BEFORE THE CITY COUNSEL OF THE CITY OF SEATTLE

In re Proposed Final Assessment Roll for Local Improvement District No. 6751 ("Waterfront LID"), Tax Parcel No.: 065900-0070 Assigned Map No.: E-089	Case No. CWF-0314 **NOTICE OF APPEAL OF HEARING EXAMINER FINDINGS AND RECOMMENDATIONS**

Pursuant to SMC 20.04.090.C, Nordstrom, Inc. ("Objector") submits this notice of appeal of the Hearing Examiner Findings and Recommendations with respect to tax parcel 065900-0070, assigned map no. E-089 ("Parcel E-089").

I. *The notice of appeal must specify the relief sought.*[1]

Objector respectfully requests that the special benefit assigned to Parcel E-089 be adjusted from $2,893,000 to $1,756,000, with the final assessment reduced accordingly. Based on the final assessment formula in Ex. C-20, the final assessment should be set at 39.2% of the special benefit, which would result in a final assessment of $688,352.

II. *The notice of appeal shall cite by page and line and quote verbatim that portion or portions of the findings, recommendations and decisions of the Hearing Examiner or officer from which the appeal is taken.*[2]

Objector's appeal is taken from the below quoted language contained in the Hearing Examiner Findings and Recommendations:

[1] Hearing Examiner Findings and Recommendations, p. 123.
[2] SMC 20.04.110.

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"CWF-0314 (0659000070)—The objection challenges the City valuation for the subject property and the proportionality of the special benefit.

The City's before LID value for the subject property is supported by market rental rates and comparable sales data. The capitalized market value estimate for this property was $243,978,000 or $376±/SF of net rentable area, which also recognized that the Nordstrom building has a historic designation. The objection cited the King County Assessor's assessed value of $80,304,000 or $124±/SF of net rentable area to counter the City's findings. The City appraiser did not rely on the King County Assessor's valuation of this parcel (or for others in the Waterfront LID) but instead utilized what it identified as more reliable data in its professional opinion. The City appraiser found that:

> There is nothing in the comparable sales database to support a market value estimate for the property as low as the King County Assessor's assessed value figure ($124±/SF), especially considering the Nordstrom building's good condition and excellent location. For example, the Dexter Horton building sold in January 2019 for $488±/SF; it contains less retail and more office space but is in an inferior location. It also has an historic designation. Other historic-designated buildings researched typically sold for $250±/SF to $400/SF or more. In short, there is no justification or market support for the King County Assessor's low value estimate for this property.

Third Declaration of Robert J. Macaulay dated July 14, 2020 at 13.

> We did not rely on older (2017) data in analyzing the Nordstrom property, as is evidenced in the improved comparable sales chart and comparable rental information in the collection of back up-data presented. The most recent comparable sales data in existence was utilized, such as the 2019 Dexter Horton building sale, and current rental/capitalization rate information published in timely market research reports and from other sources.
>
> Adjustments in rental and capitalization rates in the commercial spreadsheets are based on our review of comparable projects in other cities, relevant published data and analysis of the impact on retail sales of amenities similar to what the LID provides, together with review of local market conditions and estimates of the probable increases in tourism and enhanced market appeal that will be provided by the Waterfront Seattle project. These data indicate modest percentage increases in the various metrics such as rental rates and vacancy, as reflected in our study and summary report.
>
> Westlake Center and Pacific Place are retail properties and the Nordstrom building has 280,000± SF of retail space, but also 265,000 SF of office area. Additionally, we are not basing the analysis on the county's assessed value, but on independent market value estimates. Recognizing the differences in use, the special benefit and assessment amounts for the properties are roughly proportionate. Westlake Center retail (between 4th-5th Avenue and Pine Street) reflects a 2.05% special benefit (market value increase); Pacific Place retail (between 6th-7th Avenue and Pine Street) indicates a 1.70% value increase compared to Nordstrom (retail and office) located between 5th-6th and Pine Street, with an indicated 1.60% market value increase (special benefit).

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The City's valuation process is more reliable than the King County Assessor data and other information submitted with the objection.

The objection alleges disproportionality between its assessment and those for Westlake Center and Pacific Place. However, the subject property received the lowest percentage increase in value attributable to special benefits among these properties, and all three parcels are within a reasonable range demonstrating proportionality. The objection also does not take into account the difference between the compared properties—that the subject property has substantial office spaces along with expansive retail space, while the compared properties are predominantly retail. The Objector's argument does not present valuation evidence sufficient to demonstrate an error with the City's assessment and has not demonstrated disproportionality in the Final Special Benefit Study with respect to its property. The Objector did not challenge whether the subject property will receive a special benefit. The Objector did not demonstrate that the City appraisal process was flawed.

Recommendation: denial." Hearing Examiner Findings and Recommendations, p. 79–81 (emphasis added).

III. *The notice of appeal shall also include a concise statement of the basis therefor.*[3]

The City's consultant was required by law to determine the actual fair market value before construction of the LID improvements, the same standard required of the King County Assessor's valuation. The report prepared by the City's consultant assigns a theoretical before value that is three times higher than the King County Assessor's determination of actual fair market value. The before value on which the recommended assessment is based is overstated, driving an overstated and disproportionate assessment.

The consultant's Final Report asserts that all commercial properties were valued using the income method, but does ***not*** describe how the income method was used to determine any parcel's before value, including the subject parcel. During the hearing, the consultant disclosed that individual spreadsheets had been prepared for every commercial parcel. Although a few representative spreadsheets were produced during the hearing, the spreadsheet reflecting the computation of the subject parcel's theoretical "before" and "after" values was never produced so it is unknown how the consultant calculated either value. Nor were the spreadsheets for other retail properties produced, except for the spreadsheet used for the Westlake Mall.

[3] SMC 20.04.110.

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The consultant's testimony regarding the few individual parcel calculations that were produced did not explain how the specific assumptions used for the numerous estimated variables for the spreadsheet calculations were determined beyond asserting that they were based on the consultant's "professional judgement." Moreover, the spreadsheets all used estimated rental rates, treating all commercial properties as if the income they generate is from the rental of real property. However, the subject property is not a rental property, it is a retail property, generating income by selling merchandise.

Even the declaration submitted in response to Objector's closing argument continues to obscure the consultant's calculation of the subject property's theoretical "before" and "after" values. Instead, it focuses on restating various total value conclusions in square footage terms, which are compared to a single sale of an office building (with no explanation why an office building would be "comparable" to a department store). Yet, the consultant's sworn testimony at the hearing was explicit that he did ***not*** use the comparable sales method to value commercial properties. There has still been no disclosure of the estimates used, the basis for those estimates, or an actual explanation why the estimates and the method in which they were used are allegedly superior to the King County Assessor's value conclusions. This is particularly problematic given that the consultant used the King County Assessor's data for virtually all other aspects of his work.

Further, the consultant's failure to account for estimated percentage changes in theoretical rents, theoretical vacancy rates, or theoretical capitalization rates resulted in an assessment of Parcel E-089 that is disproportionate to similarly situated retail parcels. The subject property is roughly a mile from the major improvements, with the only improvements impacting the subject property being a portion of the Pike/Pine improvements, which themselves are a portion of a different project. This too distorts the benefit attributable to the subject property due to the waterfront improvements.

Accordingly, Objector appeals the Hearing Examiner Findings and Recommendations because the assessment of Parcel E-089 is inaccurate, unfair, and disproportionate to similarly

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situated taxpayers.

IV. ***The notice of appeal shall also designate by name or title and by subnumber the items or exhibits in the record to which reference will be made in argument or comment before the City Council or committee.***[4]

Objector notes the below items or exhibits in the record that will be referenced:

- Objector's Closing Argument;
- Ex. C-17 ("Final Report");
- Ex. C-19;
- Ex. C-20;
- 06/18/2020 Transcript at pp. 170–73;
- 06/19/2020 Transcript at p. 126:5–7;
- 06/20/2020 Transcript at p. 132;
- 06/23/2020 Transcript at p. 123:12; p. 196:14; p. 246:9–247:2; p. 247:6–13, 19–20; p. 248:13–18; pp. 250–52; p. 252:19–253:1; p. 253:14–254:1; p. 256:11–20; p. 258:3–14; pp. 262–71;
- CWF-0314, Ex. 6, 7, 8;
- CWF-0233, Ex. 119; and
- City Brief.

DATED: September 22, 2020

LANE POWELL, PC

By:_____

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[4] SMC 20.04.110.

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