sale
23 you have listed at a sale price of 96,076,415. Can
24 you tell me where you got that information?
25 A All of these -- all of this sale information