BEFORE THE HEARING EXAMINER
CITY OF SEATTLE

In re Proposed Final Assessment Roll for Local Improvement District No. 6751 (“Waterfront LID”) Parcel Nos.: 6094670010; 6094670020; 6094670030; 0660000708; 2285130010; 6792120010; 6195000030; 0942000430; 6792120020; 7666202465; 0696000015; 1974600025; 1974600035	Case Nos. CWF-0318, 0413, 0415, 0418, 0429, 0432, 0433, 0434, 0436, 0437, 0438, 0439 **PERKINS’ REMAND OBJECTORS’ CLOSING BRIEF ON REMAND**

I. INTRODUCTION

The task on remand with respect to the hotel properties was supposed to be simple: Mr. Macaulay was to recalculate valuations of the subject properties based on Mr. Gordon’s assessments and the actual operating results provided by the Hotel Objectors for their hotels by way of STR reports. The directive was clear: “the valuations of these properties should

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be remanded **for recalculation** by the City appraiser **based on the information provided by these Objectors**." *See* Hearing Examiner Recommendation at p. 117 (emphasis added).

However, after Mr. Macaulay reviewed the data, he decided that using them in his formula would value the hotels "too low." Instead, he decided to make small adjustments to his average daily room rate assumptions, ran them through his original formulae, and recommended small assessment reductions. He tried to buttress those recommendations with reference to hotel sales he has designated as comparable sales, although he did not show, nor perform, a comparable sales analysis, and relied on Mr. Lukens' advice. While Mr. Macaulay denies it, he developed these "alternative ADR" values by working backwards from what he thought the hotels ought to be worth. His remand analysis demonstrates that his whole "income approach to valuation" is just speculation on speculation. His purposed reliance upon, and then minimization of, his use of sales comparisons adds nothing to the reliability of his speculative, unrealistic assertions.

Mr. Macaulay has disregarded the facts pertaining to these hotels' net income in a supposed "income analysis." Further, he has reached conclusions contrary to those facts, which the owners testify were not reasonably achievable (even apart from Covid's devastation of the Seattle hotel industry), without showing his work or providing reasonable explanations or justifications. Most fundamentally, disregarding the hotels' actual daily room rate performance because it leads to valuations that are, in his opinion, "too low", does not negate the facts. Rather, it demonstrates that his analysis is flawed; the actual hotel performance data "are what they are." As between Mr. Macaulay's original or remanded valuations, and Mr. Gordon's, Mr. Gordon's are the only reasonable, defensible "before" valuations for purposes of this remand hearing. Mr. Macaulay's opinions should be rejected.

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II. ARGUMENT

The Examiner recommended and Council directed ABS to recalculate his valuations considering the hotel-specific operating results reflected in Mr. Gordon's conclusions and the hotels' STR reports, but Mr. Macaulay's revisions are still detached from reality and flawed.

A. <u>Mr. Macaulay Repeatedly Acknowledged He Would Use Actual Operating Data If Available.</u>

The Examiner's recommendation was reasonable not only in light of Mr. Gordon's expertise, but because of Mr. Macaulay's repeated admissions that if he had real operating data for the hotels, he would need to re-evaluate his valuations. At the start of the case, Mr. Macaulay was asked in his deposition whether, if he received the actual average room rates or occupancy rates, "would you revise your report?" *See* Deposition of Robert J. Macaulay, 157:3-7 (February 27, 2020). Mr. Macaulay responded "[i]f I was asked for review the information, if the city asked me to review the information, and if it was factual and valid, yes." *Id*. at 157:8-11.[1] However, when instructed to do just that, Mr. Macaulay disregarded the "factual and valid" operating results in his revised purported "income analysis", because the results did not conform to, nor were they near, his predetermined conclusions of value. Remand Objectors respectfully request that the Hearing Examiner reject Mr. Macaulay's revised "before" valuations and recommend that the Council adopt the before valuation proposed by Mr. Gordon, with such other and further adjustment in light of the Covid pandemic as is fair and equitable.

[1] See Perkins' Remand Objectors' January 8, 2021 brief for additional instances in which Mr. Macaulay acknowledged the actual data would be better to use.

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B. Mr. Macaulay Refused To Use Realistic Data, Allegedly Based On Comparable Sales, But Did Not Provide Information Or Data On Those Comparable Sales.

Now that Mr. Macaulay has failed to incorporate accurate data into his analysis, the Hearing Examiner should reject his before valuations because they reflect the same unprincipled speculation as his original claims. Rather than using the STR reports as the starting point, Mr. Macaulay ignored the data. He plugged new average daily room rate ("ADR") estimates into his formulae that were $2-20 lower than his original estimates, ignoring STR reports showing the hotels' actual average daily room rates had been as much as $100 lower or more, and which the hotel operators have testified were not attainable. *See e.g.*, Remand Decls of Ahmed ¶ 7 (Grand Hyatt), ¶ 7 (Olive 8), ¶ 7 (Hyatt Regency), ¶ 7 (Renaissance); Meyer at ¶ 8 (Sound Hotel); Waithe at ¶ 8 (Alexis). When Mr. Macaulay was asked why he did not use Mr. Gordon's estimates, Mr. Macaulay testified, "***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." *See* Deposition of Robert J. Macaulay, 7:10-13 (December 22, 2020) (emphasis added). Mr. Macaulay also was asked about "the comparables that you selected, how did you come to select the set." He stated that it "goes back to Mark Lukens, the hotel consultant that we used." *Id*. at 8:9-10. But the only supporting data or analysis is the revised "income analysis' spreadsheet for each hotel that Mr. Macaulay submitted with his December 4, 2020 remand declaration, and his "Exhibit A" list of 13 sales (which includes some flawed data). Mr. Macaulay provided no evidence demonstrating how he determined his average daily room rate, other than (in some cases) pointing to a revised hypothesized per room hotel sale value that would require the ADR he selected to be supportable. Further, Mr. Macaulay claims Mr. Lukens factored in variables when running hotel comparisons, but there is no documentation showing this analysis either, because "[h]e

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did not do any appraisal reports[.]" *Id*. at 8:13-20. In fact, there are no documents reflecting the math Mr. Macaulay used to determine revised hotel ADR, nor any comparable sales analysis. *Id*.

There are several other flaws in Mr. Macaulay's assertion that sales comparisons justify his remand valuations and preclude Mr. Gordon's. Neither he nor Mr. Lukens have prepared an actual comparative sales analysis, which requires more than a simple "I think this hotel is like that one" assertion. While Mr. Macaulay and Mr. Gordon each considered a list of sales in their respective assessments, neither of them developed or applied adjustments to those sales to derive independent value conclusions. Mr. Gordon did not to so because prepared only a restricted appraisal, and does not believe the sales comparison is a reliable basis on which to value hotels. *See* Decl. of John Gordon at ¶ 18 (January 8, 2021). While Mr. Macaulay claimed he typically assigns sales much more weight, here , if he referenced sales at all, Mr. Macaulay merely identified three hotel sales from a list of 13 in his Exhibit A as being similar to a subject hotel, and their sales prices (total and per guest room).

Mr. Gordon acknowledged some of the hotels were similar. But arguing that the sale price of one hotel, or three, that are in some sense similar to a subject being valued does not mean that the sale prices per unit are appropriate for the subject property at any given time and is not grounds to disregard the hotels' actual performance. If Mr. Macaulay (or Mr. Lukens) had prepared an adjustment grid for each subject property, Mr. Macaulay's relative comparisons and value conclusions could at least have been evaluated.[2] Instead, Mr.

[2] An adjustment grid shows details that account for a wide variety of factors, location (for LID assessment purposes, perhaps in relation to the waterfront), building condition, gross area per room, amenities, time adjustments, etc.. See, e.g., APPRAISAL INSTITUTE SEATTLE CHAPTER, CASE STUDIES IN HOTEL VALUATION COURSE HANDBOOK 51-62 (2020) (Attached as Exhibit A).

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Macaulay's approach involves bald assertions that certain of his 13 hotel set of sales were "most like," or "most influential" or had some similar qualitative influence on his assessment of a hotel's value, if he mentioned specific comparable sales at all. Then, after all of the discussion of the importance of comparable sales analysis to the rejection of Mr. Gordon's ADR in Mr. Macaulay's remand analysis, Mr. Macaulay's reply declaration again reverts to his claim that "ABS Valuation primarily utilized the income approach analysis in arriving at its "before value" conclusions for the hotel properties[.]" *See, e.g.*, Reply Decl. of Robert Macaulay at ¶¶ 4-6 (January 12, 2021). On top of that, when asked to characterize his revised assessments, Mr. Macaulay testified they "primarily represent[ed] additional information we were provided through the attorneys that Mr. Gordan had included in his analysis showing, you know, primarily a reduction in income from what we had estimated in our original analysis[.]" *Id*. at 25:2-10. Yet, he also testified using those data in his analysis resulted in an unrealistically low valuation. *Id*. at 7:10-13.

Faced with these inconsistencies, Mr. Macaulay states in his reply declaration that if he were forced to use the STR data and Mr. Gordon's projected average daily room rates in the City's income analysis, Mr. Macaulay would just simply, and drastically, change his capitalization rate to reach the same result. *See* Reply Decl. of Robert Macaulay at ¶7 (January 12, 2021). That is not reasonable appraisal practice either. Market capitalization rates are derived from market transactions. It is not proper appraisal practice to simply manipulate capitalization rates to reach a desired valuation result, any more than it is proper appraisal practice to manipulate actual income performance, at least if the goal is an "actual" market valuation.

Mr. Macaulay's circular arguments should be rejected. His income analysis relies on phantom income he made up to match with his (undescribed) view of what the other sales

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suggest prices "ought to be", using never attained and unattainable projected average daily room rates. That is neither an income approach nor a sales approach. It is speculation masquerading as analysis. If use of actual performance data in his formulae result in valuations that are "too low", that is not a problem with the facts, it is a problem with his formula. Mr. Macaulay's income estimates are contrived, and they were unachievable and unrealistic based on the declarations of Messrs. Ahmed, Meyer and Waithe. The Hearing Examiner should reject Mr. Macaulay's flawed "before" values.

C. John Gordon's Appraisals Relied On Actual Performance Data And His Projections Were Realistic; Mr. Macaulay Did Not.

Originally, Mr. Gordon was the only hotel appraiser who had access to STR report-based room rate and other performance data for Objectors' properties. He used standard hotel valuation methodology, and as of the date of his valuations, his income analysis was optimistic but reasonable. Mr. Macaulay refused to use the room rate data in his remand analysis because the resulting valuations would be "too low" is unreasonable. Macaulay Dep. at 7:10-13. But, as Mr. Gordon noted, it is one thing to use bad data when you don't have good data, it is another thing altogether to ignore good data when it doesn't support your preconceptions. Gordon Decl. at ¶ 7. Objectors' appraiser, Mr. Gordon, is more experienced in valuations for this property type; he had access to and relied upon real hotel performance reports. Mr. Macaulay chose to disregard those data and make up alternative facts to justify values closer to his original estimates. Below, as **Chart 1** is what the Objectors' valuation and LID assessment would be ("LID Levy"), were the Hearing Examiner to adopt Mr. Gordon's pre-LID valuation but maintain Mr. Macaulay's proportional LID improvement assumptions.[3]

[3] Mr. Macaulay claims Mr. Gordon's LID assessment conclusions should be disregarded because he did not perform a special benefit analysis. Macaulay Decl. at ¶13 (Dec. 4, 2020).

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CHART 1

Grand Hyatt Hotel CWF-0436	KM Appraisal Amount
Hotel Value	$175,300,000
Less Personal Property	$6,900,000
Real Estate Value	$168,400,000
Benefit Ratio	1.50%
Special Benefit	$2,528,000
Levy Ratio	39.19%
LID Levy	**$990,824**
Hyatt at Olive 8 - CWF-0429	**KM Appraisal Amount**
Hotel Value	$123,400,000
Less Personal Property	$5,200,000
Real Estate Value	$118,200,000
Benefit Ratio	1.00%
Special Benefit	$1,180,000
Levy Ratio	39.18%
LID Levy	**$462,350**
Hyatt Regency Hotel - CWF-0413	**KM Appraisal Amount**
Hotel Value	$507,400,000
Less Personal Property	$22,700,000
Real Estate Value	$484,700,000
Benefit Ratio	0.49%
Special Benefit	$2,351,000
Levy Ratio	39.18%
LID Levy	**$921,173**

However, for purposes of Mr. Gordon's LID assessment calculations for this remand proceeding, Mr. Gordon applied his "before" conclusions to Mr. Macaulay's remaining formula. Mr. Macaulay did the same in his December 4, 2020 remand calculations. See e.g., Macaulay Decl. at ¶37 (Regency), ¶40 (Sound Hotel), ¶43 (Renaissance) (Dec. 4, 2020).

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Renaissance Hotel - CWF-0418	KM Appraisal Amount
Hotel Value	$206,300,000
Less Personal Property	$5,600,000
Real Estate Value	$200,700,000
Benefit Ratio	0.50%
Special Benefit	$999,000
Levy Ratio	39.18%
LID Levy	**$391,430**
Alexis Hotel - CWF-0318	**KM Appraisal Amount**
Hotel Value	$66,000,000
Less Personal Property	$3,300,000
Real Estate Value	$62,700,000
Benefit Ratio	2.65%
Special Benefit	$1,663,000
Levy Ratio	39.18%
LID Levy	**$651,600**
Sound Hotel - CWF-0415	**KM Appraisal Amount**
Hotel Value	$48,400,000
Less Personal Property	$2,600,000
Real Estate Value	$45,800,000
Benefit Ratio	0.66%
Special Benefit	$302,000
Levy Ratio	39.18%
LID Levy	**$118,330**

D. Mr. Macaulay Uses Erroneous Methodology, Assumptions and Data.

1. Mr. Macaulay Made Up Average Daily Rates That Support His Preconceptions.

Mr. Macaulay claims that he did not simply reverse engineer average room rates to support his comparable sales conclusions as to hotel "sale price per room." However, in his

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December 4, 2020 declaration, he directly contradicts himself. For example, for the Renaissance, Mr. Macaulay states that the “revised value per room is estimated at $387,000” and “[t]his change **results** in an average daily rate of $295 per room.” *See* Macaulay Decl. ¶ 43 (Dec. 4, 2020) (emphasis added). For Sound Hotel: “the revised value per room is estimated at $450,000+/-, which excludes FF&E. The change indicates an average daily rate of $290 per room.” Macaulay Decl. at ¶ 40 (Dec. 4, 2020). For Olive at 8: “the revised value per room is estimated at $505,000+/- . . . This change reflects an average daily rate of $325 per room.” Id. at ¶ 46. For the Grand Hyatt: “the revised value per room is estimated at $485,000+/- . . . The change reflects an average daily rate of $345 per room.” Id. at ¶ 49.

2. Market Capitalization Rate Manipulation To Reach A Preconceived Result Is No More Appropriate Than Ignoring Actual Hotel Results.

Mr. Macaulay blithely asserted that if he were required to use the actual room rate information provided by Objectors’ he would simply lower the cap rate. *See* Reply Decl. of Robert Macaulay at ¶7 (January 12, 2021). But that proposal represents a fundamental departure from normal practice. There are three basic elements to a direct capitalization (income) analysis: the income forecast (I), the capitalization rate (R), and the value conclusion (V). The projected net operating income and the selected cap rate are independent variables that depend on the market or performance. The value conclusion is a dependent variable. The valuation formula is:

$$I / R = V$$

In arguing that he would offset any reduction in income with a lower cap rate, Mr. Macaulay is reversing the formula:

$$I / V = R$$

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Mr. Macaulay is arguing that because he feels sales of other hotels support a higher value than the data value, the income forecast, cap rate, or both should be manipulated to support that value opinion. Again, this would skew the purported resulting income valuation away from a fair representation of the hotels' actual and projected performance and its actual market value. Mr. Macaulay is supposed to use reliable data and apply reasoned judgment instead.

3. Macaulay's Appraisal Variance Is High By Industry Standard

Mr. Macaulay claims in his reply declaration that "the ADR forecasts [Mr. Gordon] selected are the result of his judgment, and it is not reasonable to expect two appraisers to arrive at the same value conclusion or ADR forecasts for the same property." *See* Macaulay Reply Decl. at ¶10 (January 12, 2021). However, that is an oversimplification that glosses over the methodological issues and minimizes the breadth of the valuation differences at issue. As Objectors' appraisers testified and declared during the original hearing (including Shorett, Gibbons, O'Connor), the industry rule of thumb is that appraisals within 5% of each other are essentially reaching the same conclusion. *See, e.g.*, 3/3/2020 (A. Gibbons) Hrg. Tr. at 96:10-16 (testifying that appraisal estimates within the 1 to 4% range are within the margin of error in appraisal practice). With respect to the Hyatt Regency, Mr. Macaulay is proposed reducing his before value by $100,000,000, over 15%, and yet a significant variance remains between his conclusions and Mr. Gordon's (Mr. Macaulay being 28% higher); those variances are not "just a difference of opinion between appraisers."[4] Ironically, by carrying forward the remainder of his analysis, Mr. Macaulay simultaneously continues to maintain that with his methodology, even though he was off by $100,000,000

[4] For example, Mr. Macaulay's estimates of real estate value were higher than Mr. Gordon's at the other hotels by the following percentages: 32% for the Grand Hyatt, 47% for the Hyatt at Olive 8, 7.5% at the Renaissance Hotel, 12% at the Alexis Hotel, and 40% at the Sound Hotel.

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on the before value, he has discerned hypothetical special benefits to accrue from the City's park as small as .49% of Regency value improvement. His analysis is unfounded speculation in both directions.

4. While Not Strictly Within The Examiner's Remand Recommendation, COVID Has Devastated The Value Of Objectors' Properties And Perkins' Remand Objectors Request That The Examiner Recommend The Council Reduce Before Values Further To Account For COVID-Related Property Value Losses.

Perkins' Remand Objectors' presented testimony demonstrating how COVID has devastated the value of their properties in the declarations of Zahoor Ahmed, Thomas Waithe, and Randy Meyer. That evidence shows that the value of hotel properties have decreased due to COVID, and the Seattle hotel market is among the most affected in the country. Contrast, for a moment, Mr. Macaulay's refusal to use "real data" in his re-evaluations because it would make his before value conclusions "too low" with the fundamental unfairness of his continued argument that Covid should be irrelevant to the value of hotels that have been shuttered or running on fumes since March 2020, and are unlikely to recover (being optimistic) until likely 2024 or later. *See generally*, Exhibit C to Declarations of Zahoor Ahmed, TOMMY CROZIER, CBRE, THE COVID IMPACT ON HOTEL VALUES (Nov. 10, 2020). Under these circumstances, principals of fundamental fairness and equity counsel consideration of Covid effects in establishing the before values of these properties. On that basis, Remand Objectors request the Hearing Examiner recommend the Council consider further discounting Objectors' before valuations by 30 percent from Mr. Gordon's conclusions.[5] Mr. Macaulay's revised purported income analysis was

[5] A 30% COVID discount from Mr. Gordon's real estate values would result in the following adjusted "before" values: Grand Hyatt: $117,8800,000; Hyatt at Olive 8: $82,740,000; Hyatt Regency: $339,290,000; Renaissance: $140,490,000; Alexis: $43,890,000; and Sound Hotel: $32,060,000.

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unachievable even in 2019. Mr. Gordon's were reasonable pre-Covid, but are now themselves far above what a reasonable buyer would pay in a non-distress sale (and a distress sale price would be an order of magnitude lower again).[6]

[*Remainder of page intentionally blank*]

[6] Another example of Mr. Macaulay's contradictory opinions arises from his recommended reduction of the Act Theatre's assessment, and related deposition testimony. This issue is not strictly within the remand. However, at the main hearing, Mr. Macaulay maintained that discounting future benefits of the LID improvements to present value was improper, even though they were not anticipated to be completed for 5 years after his October 2019 analysis. On remand, with respect to the Act Theatre, Mr. Macaulay has recommended the Examiner reduce its assessment to zero because there are deed restrictions which prohibit redevelopment of the Theatre's property until 2036, and "[i]t would be a long enough time out to where it wouldn't measurably affect value." Macaulay Dep. at 51:16-17 (Dec. 22, 2020). He further acknowledged that the ability to realize any income benefits can be so far removed that a "reasonable buyer or seller" would not "measurably pay any more for the property because of that restriction on income." Id. at 51:12-16. He then admitted for benefits that could not accrue within a five to ten-year range, a discounted cash flow analysis could be run. Id. at 52:9-13. As Mr. Gibbons testified, if the City is on time with delivering the improvements, property owners will not be able to realize that extra income until at least 2024, and perhaps 2029 (the same five to ten-year range). Mr. Macaulay admitted in deposition that a reasonable buyer or seller would take delayed benefits into consideration. The City has the burden of demonstrating the benefit to the property, and the City's own witness admitted that if a property cannot realize the benefit for five to ten years, the present value accruing to the property would be reduced. This is yet another example of the inconsistencies in Mr. Macaulay's recommended assessments, and an additional reason they be disregarded.

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II. HOTEL SPECIFIC ISSUES

A. Grand Hyatt Hotel

In their original report, ABS projected the average daily room rate of this hotel at $355. In Mr. Macaulay's declaration, he reduces the ADR to $345. The forecast of $240 in the Kidder Mathews appraisal is very near the actual ADR of $234. The revised ABS estimate exceeds this figure by 44%. As the declaration of Zahoor Ahmed demonstrates, the Kidder Mathews appraisal is the only appraisal with remotely realistic income assumptions and should be adopted. The Examiner should at a minimum adopt John Gordon's before-valuation of $168,4000,000 which provides an LID assessment of $990,824. The two appraisals are compared below:

Grand Hyatt Hotel CWF-0436	ABS Revised Amount	KM Appraisal Amount
Hotel Value	$228,902,000	$175,300,000
Less Personal Property	$6,900,000	$6,900,000
Real Estate Value	$222,002,000	$168,400,000
Benefit Ratio	1.50%	1.50%
Special Benefit	$3,333,000	$2,528,000
Levy Ratio	39.19%	39.19%
LID Levy	$1,306,335	$990,824
Average Room Rate	$345	$240
Daily RevPAR	$276	$201

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B. Hyatt at Olive 8

In their original report, ABS projected the average daily room rate of this hotel at $335. In Mr. Macaulay's declaration, he reduces the ADR to $325. The forecast of $235 in the Kidder Mathews appraisal is very near the actual ADR of $225. The revised ABS estimate exceeds this figure by 38%. As the declaration of Zahoor Ahmed demonstrates, the Kidder Mathews appraisal is the only appraisal with remotely realistic income assumptions and should be adopted. The Examiner should at a minimum adopt John Gordon's before-valuation of $118,200,000 which provides an LID assessment of $462,350. The two appraisals are compared below:

Hyatt at Olive 8 - CWF-0429	ABS Revised Amount	KM Appraisal Amount
Hotel Value	$179,822,000	$123,400,000
Less Personal Property	$5,200,000	$5,200,000
Real Estate Value	$174,622,000	$118,200,000
Benefit Ratio	1.00%	1.00%
Special Benefit	$1,744,000	$1,180,000
Levy Ratio	39.18%	39.18%
LID Levy	$683,338	$462,350
Average Room Rate	$325	$235
Daily RevPAR	$260	$198

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C. Hyatt Regency Hotel

In their original report, ABS projected the average daily room rate of this hotel at $365. In Mr. Macaulay's declaration, he reduces the ADR to $335. The forecast of $222 in the Kidder Mathews appraisal is very near the actual ADR of $205. The revised ABS estimate exceeds this figure by 51%. As the declaration of Zahoor Ahmed demonstrates, the Kidder Mathews appraisal is the only appraisal with remotely realistic income assumptions, and should be adopted. The Examiner should at a minimum adopt John Gordon's before-valuation of $484,700,000 which provides an LID assessment of $921,173. The two appraisals are compared below:

Hyatt Regency Hotel - CWF-0413	ABS (2nd) Revised Amount	KM Appraisal Amount
Hotel Value	$646,935,000	$507,400,000
Less Personal Property	$22,700,000	$22,700,000
Real Estate Value	$ 624,235,000	$484,700,000
Benefit Ratio	0.49%	0.49%
Special Benefit	$3,059,000	$2,351,000
Levy Ratio	39.18%	39.18%
LID Levy	$1,198,516	$921,173
Average Room Rate	$335	$222
Daily RevPAR	$268	$169

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D. Renaissance Hotel

In their original report, ABS projected the average daily room rate of this hotel at $300. In Mr. Macaulay's declaration, he reduces the ADR to $295. The forecast of $209 in the Kidder Mathews appraisal is very near the actual ADR of $204. The revised ABS estimate exceeds this figure by 41%. As the declaration of Zahoor Ahmed demonstrates, the Kidder Mathews appraisal is the only appraisal with remotely realistic income assumptions, and should be adopted. The Examiner should at a minimum adopt John Gordon's before-valuation of $200,700,000 which provides an LID assessment of $391,430. The two appraisals are compared below:

Renaissance Hotel - CWF-0418	ABS Revised Amount	KM Appraisal Amount
Hotel Value	$221,097,000	$206,300,000
Less Personal Property	$5,600,000	$5,600,000
Real Estate Value	$215,497,000	$200,700,000
Benefit Ratio	0.50%	0.50%
Special Benefit	$1,073,000	$999,000
Levy Ratio	39.18%	39.18%
LID Levy	$420,425	$391,430
Average Room Rate	$295	$209
Daily RevPAR	$236	$176

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E. Alexis Hotel

In their original report, ABS projected the average daily room rate of this hotel at $360. In Mr. Macaulay's declaration, he reduces the ADR to $358. The forecast of $269 in the Kidder Mathews appraisal is very near the actual ADR of $248 and takes into account the impact of recent renovations. The revised ABS estimate exceeds this figure by 33%. As the declaration of Thomas Waithe demonstrates, the Kidder Mathews appraisal is the only appraisal with remotely realistic income assumptions and should be adopted. Furthermore, the declaration of Mr. Waithe specifically addressed the concern Mr. Macaulay raised regarding the previous sale of the Alexis, where Mr. Macaulay omitted personal property and Mr. Gordon's was in line with the market performance of the hotel. The Examiner should at a minimum adopt John Gordon's before-valuation of $62,700,000 which provides an LID assessment of $651,600. The two appraisals are compared below:

Alexis Hotel - CWF-0318	ABS Revised Amount	KM Appraisal Amount
Hotel Value	$73,547,000	$66,000,000
Less Personal Property	$3,300,000	$3,300,000
Real Estate Value	$70,247,000	$62,700,000
Benefit Ratio	2.65%	2.65%
Special Benefit	$1,863,000	$1,663,000
Levy Ratio	39.18%	39.18%
LID Levy	$729,964	$651,600
Average Room Rate	$358	$269
Daily RevPAR	$286	$237

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F. Sound Hotel

In their original report, ABS projected the average daily room rate of this hotel at $300. In Mr. Macaulay's declaration, he reduces the ADR to $290. The forecast of $218 in the Kidder Mathews appraisal is very near the actual ADR of $205. The revised ABS estimate exceeds this figure by 33%. As the declaration of Randy Meyer demonstrates, the Kidder Mathews appraisal is the only appraisal with remotely realistic income assumptions and should be adopted. The Examiner should at a minimum adopt John Gordon's before-valuation of $45,800,000 which provides an LID assessment of $118,330. The two appraisals are compared below:

Sound Hotel - CWF-0415	ABS Revised Amount	KM Appraisal Amount
Hotel Value	$66,462,000	$48,400,000
Less Personal Property	$2,600,000	$2,600,000
Real Estate Value	$63,862,000	$45,800,000
Benefit Ratio	0.66%	0.66%
Special Benefit	$420,590	$302,000
Levy Ratio	39.18%	39.18%
LID Levy	$164,796	$118,330
Average Room Rate	$290	$218
Daily RevPAR	$232	$185

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III. CONCLUSION

Mr. Macaulay failed to comply with the Hearing Examiner and City Council's instructions on remand to genuinely incorporate Mr. Gordon's appraisal data into ABS's revised hotel valuations. Instead, he only slightly reduced his original values in ways that are still entirely inconsistent with historical performance data located in the STR reports. Based on Mr. Macaulay's statements in his own deposition, as outlined above, Mr. Macaulay largely ignored the STR data because their inputs created values that were too low in his opinion. That is a backwards methodology - data inputs should inform the value conclusion, not the other way around. Mr. Macaulay's claimed reliance on comparable sales to support his predetermined, unrealistic value conclusions should be disregarded as well. His remand declarations have laid bare how speculative his valuation analysis is.

Mr. Gordon, by contrast did employ accurate data from the STR reports and reasonable judgment in arriving at his value conclusions. The Hearing Examiner should recommend that the City Council at least adopt Mr. Gordon's "before values" and resultant LID assessments.

Finally, while Covid discounts are not within the original scope of the Examiner's remand recommendations, Perkins' Remand Objectors respectfully request that, in light of Covid's extraordinary impact on their properties, that the Examiner consider recommending the Council reconsider the proposed LID assessments based on Covid as well.

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Attorneys for Objectors

Exhibit A

Case Studies in Hotel Valuation

Course Handbook




Seattle Chapter of the Appraisal Institute

Case Study 5: Sales Comparison

In this case study, we show how recent sales of similar hotels can be used to develop an indication of value. The subject property is a midscale limited service hotel in Kent, Washington.

Tasks and Issues:

Compiling Sale Comparisons

- What are common sources of sale data?
- When researching a hotel sale, what does the appraiser need to know?
- What features of a hotel are relevant in the selection of sale comparisons?
- For sales in Washington, what information is shown on the excise tax affidavit?
- What issues of confidentiality arise from using a prior subject property as a sale comp?
- Should a pending purchase of the subject be included as a sale comparison?

Adjusting and Reconciling the Sales

- What are common units of measure for hotels?
- What is the distinction between qualitative and quantitative adjustments?
- When should sales be adjusted for financing, property rights, or conditions of sale?
- How should time adjustments be derived?
- What locational factors should be considered?
- What physical characteristics are most relevant?
- How can size adjustments be used to reconcile inconsistent results?
- How does the coefficient of variation serve as a test of the aggregate adjustments?
- Once the prices have been adjusted, which sales should be given the greatest weight?
- If more than one indication of value is derived, how should the methods be reconciled?
- What issues affect the relevance of the sales comparison approach?

Compiling Sale Comparisons

As with most forms of real estate, there are several sources of data concerning hotel sales. Among these are listing services, hotel brokers, county records, and prior appraisals.

The State of Washington levies an excise tax on sales of real estate, and the tax affidavits are a matter of public record. The affidavit shows the total price paid and the amounts allocated to real estate and personal property. They are signed and sworn two by parties to the transaction. (Note that the prices reported by data services typically include only the real estate.)

In selecting sales for comparison, primary considerations include location, the physical characteristics of the hotel, and the date of the transaction. Often, these issues must be balanced, for example by selecting an older transaction in the same market or a recent sale in a more distant but somewhat similar location. Whenever possible, the subject hotel and the selected sales should be the same general type and similar in quality. However, given the numerous defining features of hotels and the infrequency of hotel sales, some physical differences from the subject should be expected.

Often the most reliable sale data comes from a prior appraisal of a potential sale comparison. In such cases, care must be taken to avoid disclosing information that was provided on a confidential basis, such as historical operating statements and the appraiser's forecast of future performance. If the sale price is a matter of public record, then the capitalization rate and revenue multiplier also should be kept confidential, since they could be used to infer the income.

Any recent or pending transaction involving the subject hotel should be disclosed and analyzed. However, it may not be appropriate to include a pending purchase as a sale comparison. Many purchase and sale agreements include a financing condition, and since the loan amount may be influenced by the appraised value, excessive reliance on the negotiated price could become a self-fulfilling prophecy. It is preferable to discuss the pending price but not include it in the sale set.

The sale data should be presented so as to be clearly understood by the intended user. For a restricted appraisal, a brief summary of the sale set may be sufficient.

Sale Comparisons	We analyzed four recent sales of limited service hotels in southwestern King County. These hotels were built between 1987 and 2011. They range in size from 60 guestrooms to 125 guestrooms. The sales closed between May 2018 and January 2019. Three of the sales were confirmed with the buyer or seller. The remaining sale was confirmed through county records.

When the reader may need additional detail, individual narrative descriptions should be included. These paragraphs may comment on locational features, the history of the hotel, the brand or affiliation, and conditions in its competitive market.

COMFORT FEDERAL WAY	The Comfort Inn is one of several hotels in the commercial district of Federal Way. Opened in 1998, the hotel has 117 guestrooms, a breakfast room, a meeting room, an exercise room, and a swimming pool. It sold in January 2019 at a price of $128,205/room, or $272/sq ft.
RED LION KENT	The Red Lion Inn & Suites is in southwestern Kent, one mile north of the Auburn city limits and one mile east of the subject site. This hotel was built in 1998 and previously was branded as a Quality Inn. It has 60 guestrooms, a breakfast room, a meeting room, an exercise room, and an indoor swimming pool. The hotel sold in January 2017 for $110,000/room, or $191/sq ft. In September 2018, it sold again at a price of $120,000/room, or $208/sq ft. The price differential over the 20-month interval implies annual appreciation of about 5%.
RAMADA KENT	The Ramada Inn is one of several hotels clustered at a primary interchange of SR-167 in northern Kent. The hotel was built in 1987 and operated for many years as a Holiday Inn before acquiring its present affiliation. The Ramada has 125 guestrooms, a breakfast room, an exercise room, a swimming pool, and over 3,000 sq ft of meeting space. It sold in September 2018 for $97,600/rom, or $196/sq ft.
LA QUINTA AUBURN	The La Quinta Inn & Suites in Auburn is adjacent to a state highway and very near the commercial district of that suburban city. Opened in 2011, this midscale limited service hotel has 70 guestrooms, a breakfast room, and an exercise room. It was purchased in May 2018 for $167,857/room, or $314/sq ft.

A tabular presentation is employed in most hotel appraisals. The specific format is left to the discretion of the appraiser. The table on the following page is simply one example.

Maps and a photograph of each property also should be included. If a sale comparison has not been inspected, that fact should be disclosed in the report. It may be acceptable to include photographs from other sources (such as the hotel website), but only with credit to the source.

Table 5-1
Hotel Sales

Property Name Street Address City, State	Built Affil Eff Age	Guestrooms Rest/Bar Mtg Space	Bldg Area Bldg/Rm Mtg/Rm	Type Corridors Height	Room Rates Amenities AAA
Comfort Inn 31622 Pacific Highway S Federal Way, WA 98003	1998 1998 20	117 0 874	55,147 471 7	Limited Interior 4 Stories	$107-$188 B D E F ◆◆
Red Lion Inn & Suites 25100 74th Avenue S Kent, WA 98032	1998 n/a 15	60 0 600	34,577 576 10	Limited Interior 3 Stories	$86-$95 B C D E F ◆◆
Ramada Inn 22318 84th Avenue S Kent, WA 98032	1987 n/a 25	125 0 3,180	62,211 498 25	Limited Interior 2 Stories	$80-$107 B D E F ◆◆
La Quinta Inn & Suites 225 6th Street SE Auburn, WA 98002	2011 2011 7	70 0 0	37,426 535 0	Limited Interior 4 Stories	$142-$189 C D E ◆◆◆

Property Name Tax Parcel	Sale Date Sale Price	Price/Room Price/Sq Ft	Source Document	Seller Buyer
Comfort Inn 092104-9146	Jan-19 $15,000,000	$128,205 $272	Buyer, ETA 2971962	Song & Sons Inc Richard & Partners LLC
Red Lion Inn & Suites 000660-0036/0061	Sep-18 $7,200,000	$120,000 $208	Seller, ETA 2952824	Chelsea Corporation of Jeff & Young Hospitality Inc
Ramada Inn 775780-0010	Sep-18 $12,600,000	$100,800 $203	ETA, CoStar 2952556	Richard & Partners LLC Jeff & Young Hospitality Inc
La Quinta Inn & Suites 182105-9253	May-18 $11,750,000	$167,857 $314	Buyer, ETA 2927926	S & B Hospitality Auburn Inn-Vestments LLC

Sources:	Hotel Management	Amenities:	A Restaurant	D Complimentary Breakfast
	County Assessor		B Mtg Space	E Exercise Room
	AAA Tourbook		C Refrig/MW	F Swimming Pool

Adjusting and Reconciling the Sales

In comparing sale properties to the subject hotel, the most common unit of measure is the price per guestroom. Since this calculation does not include public space or service areas, the price per room typically is higher for full service hotels with restaurants and other amenities than for limited service properties of similar quality.

Although it is less frequently relied upon by investors, a comparison of price per square foot can provide a check on the analysis per room. Typically, the appraiser compares the sales using the finished building area of each hotel, excluding garage parking.

For either unit of measure, adjustments may be applied in qualitative or quantitative terms. While quantitative adjustments may appear more precise, they are in fact no more or less subjective than a qualitative approach. The primary benefit of using numerical adjustments is to provide the reader with a clearer understanding of the appraiser's reasoning.

Qualitative adjustments may include relational terms (superior/similar/inferior) or symbols (+ +/=/- -). When such terms are applied, care must be taken to ensure that the reader understands who is superior to whom.

One potential shortcoming in a qualitative analysis is that the relative importance of the factors being adjusted me not be readily evident. For example, if a sale property is judged to be superior in location but inferior in quality, how does it compare to the subject overall?

The reliability of a quantitative analysis can be tested by comparing the dispersion of the data before and after adjustments, as a narrower range provides some support for the adjustments. The standard deviation is calculated by subtracting the mean price from each individual price, squaring the results, summing the squares, dividing by the number of sales, and then finding the square root. The coefficient of variation is the standard deviation divided by the mean. Thankfully, most spreadsheet programs can easily apply these formulae.

In the following tables, we show the application of qualitative and quantitative adjustments.

Table 5-2
Qualitative Adjustments

	Comfort	Red Lion	Ramada	La Quinta
Price Per Guestroom	$128,205	$120,000	$100,800	$167,857
Time Adjustment	2.3%	3.2%	3.2%	4.2%
Trended Price	$131,154	$123,840	$104,026	$174,907
Other Adjustments				
Location	Inferior	Similar	Similar	Similar
View	Superior	Superior	Superior	Superior
Age	Similar	Inferior	Superior	Inferior
Quality	Similar	Superior	Superior	Inferior
Size	Superior	Inferior	Inferior	Inferior
Net	Similar	Similar	Superior	Inferior
Adjusted Price	± $131,000	± $124,000	> $104,000	< $175,000

	Comfort	Red Lion	Ramada	La Quinta
Price Per Guestroom	$128,205	$120,000	$100,800	$167,857
Time Adjustment	2.3%	3.2%	3.2%	4.2%
Trended Price	$131,154	$123,840	$104,026	$174,907
Other Adjustments				
Location	- - -	=	=	=
View	+ +	+ +	+ +	+ +
Age	=	- -	+ +	- - - -
Quality	=	+ +	+ +	- - - -
Size	+	- -	-	-
Net	=	=	+ + + +	- - - -
Adjusted Price	± $131,000	± $124,000	> $104,000	< $175,000

Table 5-3
Quantitative Adjustments

	Comfort	Red Lion	Ramada	La Quinta
Price Per Guestroom	$128,205	$120,000	$100,800	$167,857
Time Adjustment	2.3%	3.2%	3.2%	4.2%
Trended Price	$131,154	$123,840	$104,026	$174,907
Other Adjustments				
Location	-$13,000	$0	$0	$0
View	$6,000	$6,000	$6,000	$6,000
Age	$0	-$6,000	$5,000	-$25,000
Quality	$0	$12,000	$10,000	-$30,000
Size	$2,000	-$8,000	-$2,000	-$8,000
Net	-$5,000	$4,000	$19,000	-$57,000
Adjusted Price	$126,154	$127,840	$123,026	$117,907

	Comfort	Red Lion	Ramada	La Quinta
Price Per Guestroom	$128,205	$120,000	$100,800	$167,857
Time Adjustment	2.3%	3.2%	3.2%	4.2%
Trended Price	$131,154	$123,840	$104,026	$174,907
Other Adjustments				
Location	-10.0%	0.0%	0.0%	0.0%
View	5.0%	5.0%	5.0%	5.0%
Age	0.0%	-5.0%	5.0%	-13.0%
Quality	0.0%	10.0%	10.0%	-20.0%
Size	0.9%	-8.4%	-1.8%	-5.1%
Net	-4.1%	1.6%	18.2%	-33.1%
Adjusted Price	$125,801	$125,879	$122,982	$116,993

If more than one method of comparison is applied, the results should be reconciled within the sales approach. For quantitative analyses, greatest weight might be given to the sales with the smallest net adjustments. However, since very large positive and negative adjustments can be offsetting, this should not be considered a hard and fast rule. For any method, the appraiser's judgment is paramount in weighing the results.

The sales comparison approach is most reliable when there has been a sufficient number of recent sales involving properties similar in location and physical characteristics to the property being appraised. This is often true for generic property types, such as apartments and single-tenant commercial buildings. In the case of hotels, where sales are infrequent and the required adjustments often are significant, the approach may be less useful.

If the goal of the appraisal is to estimate market value, the weight given this approach should be guided by the behavior of a typical investor. For complex midscale and upscale hotels, most investors rely almost entirely on an income analysis and give little or no weight to sales comparison. For older budget properties, where historical results may be sparse or unreliable and where owners may take an active role in the operation, the sales approach may be the most relevant.

In the following example, we compare the sale properties to the subject by applying percentage adjustments and using two units of measure.

Sale Adjustments	None of the sales required adjustment for property rights, financing, or conditions of sale. Adjustments are applied for date of sale, location, and physical characteristics.
TIME	All of the sales took place within the last two years, a period with moderate inflation. Based on input from market participants, we have applied time adjustments at an annual rate of 2.5%.
LOCATION	The subject site is in a commercial district of Kent, as are two of the sale properties. The sale in Auburn is similarly located. The sale in Federal Way is adjusted downward for being in a more densely developed area and nearer the interstate highway.
VIEW	The subject hotel is adjacent to a golf course, providing many guestrooms with attractive views. The sale properties have more conventional highway locations with minimal view potential. Each sale receives a modest upward adjustment.
AGE	The subject hotel opened in 1990. Based on the observed condition of the improvements, we have estimated its current effective age at 20 years. As of the dates of sale, the effective ages of the comparisons ranged from 7 years to 25 years. Adjustments reflect the age and condition of each property at the time of sale in comparison to the effective age of the subject, with the adjustments estimated at 1% for each year of difference.
QUALITY	Adjustments for quality are based on the appraiser’s subjective evaluation of the facilities and services of the subject hotel and those available at the comparable properties. Among the factors considered are the configuration, amenities, and finishes of guestrooms; the availability of in-house food service and function space; and recreational amenities. Excluding considerations of location, age, and size, we consider the subject reasonably similar to the Comfort Inn. The sales of the Ramada Inn and the Red Lion Inn & Suites are adjusted upward for their dated designs and inferior amenities. The sale of the La Quinta Inn & Suites is adjusted downward for its superior amenities and attractive design.

SIZE	One measure of hotel capacity is the gross area per room (GAR). This is the gross finished area of a hotel (excluding garage parking, if any) divided by the number of guestrooms. This measure averages in the space devoted to public space, service areas, and corridors, and so typically exceeds the average area of the guestrooms alone. Among the sale properties, the GAR range is 471 sq ft to 576 sq ft. The GAR of the subject hotel is 480 sq ft. Absent other differences, hotels with a larger GAR generally command a higher price per room. For example, a hotel with very large guestrooms may command relatively high room rates. Similarly, large common areas suggest the potential for ancillary revenue. The GAR most often is inversely related to the price per square foot, reflecting the declining marginal contribution of additional space. Size adjustments are calculated as a ratio to the percentage difference in gross area per guestroom between each sale property and the subject. For the analysis of price per room, these adjustments are positive for sale properties with a smaller GAR (as compared to the subject), and negative for those with a larger GAR. For the analysis of price per square foot, the inverse adjustments are applied. The appropriate ratio is one in which the two analyses yield the most similar indications of value. After several tests, we selected a ratio of 50%.
WEIGHTING	Once the adjustments are applied, each sale is weighted according to its degree of reliability and comparability to the subject. The greatest weight is given to the sales with the smallest overall adjustments.

Table 5-4
Sale Analysis

	Comfort	Red Lion	Ramada	La Quinta	Mean
Price Per Guestroom	$128,205	$120,000	$100,800	$167,857	$129,216
Time Adjustment	2.3%	3.2%	3.2%	4.2%	
Trended Price	$131,154	$123,840	$104,026	$174,907	
Other Adjustments					
Location	-10.0%	0.0%	0.0%	0.0%	
View	5.0%	5.0%	5.0%	5.0%	
Age	0.0%	-5.0%	5.0%	-13.0%	
Quality	0.0%	10.0%	10.0%	-20.0%	
Size	0.9%	-8.4%	-1.8%	-5.1%	
Net	-4.1%	1.6%	18.2%	-33.1%	
Adjusted Price	$125,801	$125,879	$122,982	$116,993	$122,914
Overall Adjustment	-1.9%	4.9%	22.0%	-30.3%	-4.9%
Weighted Price	100%	100%	75%	50%	$123,819
Guestrooms					100
Indicated Value (rd)					$12,380,000

	Comfort	Red Lion	Ramada	La Quinta	Mean
Price Per Square Foot	$272	$208	$203	$314	$249
Time Adjustment	2.3%	3.2%	3.2%	4.2%	
Trended Price	$278	$215	$209	$327	
Other Adjustments					
Location	-10.0%	0.0%	0.0%	0.0%	
View	5.0%	5.0%	5.0%	5.0%	
Age	0.0%	-5.0%	5.0%	-13.0%	
Quality	0.0%	10.0%	10.0%	-20.0%	
Size	-0.9%	8.4%	1.8%	5.1%	
Net	-5.9%	18.4%	21.8%	-22.9%	
Adjusted Price	$262	$254	$255	$252	$256
Overall Adjustment	-3.8%	22.1%	25.7%	-19.6%	2.6%
Weighted Price	100%	75%	75%	75%	$256
Building Area					48,000
Indicated Value (rd)					$12,300,000

Sale Analysis	
PRICE PER GUESTROOM	Before adjustment, prices per guestroom range from $100,800 to $167,857, with a mean of $129,216/room. The adjusted mean is $122,914/room, for an overall adjustment of minus 4.9%. The coefficient of variation is 19% before adjustments and 3% after adjustments. The weighted mean is $123,819/room. The indicated value is $12,380,000.
PRICE PER SQUARE FOOT	Before adjustment, prices per square foot range from $203 to $314, with a mean of $249/sq ft. The adjusted mean is $256/sq ft, for an overall adjustment of plus 2.6%. The coefficient of variation is 19% before adjustments and 2% after adjustments. The weighted mean also is $256/sq ft. The indicated value is $12,300,000.
Indicated Value	The two methods yielded similar results. We have given greater weight to our analysis of price per room, as that measure is more often relied upon by hotel investors. Under this approach, the indicated current market value of the subject hotel is $12,350,000.