

BEFORE THE HEARING EXAMINER
CITY OF SEATTLE

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

Case Nos. CWF-0429

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 Hyatt at Olive 8 in downtown Seattle that is the subject of this 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 Hyatt at
2 Olive 8 (the "Olive 8") stated his conclusion that the fair market value of the hotel as of
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4 October 2019 was \$187,433,000. He revised that estimate down to \$174,622,000 in his
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6 December 4 remand assessment. Both his estimates are supposedly as of October 2019, pre-
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8 Covid, his "date of valuation." However, his revised opinion of Olive 8's October 2019 value
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10 is still a fiction, because he is working backwards, and simply made up numbers for his
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12 "income analysis" in Exhibit K to support his comparable sales approach conclusions. See,
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14 Transcript, Robert Macaulay Deposition, December 22, 2020, at pp. 7-8 and 26-28. In doing
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16 so, he has flipped traditional hotel income value analysis on its head. What he presents in
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18 Exhibit K is not an "income" analysis; it is contrived, although he presents it as legitimate.
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20 4. Even more significant to Olive 8 at this point are the impacts of Covid, which
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22 have been devastating. The hypotheses and assumptions Mr. Macaulay used his 2019
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24 valuations, about Olive 8's potential performance in a Seattle full of new visitors with a
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26 vibrant new waterfront, are simply irrelevant to our current circumstances. There are
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28 significant differences between Macaulay's/ABS's 2019 estimates and the Olive 8's actual
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30 2019 performance shown in our 2019 STR Report and the John Gordon / Kidder Mathews
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32 appraisal that relied on that data. However, while none of us saw the what was coming, the
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34 contrast between the Seattle Mr. Macaulay assumed in his 2019 analysis and current
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36 circumstances have dramatically changed our business and property value for the worse. The
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38 Olive 8 closed in March 2020 due to COVID-19. We have no income and we are
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40 hemorrhaging money to continue to pay our expenses, trying to manage through an extremely
41
42 challenging time. Any hotel sale now would be at fire sale prices, but assuming we can
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44 manage through to post-Covid stabilization, Olive 8 likely will still be worth 20- 30% less
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46 after we stabilize post-Covid than it was in January 2020.
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DECLARATION OF ZAHOOOR AHMED – 2

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1 5. Back to the original 2019 valuation, the fundamental problem with the analysis
2
3 by Mr. Macaulay and ABS that they are ignoring the hotel's actual results because they do
4
5 not support Mr. Macaulay's value conclusions. Rather than start with the hotel's actual 2019
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7 performance shown by the STR reports to develop his income analysis, Mr. Macaulay instead
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9 begins by estimating the price he thinks the hotel would sell for, by comparing the hotel
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11 (without showing his work) to sale prices of other hotels he thinks are similar - choosing the
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13 Lowe's Regency, Pan Pacific Hotel, and Regency. In both his original and revised analysis,
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15 he first estimates that Olive 8 hotel sale price, and then derives a "value per room" by dividing
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17 his estimated sale price by the number of rooms at the Olive 8. Next, he infers an average
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19 daily room rate that would be sufficient to support his estimated "value per room". In his
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21 original analysis, his inferred our rooms would be sold for \$335 per room, per night, and for
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23 his remand estimate, he assumed \$325 per room, per night, again supposedly as of October
24
25 2019. However, as our STR report shows, our actual room rate in 2019 was \$225, \$100 per
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27 night lower than his revised reduced average daily rate per room. Moreover, our RevPAR,
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29 and the RevPAR of the hotels in our competitive set, were both down more than 11% for
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31 2019. Mr. Macaulay has ignored the hotel's actual results shown in our STR reports (room
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33 rates, occupancy, trends), and instead worked backward from his conclusion as to what the
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35 hotel and per room sale values "ought to be," to conclude a room rate that will generate
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37 revenue sufficient to justify that supposed value, even though it is \$100 per night higher than
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39 our actual 2019 results.

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41 6. In contrast, John Gordon's / Kidder Matthews' ("KM") January 2020 real
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43 estate appraisal of \$118,200,000, was estimated through an income analysis that relied on our
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45 2019 hotel results shown in the STR Reports. As an example, Mr. Gordon estimated the Olive
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47 8's 2019 average room rate at \$235, just \$10 more than the actual 2019 average room rate of

1 \$225 to project its 2020 income stream. Given the downward pressure on rates Olive 8 and
2
3 its competitors faced in 2019, Mr. Gordon's use of a more accurate 2019 average room rate
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5 reflects a reasonable exercise of professional judgment, and was not unreasonably
6
7 conservative. In contrast, Mr. Macaulay's decision to ignore actual Olive 8 2019 performance
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9 in his valuation analysis renders his remand value estimates wholly unreliable.

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11 7. **Average Room Rate.** Mr. Macaulay notes in his remand declaration that the
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13 primary difference between Mr. Macaulay's / ABS's analysis and Mr. Gordon's was the
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15 average daily room rate each appraiser used. ABS used \$335 in Mr. Macaulay's initial report
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17 and reduced it just \$10 to \$325 in his revised opinion. As to why Mr. Macaulay did not rely
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19 on Mr. Gordon's average room rate of \$235 in developing his / ABS's revised, remand value
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21 estimate for the Olive 8 and other hotels, I was shocked to read his deposition explanation that
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23 "if you plug in Gordon's room rate, the number you get, the value number . . . - it's too low
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25 to be credible. Is that what you're saying? Correct." Transcript at p.7. What's more, our
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27 2019 STR Report reports that the average room rate in 2019 was down -8.8% from the
28
29 previous year, 2018. These data fundamentally undercut the ABS assumption that the Seattle
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31 hotel market generally, and the Hyatt at Olive 8 specifically, would continue to experience
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33 increased value and growth into 2020 and beyond, let alone that we'd be able to successfully
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35 raise our rates by \$100 per room. In March 2020, before the hotel closed due to Covid, the
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37 average room rate was down 16% to \$192. It is now zero.

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39 8. Mr. Macaulay's decision to ignore actual data because it resulted in a valuation
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41 "too low to be credible" is wrong. If the facts don't support the conclusions of your analysis,
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43 you change the analysis to fit the facts. You don't make up "facts" to fit your preconceived
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45 notions of value. Mr. Macaulay's Olive 8 value valuation estimates should be disregarded.
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1 9. **Occupancy Rate.** While the primary difference between the Macaulay ABS
2 and Gordon KM value estimates is the average room rate each appraiser used, there are other
3 differences, many of which narrow the gap between their respective values. Occupancy rates
4 are one of those. In both his original and revised value estimates, Macaulay/ABS estimated
5 Olive 8 room occupancy at 80%, which is below the KM appraisal of projection of 84% and
6 below Olive 8's actual 2019 performance at 84.7% (per our 2019 STR Report). The fact that,
7 despite assuming lower room occupancies than we actually achieved, ABS still came to a
8 substantially higher opinion of the value of the Olive 8 is another illustration of the inaccuracy
9 of Mr. Macaulay's appraisal methodology and data inputs. Mr. Macaulay acknowledged the
10 supply challenges facing the market; the Olive 8 2019 STR Report shows our occupancy rate
11 was down -2.7% in 2019 compared with 2018; again, all other things being equal, the hotel
12 value was actually decreasing even before the impact of COVID-19. When the hotel closed
13 in March 2020, occupancy was down 41% to just 51%. Stating the obvious, our occupancy
14 rate has been 0% in the 10 months since we closed.

15 10. **Revenue Per Average Room (RevPAR).** ABS estimated the daily RevPAR
16 in its original appraisal at \$268 and reduced it by just \$8 to \$260 in the revised appraisal. KM
17 by contrast estimated the daily RevPAR at \$198, which is much closer to the 2019 STR Report
18 actual data of \$190.42. Notably, the gap between ABS's estimated RevPAR and the STR
19 Report's actual data is even wider than its gap with the KM appraisal, primarily due to KM's
20 use of higher occupancy rates than Macaulay/ABS guessed. What's more, according to Olive
21 8's 2019 STR Report, RevPAR was down -11.3% in 2019 from the previous year, another
22 indicator that the hotel value was actually decreasing even before the impact of COVID-19.
23 These data again fundamentally undercut the ABS assumption somehow the Olive 8 would
24 generate vastly greater income in 2020 and beyond. In March 2020, before the hotel closed

1 due to Covid, the RevPAR was already down 51% to \$97. In the 10 months since, RevPAR
2 has been zero.
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5 11. **Personal Property Value.** In his remand valuations, Mr. Macaulay revised
6 his valuation approach to exclude personal property, using Mr. Gordon's estimated personal
7 property valuations. That conforms with Mr. Gordon's analysis, and we agree that change is
8 appropriate.
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12 12. **Capitalization Rates.** Another component of their valuations are the
13 appraisers' respective chosen capitalization rates. Mr. Gordon chose lower capitalization rates
14 to value our hotels than did Mr. Macaulay, which, as a relative matter, increased Mr. Gordon's
15 opinion of the market value of the hotel's income stream when compared to Mr. Macaulay's
16 analysis. I note that Mr. Macaulay's Exhibit A list of "comparable sales" includes only one
17 hotel that sold at a capitalized income rate above 7%. Yet without explanation, Mr. Macaulay
18 used a rate above 7% for each of his original and remand value estimates for our hotels.
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22 13. **COVID-19 IMPACTS.** The Hyatt at Olive 8 closed on March 19, 2020 due
23 to the economic and public health impacts of COVID-19, and the resultant government
24 regulations. Prior to closure, Mr. Macaulay's unsupported estimates of occupancy rate,
25 average daily room rate, and revenue per average room already reflected significant errors that
26 lead him to propose unfair over-assessment of the Olive 8. But since closure, the Net
27 Operating Income ("NOI") for the hotel through December 2020 is expected to be negative
28 \$4,000,000 (as opposed to the positive \$13,486,660 NOI estimate Mr. Macaulay presents in
29 Exhibit K to his remand declaration). What's more, like many hotels, the Hyatt at Olive 8 is
30 heavily financed, with annual debt service obligations of approximately an additional
31 \$4,000,000. Between the negative NOI and the significant debt service required, the hotel
32 ownership had a net cash outlay of \$8,000,000 this year to keep the hotel. Frankly, there is no
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1 path forward where we can both get this hotel up and running again with that level of negative
2 net cash outlay while also paying an artificially high LID assessment, based on unrealistic pre-
3 Covid estimates, to pay for civic improvements that would be of marginal benefit to the Olive
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5 8 at best. The City cannot simply ignore the impacts of COVID-19 on the hotel industry when
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7 financing its civic projects.
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10 14. Compounding the negative net cash outlay caused by a negative NOI and
11 significant debt service, many of this hotel's traditional customers are business travelers, and
12 prospects over the next three years are for a sluggish recovery period. Already, negotiations
13 for future stays from typical business travelers, such as airline crews, industry groups, and
14 convention business, indicate an expectation of significant room rate reductions. For example,
15 it is typical that airlines and hotels execute approximately five-year room reservation deals for
16 their crew members, and these deals are now averaging less than \$100 per room per night.
17 Therefore, Mr. Macaulay's revised average room rate estimate of \$325 was not only wildly
18 inflated in 2019, it appears we will be unable to match even our actual 2019 results for many
19 years to come, if ever. At a minimum, for purposes of the limited issue before the Examiner
20 on remand, the Examiner should recommend that Mr. Macaulay's analysis be disregarded and
21 Mr. Gordon's estimated before value in 2019, \$118,200,000, should be reduced by 30% to
22 \$82,740,000 to account for COVID-19. This opinion is based on Mr. Gordon's original work,
23 my knowledge of the Covid impacts on the Seattle hotel market and the three attached CRBE
24 reports. They note that hotel values are down 20-30% nationwide, and Seattle is among the
25 hotel markets most adversely affected by Covid-19.
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45 I declare under penalty of perjury under the laws of the State of Washington that the
46 foregoing is true and correct.
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DECLARATION OF ZAHOOB AHMED – 7

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

/s/ Zahoor Ahmed
Zahoor Ahmed