

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

**DECLARATION OF JOHN D. GORDON
IN CITY COUNCIL'S LID REMAND**

I, John D. Gordon, declare as follows:

1. I have personal knowledge of the facts stated below, or I have relied on materials commonly relied upon by appraisers in the valuation of property and am competent testify regarding the facts and opinions set forth below.

2. I am a senior vice president and shareholder in the Valuation Advisory Services division of Kidder Mathews, a full-service real estate company based in Seattle. I

DECLARATION OF JOHN D. GORDON – 1

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1 have a B.A. in Economics from the University of California, Berkeley and an M.B.A. in
2 Finance from the University of Washington, Seattle. I am a member of the Appraisal
3 Institute, from which I hold the designations MAI and AI-GRS. I served as President of the
4 AI Seattle Chapter in 2016 and was selected by the chapter board as Appraiser of the Year in
5 2020. Over the past 36 years, I have appraised more than 700 hotels, most in the Pacific
6 Northwest. I have served as an appraisal instructor at North Seattle College and recently
7 authored the course handbook for a new AI seminar, Case Studies in Hotel Valuation.
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15 **I. OVERVIEW**

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17 3. The City of Seattle is planning an extensive upgrade of the waterfront, which
18 it is scheduling to be completed by 2024. The City established the Seattle Waterfront Local
19 Improvement District (LID) and engaged ABS Valuation (Robert J. Macaulay, Principal
20 Appraiser) to identify parcels that would specially benefit from those improvements,
21 estimate special benefits, and recommend LID assessments. The ABS special
22 benefits/proportionate assessment study was issued November 18, 2019. Both the formation
23 study and the special benefit study have been challenged.
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31 4. In early 2020, Jerry Lutz of Perkins Coie LLP engaged Kidder Mathews to
32 evaluate the proposed LID assessments of a number of downtown hotels. One element of
33 the engagement was to estimate the then-current market value of each hotel. We completed
34 appraisals of the Grand Hyatt Hotel, the Hyatt at Olive 8, the Hyatt Regency Hotel, the
35 Renaissance Hotel, the Sound Hotel, and the Kimpton Alexis Hotel (which has since
36 rebranded). I prepared the appraisals and they were reviewed by Peter Shorett, President of
37 the VAS group at Kidder Mathews. They subsequently were submitted as evidence in these
38 proceedings.
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1 5. In comparing our results to those in the ABS study, we noted two material
2 differences that apply to all of the hotels.
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4 6. First, the original ABS value conclusions for hotels included personal
5 property. Among the 6,000+ parcels addressed in the ABS report, only hotels were valued
6 including both personal property and real property, as opposed to only real property. In our
7 appraisals, we estimated the overall value of each hotel and then deducted the contributory
8 value of personal property to arrive at our opinion of value for the real estate.
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10 7. Second, the original ABS estimates of average daily room rate (ADR) used
11 were significantly higher than my estimates. The ABS appraisers were not provided with
12 the actual operating results of the hotels. In the absence of historical data, they stated that
13 they estimated the ADR of each hotel based on the advertised rates and input from a hotel
14 consultant. However, Kidder Mathews had been provided with STR reports and operating
15 statements for each hotel. These data included the achieved average room rates, which
16 uniformly reflect substantial discounts from the advertised rates. As stated during my
17 testimony, the ADR estimates presented in the Kidder Mathews appraisals are near to and
18 based on each hotel's actual achieved average room rate, although we made adjustments
19 using professional judgment to "stabilize" them in the case of hotels with incomplete
20 histories (newly opened or renovated), and projected them forward assuming modest
21 increased prices.
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23 8. On September 8, 2020, the Hearing Examiner issued his Findings and
24 Conclusions, which recommended the City's appraiser reconsider the six objector hotels that
25 are the subject of this Declaration. The Examiner acknowledged the City's reliance on less
26 accurate data, and recommended the City Council order a remand so that the City's
27 appraiser could recalculate his "before" values based on better data:
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1 The City argues that a reason for difference in valuations
2 presented by the City and Kidder Matthews is that the subject
3 property hotel owners had not provided ABS with the specific
4 information it did to Kidder Matthews, and that an opportunity
5 for that had been provided. If any opportunity had been
6 provided to submit specific hotel property information, that
7 opportunity was passive—there was no indication in the
8 record that a specific notice or solicitation to property owners
9 had been provided by the City. The City does not identify any
10 legal requirement for the hotel owners to have provided their
11 data at an earlier time. In addition, the information in the STR
12 reports relied upon by the Objectors was available to the City
13 if it had sought such specific information. Further, the
14 hoteliers have exercised their right to object to the valuation as
15 part of the special assessment hearing, and it is within their
16 rights to present property-specific data during the hearing—it
17 is a major purpose of the hearing. . . . [T]he valuations of these
18 properties should be remanded for recalculation by the City
19 appraiser based on the information provided by these
20 Objectors.

21 See Examiner’s Findings and Conclusions, p. 118, ¶10. ABS was directed to perform an
22 analysis “consistent with the findings herein concerning valuation...” Id. at p. 122. In
23 November, the City Council directed that ABS reconsider its findings by November 30,
24 2020.
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29 9. On December 4, 2020, Mr. Macaulay filed a declaration presenting the ABS
30 response to the Examiner’s Findings and Conclusions and the Council’s remand. His
31 declaration included revised estimates of current market value, special benefits, and
32 recommended assessments for the five hotels. However, he has chosen to ignore the STR
33 reports and my related real estate valuations based on the income approach.
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39 10. Mr. Macaulay’s revised ABS conclusions reflect several changes. First, ABS
40 is now valuing only the real estate, netting out the contributory value of personal property.
41 He is relying on my estimates of personal property values to do so. I do not contest those
42 changes, other than in the instance of the Hyatt Regency. (In the case of the Hyatt Regency,
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1 Mr. Macaulay relied on my initial, rather than revised, appraisal, which corrected a personal
2 property valuation error.) ABS also reduced its estimates of average daily room rate, but
3 only slightly and without explanation of rationale or methodology. Variable operating
4 expenses, which are tied to revenue, were reduced proportionally. ABS made no changes to
5 the estimates of room occupancy, ancillary income, or market rates of return. Later, at his
6 deposition, Mr. Macaulay explained that he did not use our average daily room rates because
7 they were “too low” and resulted in unrealistically low values. That approach reflects
8 fundamental error.
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11 11. ABS’s minimal reductions in average daily room rate leave a wide gap
12 between the ABS forecast and the Kidder Matthew estimates. As a result, the revised ABS
13 values still significantly overstate the October 2019-January 2020 value of the hotels, special
14 benefit, and recommended levy for each hotel.¹
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17 12. Mr. Macaulay’s declaration includes a table of summarizing recent sales of
18 upscale and luxury hotels in and near Downtown Seattle. The prices paid for these hotels
19 varied widely, ranging from \$259,414/room to \$923,280/room. These prices include
20 personal property. Mr. Macaulay asserts that certain sales support his value conclusions.
21 Because he does not explain why he relied on those particular sales and presents no
22 quantitative comparisons, there is no basis on which to evaluate that assertion. However, it
23 is worth noting that the “Cap Rate” he has assigned to each sale, except the Hilton Seattle,
24 sold at a capitalization rate below 7%. Inexplicably, Mr. Macaulay has assigned a cap rate in
25 his income analysis of each hotel above 7%. Messrs. Lukins and Bird, in declarations last
26 April criticized my selected capitalization rates because I had not explained my reasoning,
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45 ¹ The ABS and KM valuations both reflect “pre-Covid-19” values, ABS as of October 2019
46 and KM as of January 2020. I do not believe that difference is material to our different value
47 conclusions.

1 because I had only prepared restricted appraisals. See Gordon Declaration dated May 7,
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3 2020, para 10, page 3. For purposes of this remand, I note (a) my capitalization rates are
4 supported by Mr. Macaulay's Exhibit A, and his are not, and (b) my use of lower
5 capitalization rates actually increases my estimate of the value of the hotels, using an income
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7 analysis derived from the STR reports and actual hotel performance. Mr. Macaulay testified
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9 that he chose to ignore actual hotel performance because it made his concluded values too
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11 low.² That is backwards. An appraiser is not supposed to ignore facts to fit his conception
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13 of value; rather, he should adjust his conception of value to account for actual facts.
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17 13. The following passage appears in the Certification to the Final Special
18 Benefits Study (Page 94, Item 6): "My engagement in this assignment was not contingent
19 upon developing or reporting predetermined results." If that was the case, then the
20 introduction of new factual information should have been incorporated in the revised value
21 conclusions, even if the indicated revisions were substantial. It was excusable for Mr.
22 Macaulay to overestimate room rates when he didn't have access to the actual results. It is
23 not when he does.
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27 14. Mr. Macaulay also criticized my analysis of the Kimpton Alexis as an
28 example of why my value estimates should be disregarded, because I valued the Alexis as
29 worth less in January 2020 than the owners paid for it in 2017, after which the owners
30 invested significant additional funds for renovation. There are several answers to this
31 assertion.
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35 15. First, on a real estate basis (ignoring personal property), my valuation of the
36 Alexis is slightly higher in January 2020 (\$62,700,000) than the owner's 2017 purchase
37 price, \$62,313,750. See Exhibit A, which is the related Real Estate Excise Tax Affidavit.
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47 ² See Transcript of R. Macaulay December 22, 2020 Deposition, p. 7, lines 6 through 25.

1 16. Second, there had been a dramatic increase in supply in the downtown Seattle
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3 hotel market that put downward pressure on room rates across the City, as Mr. Macaulay
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5 acknowledges elsewhere.

6 17. Third, what an owner paid for a hotel, or spent to renovate it, does not
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8 influence its market value. As one example, a hotel in Austin was recently sold, reportedly
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10 for less than 50% of replacement cost. I reject Mr. Macaulay's assertion that this
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12 information is relevant to the valuation of these hotels (and Mr. Lukens' similar claim
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14 addressed by my May 7 Declaration, at paragraph 12), let alone that it is a good reason to
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16 ignore the hotels' actual income to value them.

17 18. Hotels are bought and sold based on the income they produce, and what a
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19 buyer thinks they can do to improve that. What other hotels sold for is only a way to "gut
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21 check" what an income valuation shows. And, in that regard, in addition to Mr. Macaulay's
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23 capitalization rates deviating from those on his Exhibit A list of comparable sales, there are
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25 two other errors in that summary. First, based on CoStar, which is an industry data
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27 summary of commercial real estate transactions, the "Homewood Suites Convention Center"
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29 sale (1011 Pike Street) was part of a portfolio sale valued at \$72,111,265, with a per room
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31 price of \$369,801.00, rather than \$96,076,415, with a per from price of \$492,700. See
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33 Exhibit B. Second, as noted above, the value assigned to the Alexis real estate in 2017 was
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35 \$62,313,750, rather than \$71,625,000. Third, the Lotte Hotel Seattle is too unusual to use.
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37 It includes both the hotel and the adjacent "Sanctuary", which skews his "average room
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39 rate" in a way that makes it abnormal. In my own view, moreover, the sales Mr. Macaulay
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41 is purporting to rely upon are too broad in range and hotel type. Finally, as noted above, for
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43 hotels, the income approach is the primary valuation methodology, and comparable sales are
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1 used merely as a “gut check” as to whether the valuations derived from an income analysis
2 “look right” or “should be reconsidered”.
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5 19. Both Mr. Macaulay’s remand analysis, and my response, are based on values
6 as we understood them in late 2019-early 2020, pre-Covid. I testified in April, and also
7 submitted a declaration April 21, 2020, showing how dramatically the epidemic had
8 damaged the hotel industry even then, opining that the “before” values of these hotels had
9 likely fallen 10% to 15% since March 2020. At that point, hospitality operators were still
10 hoping for a “V shaped” recovery. As noted below, in the declarations of Mr. Ahmed, Mr.
11 Meyer and Mr. Waithe, the hotels addressed in this declaration have fared far worse this
12 year than we had hoped. Some have been shuttered since March. Moreover, while there is
13 hope that pent up travel demand will help bring hotel operations back after vaccines have
14 been widely distributed, tourist travel is not the “bread and butter” of many of these
15 properties; they rely instead on business travel and convention traffic, and many large group
16 functions are booked several years out. On that basis, most hotel experts are not forecasting
17 a recovery of these properties until 2024 or later. And that assumes that Seattle recovers
18 from its other current challenges by then, so that downtown can be, once again, a vibrant,
19 welcoming place.
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37 II. HOTEL SPECIFIC ISSUES

38 A. Grand Hyatt Hotel

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40 20. In their original report, ABS projected the average daily room rate of this
41 hotel at \$355. In Mr. Macaulay’s declaration, he reduces the ADR to \$345. The forecast of
42 \$240 in the Kidder Mathews appraisal is very near the actual 2019 ADR of \$234. The
43 revised ABS estimate exceeds the KM estimate by 44%. Exhibit C shows how Mr.
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1 Macaulay's original and revised room rates flow through his analysis, what would happen if
2 he had substituted my estimates, and then my estimate. The second page shows STR report
3 results for the Grant Hyatt.
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7 **B. Hyatt at Olive 8**
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9 21. In their original report, ABS projected the average daily room rate of this
10 hotel at \$335. In Mr. Macaulay's declaration, he reduces the ADR to \$325. The forecast of
11 \$235 in the Kidder Mathews appraisal is very near the actual 2019 ADR of \$225. The
12 revised ABS estimate exceeds the KM estimate by 38%. Exhibit D shows how Mr.
13 Macaulay's original and revised room rates flow through his analysis, what would happen if
14 he had substituted my estimates, and then my estimate. The second page shows STR report
15 results for the Olive 8.
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23 **C. Hyatt Regency Hotel**
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25 22. In their original report, ABS projected the average daily room rate of this
26 hotel at \$365. In Mr. Macaulay's declaration, he reduces the ADR to \$335. The forecast of
27 \$222 in the Kidder Mathews appraisal is nearer the actual 2019 ADR of \$205. The revised
28 ABS estimate exceeds the KM estimate by 51%. Exhibit E shows how Mr. Macaulay's
29 original and revised room rates flow through his analysis, what would happen if he had
30 substituted my estimates, and then my estimate. The second page shows STR report results
31 for the Regency. Note, Exhibit F shows my April 2020 revised appraisal. I originally
32 discounted the hotel's personal property by 50%, in my January appraisal, but since the
33 hotel was new, revised that depreciation discount to 10% in the revised appraisal.
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43 **D. Renaissance Hotel**
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45 23. In their original report, ABS projected the average daily room rate of this
46 hotel at \$300. In Mr. Macaulay's declaration, he reduces the ADR to \$295. The forecast of
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1 \$209 in the Kidder Mathews appraisal is very near the actual 2019 ADR of \$204. The
2 revised ABS estimate exceeds the KM estimate by 41%. Exhibit G shows how Mr.
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4 Macaulay's original and revised room rates flow through his analysis, what would happen if
5 he had substituted my estimates, and then my estimate. The second page shows STR report
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7 results for the Renaissance.
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11 **E. Alexis Hotel**

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13 24. In their original report, ABS projected the average daily room rate of this
14 hotel at \$360. In Mr. Macaulay's declaration, he reduces the ADR to \$358. The forecast of
15 \$269 in the Kidder Mathews appraisal is nearer the actual 2019 ADR of \$248 and takes into
16 account the impact of the recent renovation. The revised ABS estimate exceeds the KM
17 estimate by 33%. Exhibit H shows how Mr. Macaulay's original and revised room rates
18 flow through his analysis, what would happen if he had substituted my estimates, and then
19 my estimate. The second page shows STR report results for the Alexis.
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27 **F. Sound Hotel**

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29 25. In their original report, ABS projected the average daily room rate of this
30 hotel at \$300. In Mr. Macaulay's declaration, he reduces the ADR to \$290. The forecast of
31 \$218 in the Kidder Mathews appraisal is nearer the actual 2019 ADR of \$205. The revised
32 ABS estimate exceeds the KM estimate by 33%. Exhibit I shows how Mr. Macaulay's
33 original and revised room rates flow through his analysis, what would happen if he had
34 substituted my estimates, and then my estimate. The second page shows STR report results
35 for the Sound Hotel.
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43 **III. SUMMARY**

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45 26. In the tables that accompany this declaration as Exhibits, I compare the
46 original ABS value conclusions, the revisions presented in Mr. Macaulay's declaration, and
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1 the performance projections and value conclusions in the Kidder Mathews appraisals. For
2 each hotel, I present an adjusted forecast that incorporates my estimate of average daily
3 room rate but retains the ABS estimates of room occupancy, fixed expenses, and variable
4 expense ratios. In each case, my estimate is higher than Mr. Macaulay's when a more
5 realistic average daily room rate is used. My valuations are not overly conservative.
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7 Instead, they are realistic and consistent with recent actual results. His valuations are not
8 grounded in fact.
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11 27. The tables include estimated or implied special benefits and LID assessments.
12 I have not developed independent estimates of benefits and assessments. For each scenario,
13 I apply the benefit ratio and LID ratio developed by ABS.
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15 28. The second page of each table includes a page from the 2019 STR report
16 showing the actual room occupancy rate and average daily room rate for the past three years.
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18 29. Also attached as Exhibit J is a summary table comparing the actual and
19 estimated operating performance of each hotel and the ABS and KM value conclusions.
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21 I declare under penalty of perjury under the laws of the State of Washington that the
22 foregoing is true and correct.
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25 Signed at Seattle, Washington, on January 8, 2021.
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John D. Gordon, MAI, AI-GRS