The City of Seattle

Landmarks Preservation Board

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LPB 284/21

MINUTES
Landmarks Preservation Board Meeting
City Hall
Remote Meeting
Wednesday June 2, 2021 - 3:30 p.m.

Board Members Present
Dean Barnes
Roi Chang
Matt Inpanbutr
Jordan Kiel
Kristen Johnson
John Rodezno
Harriet Wasserman

Staff
Sarah Sodt
Erin Doherty
Melinda Bloom

Absent
Russell Coney

Chair Jordan Kiel called the meeting to order at 3:30 p.m.

In-person attendance is currently prohibited per Washington State Governor's Proclamation No. 20-28.5. Meeting participation is limited to access by the WebEx Event link or the telephone call-in line provided on agenda.

ROLL CALL

060221.1 PUBLIC COMMENT

060221.2 **MEETING MINUTES**

April 7, 2021 - MM/SC/MI/HW 6:0:0 Motion carried.

May 5, 2021 - MM/SC/MI/DB 5:0:1 Motion carried. (Mr. Inpanbutr abstained.)

060221.3 **CERTIFICATES OF APPROVAL**

060221.31 Satterlee House
4866 Beach Drive SW
Proposed 2-1/2 story rear addition, raised deck, and associated landscaping

Keir Vondruska. KV Architecture Company explained the proposed addition to the east side of the house. He said second-floor stained glass window will come out and he went over plans to remove existing stair. He said the roofs will match existing per ARC suggestion. He said the windows will be wood and the deck railing will be simple. He said that although the house is large, there is a lot of circulation and not a lot of living space. The house addition is needed for their growing family.

Mr. Inpanbutr asked if the new lap siding will be painted to match existing.

Mr. Vondruska said it will.

Mr. Barnes asked to see before and after images for where the addition is proposed.

Mr. Vondruska clarified addition indicating on drawings demolition and new construction elements. He said that matching the roofs was worth doing especially after talking with engineer. He said the new addition supports the hipped roof.

Mr. Kiel said he appreciated that change as it will blend in more.

Ms. Wasserman said there was lots of discussion at ARC and the applicant responded well. She said the project has improved and she supports it.

David Delafield, owner said he likes it as well and the addition will not be highly visible.

Ms. Doherty said ARC asked the applicant to study alternatives to the roof form, which they have. She said they also asked applicant to look at modulation; a bay window was added, and this was well-received at ARC.

Mr. Rodezno said the addition makes sense; the street view reads the same. He said they have done a good job blending in with and maintaining the site.

Ms. Doherty noted that Historic Seattle has a preservation easement on the site.

Jeff Murdock, Historic Seattle said they have been working with owner and architect. The design meets the Secretary of Interiors Standards and does a good job. The new siding differentiates from existing.

Action: I move that the Seattle Landmarks Preservation Board approve the application and issue a Certificate of Approval for the 2-1/2 story addition, raised deck, and site/landscape changes at the Satterlee House, 4866 Beach Drive SW, as per the attached submittal.

EXPLANATION AND FINDINGS

This action is based on the following:

1. With regard to SMC 25.12.750 A, *the extent to which the proposed alteration or significant change would adversely affect the features or characteristics described in* Ordinance 111022*.*
   a. While the proposal includes a substantial building addition on the east side of the designated house, the massing, scale, and character of the addition is subservient to the historic building.
   b. While the proposed raised deck changes the appearance of the house as seen from the front, this can be mitigated by base plantings, and setting it back from the front facade.
2. With regard to SMC 25.12.750 B, *the reasonableness or lack thereof of the proposed alterations or significant change in light of other alternatives available to achieve the objectives of the owner and the applicant.*
   a. The applicant's initial proposal was to site the house addition on the highly visible north side. Relocating the proposed addition to the rear of the house is far less impactful to the primary sightlines.
   b. The applicant explained their desire to have an outdoor space at the same level of the house's main living space which is a half-story above grade. With a driveway to the south, and the new addition to the east, the north side is the remaining option.
3. The factors of SMC 25.12 .750 C, D and E are not applicable.
4. The proposed work as presented is consistent with the following Secretary of Interior's Standards for Rehabilitation as listed below (or cite other applicable standards):

   Standard #9*: New additions, exterior alterations, or related new construction shall not destroy historic materials that characterize the property. The new work shall be differentiated from the old and shall be compatible with the massing, size, scale, and architectural features to protect the historic integrity of the property and its environment.*

<u>Standard #10</u>: New additions and adjacent or related new construction shall be undertaken in such a manner that if removed in the future, the essential form and integrity of the historic property and its environment would be unimpaired.

MM/SC/DB/MI 6:0:0 Motion carried.

060221.4 TRANSFER OF DEVELOPMENT POTENTIAL

060221.41 <u>Canterbury Court</u>
4225 Brooklyn Avenue NE

Ms. Doherty explained that the Transfer of Development Potential (TDP) is a financial incentive to landmarks in certain zones of the city.

The Board is requested to verify the eligibility of Canterbury Court at 4225 Brooklyn Avenue NE for the transfer of development potential (TDP); the Board is also requested to approve the required covenant. The code provisions require:

- Designation of the building(s) as a City of Seattle Landmark, pursuant to SMC 25.12.

- Execution of a Controls and Incentive Agreement regarding the Landmark and recording of same against the property.

- Receipt of a TDP authorization letter from SDCI, which establishes the amount of TDP available for transfer from the sending site.

- Demonstration of financial security to assure completion of any required rehabilitation and restoration of the landmark, unless such work has been completed.

- The owner must also execute and record an agreement in the form and content acceptable to the Landmarks Preservation Board providing for the maintenance of the historically significant features of the building, per SMC 23.45.509B(1). The owner has completed, and the City Historic Preservation Officer has approved, subject to final approval by the Board, a covenant that includes the commitment of the owner to maintain Canterbury Court consistent with Ordinance 126145**.**

Ms. Doherty explained that roof replacement is in process and was determined to be in-kind, and central boiler will be upgraded soon; she said the language requires the owner to demonstrate the work is complete and meets the deadlines. She said a letter of certification from SDCI indicates the square footage of TDP.

Ms. Clawson said it is a good incentive program and said they will use a portion of the TDP to add FAR for student housing at her client’s project, and will sell the rest.

Ms. Doherty said the hope is that the revenue will be re-invested in rehabilitation or maintenance of building.

Mr. Rodezno asked if only a portion of TDP will be used here.

Ms. Clawson said the rest will be sold. She said the City doesn't maintain a TDP bank, it is up to owners and sellers to do that. She said that Mmes. Sodt and Doherty do a good job of informing owners of availability. She said there is a lot of new construction in the University District so they will have no problem selling them.

Mr. Barnes asked for clarification of TDP and TDR.

Ms. Doherty said TDP is Transfer of Development Potential which is used for multi-family residences and here it applies to the University District Overlay. Transfer of Development Rights applies to commercial properties in other parts of the city.

Ms. Clawson said they can't go above allowed height limit. TDP stays within this neighborhood and cannot be used citywide.

Action: I move that the Seattle Landmarks Preservation Board makes the determination that Canterbury Court at 4225 Brooklyn Avenue NE has fulfilled the requirements for transfer of Landmark TDP pursuant to SMC 23.45.509 – that the building is a designated Landmark with a Controls and Incentives Agreement pursuant to Ordinance 126145; that an authorization letter from SDCI has been received and has identified the number of transferable square feet to be 42,207 square feet. The building requires minor rehabilitation as provided in the agreement. As the required work is underway, no demonstration of financial security is required at this time.

MM/SC/ HW/ROI 6:0:0 Motion carried.

Action: I move that the Landmarks Preservation Board approve the agreement entitled "COVENANTS FOR LANDMARK TRANSFERABLE DEVELOPMENT POTENTIAL" as submitted to the Board as the legal agreement required as a condition to the transfer of development potential from Canterbury Court at 4225 Brooklyn Avenue NE, per SMC 23.45.509B(1).

MM/SC/HW/ROI 6:0:0 Motion carried.

060221.5 DESIGINATIONS

060221.51 Wagner Floating Home
2700 Westlake Avenue N, Unit 10

Jeff Murdock said that Historic Seattle is a co-nominator of the property which has been part of the heritage, look and feel of the City. He thanked the Wagners for their accomplishments and said the nomination is honoring the wish of Colleen Wagner who wanted the property landmarked.

David Wagner, owner said he and his brother grew up there and he said he was appreciative of all the work that has gone into making this happen.

Sarah Martin, SJM Cultural Resource Services said the house was built in 1920 and in 1938 it was moved from Lake Washington to Lake Union. She said for 50 years the house has been the home of Colleen and Dick Wagner. She said the house is on the northwest part of Lake Union. She said there are several floating home neighborhoods which include live aboard boats, house barges, and floating homes. She said floating homes are built on a float and are semi-permanently moored to the dock. Floating homes are hooked up to sewer and water and have no means of mobility. She said the Old Boathouse condominium owns the shared dock as a cooperative. She said the owners support designation on the criteria presented – B, C, and D, for exterior of house and platform only.

She provided timeline for Lake Union and floating homes timeline and noted early houseboats on Lake Washington date from 1900-1938. She said the earliest houseboats were working class and short-term housing which remained unregulated until the mid-twentieth century. She said the wealthier used houseboats for recreation. She said in 1938 houseboats were pushed off Lake Washington as part of a lake 'cleanup'.

Ms. Martin said the house is a small wood frame structure, functional and absent stylistic elements. She said the cedar logs are the best floatation devices and the wood stringers need replacement more frequently. She said houseboats are clustered around wood docks; she noted clothes lines, utility poles, and walkways. She said in the mid-1950s the number of moorages peaked with 1100 floating homes at one point. She said the City started regulating floating homes more and the Wagners formed a floating home association which advocated for houseboat owners. She said in 1946 Life Magazine published an article showcasing lake living in Seattle and featured this house. She said it is listed on the National Register of historic places.

She said that Colleen, just out of college, rented the house with a couple friends. She met Dick, they married and in 1965 they purchased the house. The formed the floating home co-op in the 1990s. She said the Wagners were active in all facets of the lake community. Dick was president of the floating home association from 1974-1978 during a tense time on the lake as the organization sponsored and won equity in housing in floating homes but it was overturned by Washington Supreme Court.

She said that Colleen founded Discovery Modelers Education Center and served as executive director; she managed the Museum of Sea and Ships; and was events and education manager at the Northwest Seaport. She said at the early history of the Center, Dick moved away from architecture to start and manage a boat livery business, The Old Boathouse. After seeing the prolific use of fiberglass as a boat material, he endeavored to revive the tradition of wood boat building. Monthly meetings began in 1976 and the Center for Wooden Boats was incorporated in 1978. In 1980 they were told to close up shop by their landlord and they had to parcel out the boats while they sought permits for Waterway 4.

She said the floating house has a gabled roof with broad overhang, lapped siding and shingle cladding. She said windows are fixed casement and awning throughout the house. Access to the house is from Westlake Avenue N. She said they call the shared dock "The Old Boathouse" and a boardwalk provides access to all residences. She said triangular bay window on the north side of the house is similar to one in bedroom; she said they believe both were added in association with the move to Lake Union in 1930s. She said the new chimney was added in 1980s. She said the platform is attached to pilings that keep it to dock on the west side. She said the kitchen is compact; first floor has dining room, two bedrooms and bathroom. She noted the ship's ladder to the second floor with a board that swings over the steps to keep kids downstairs; she said it didn't work so well. She said there are two small bedrooms upstairs. She said the ceiling heights vary from room to room. She said the living room is the full width of the cabin. She said the Wagners installed the fireplace.

Ms. Martin said the floating house meets criteria B, C, and D for its distinctive character reflective of early 20th Century building.

Mr. Rodenzo asked if the ladder to the second story the only access.

Ms. Martin said yes.

Mr. Rodezno asked if the half story was added later.

Ms. Martin said it is part of the original house; she provided a historic photo.

Ms. Chang asked about built-in beds that were removed.

Ms. Martin said Colleen died in 2020; David and Mike lived in the house while getting it in shape, cleaning it out and doing updates.

David Martin said they replaced all the stringers 25 years ago and did joists at the same time. He said they have patched floor in a few spots.

Ms. Martin said the exterior deck walkway was replaced.

Mr. Inpanbutr said it was a great presentation and great story. He agreed with the Staff Report and supported designation on criteria B, C, and D. He thanked Ms. Martin for sharing the Wagners' story.

Mr. Rodezno supported designation on C and D and said he would be OK with B as well. He noted the unique method of construction and the general lack of precedent of floating homes as affordable housing option. He said the house contributes to the floating house history.

Ms. Chang appreciated the thorough presentation and supported designation on criteria B, C and D. She said the Staff Report states to just consider exterior and floating foundation. She asked what happens if the location changes?

Ms. Doherty said that the current location will be specified but that is not to say that in the future it couldn't be moved. She said the site is not mentioned in Staff Report. She said street clocks and marine vessels move and get reviewed by the Board.

Ms. Wasserman said it was a lovely presentation and that she remembered those things happening. She said Criteria B, C, and D all apply well and she supported designation.

Mr. Barnes supported designation on criteria B, C, and D and noted the presentation was outstanding and very clear. He said it is a good example of a landmark.

Ms. Johnson said she joined the meeting late (around 4:30pm) and although she supported designation she would abstain from voting.

Mr. Kiel said it is clearly a landmark and he supported designation on criteria B, C, and D. He said Mr. Rodezno did a great job of summarizing.

Action: I move that the Board approve the designation of the Wagner Floating Home at 2770 Westlake Avenue N – Unit 10 as a Seattle Landmark; noting the legal description above; that the designation is based upon satisfaction of Designation Standards B, C, and D; that the features and characteristics of the property identified for preservation include: the exterior of the house, and the floating log foundation/platform that supports it.

MM/SC/DB/HW 6:0:1 Motion carried. Ms. Johnson abstained.

060221.52 <u>The Center for Wooden Boats</u>
1010 Valley Street (Waterway 4)

Josh Anderson, Center for Wooden Boats (CWB) thanked the board for their time. He said the Center brings deep maritime history alive and makes it accessible to everyone.

Sarah Martin, SJM Cultural Resource Services recognized 4Culture who funded part of the project. She appreciated the review of this property at the same time as the Wagner Floating House. She said the campus opened in 1983 and took several years to fully take shape. She said Dick Wagner led the organization through time; he had a vision for a maritime museum and the CWB reflects his vision.

She provided context of the site and area on the south shore of Lake Union. She said CWB has leased the waterway since 1983. She said the new Wagner Education Building is on a separate parcel adjacent to the Waterway. She said the industrial landscape of Lake Union changed to a business and technology hub and MOHAI is adjacent to the CWB; four historic landmarked vessels and the 1914 Ford Assembly Plant are nearby. She said the early industrial neighborhood also used to have lots of multifamily residences. She said the South Lake Union Streetcar runs by.

She said included in nomination are the boat shop, exterior of boathouse, the open-air pavilion, and oar house as they are over 25 years old. She said criteria B, C, and D are listed on the Staff Report and she suggested inclusion of Criterion F as well. She said no interiors of boat house or boat shop should be included.

Ms. Martin said that Lake Union has sustained people for many years. Denny and Mercer staked claims in the area which they saw as a potential industrial hub. She said activity in the area grew in anticipation of the opening of the ship canal. She said bridges were built and two dozen water access points were cut into the shoreline. Today those are public waterways that ring the lake, including Waterway 4. Dick Wagner created a map of Lake Union in the 1930s which he called the heyday of industry and boat building on the lake. She said the Gas Plant was closed in 1956 and post war things were changing, and interest grew in environmental health of the lake and for public access to the water. She said that early lumber mills persisted into the 20th Century. She said the city occupies a piece of Block 74 where the old asphalt plant was. She said the coal buildings were demolished and glass warehouse built in 1946; warehouse demolished in 1990.

Ms. Martin said the Wagners began the boat livery business in 1968. John Gardner, known as the father of wooden boat revival on the east coast visited in 1977; he encouraged the group to pursue a similar organization here. Seattle's first wooden boat festival took place after Gardner's visit. She said the boat festival is still going on today. She said Dick envisioned a museum for many years and initially had ideas for Gas Works Park. He submitted plans for Waterway 4 and submitted plans in 1980; federal, state, and local permits were needed. She said it took a long time to get the permits but while waiting they were able to begin construction of the boat shop offsite. The boat shop was towed to the site in 1983. She said they improved the shoreside access to the Waterway. She said they worked with Seattle Central College to build the pavilion with in-kind and material donations.

She said that Wagner viewed the whole site as a living museum. Instead of looking at a model, you can get in one, build one, watch a hull come together, smell the marine paint. She said the place is very much alive. She said the boat shop is on log float and is held in place by steel pilings. She noted the hipped roof, shingles, cupola which provides light, and surrounding deck. She said Dick designed an attractive post and beam structure with hipped roof. She noted the gable on north side where small craft can be hoisted out of water for work, sliding door, exterior track which opens building up. She said the interior is a large open space for boat building; roof beams facilitate storage. The upstairs office used to be Dick's.

Ms. Martin said the pavilion is an open-air structure which Dick envisioned as an observation point. The structure is octagonal in shape, supported by gables. Steve Johnson at Environmental Works did the sketches; Seattle Community College students constructed the pavilion. Dick sketched the oar house and turned sketches over to Jim Buckman who built it; two shed additions are from 2010.

She said the Boathouse is two stories and rests on a foundation of 10" styrene foam logs with pressure-treated stringers and floor joists. A wood deck encircles the building. The building is held in place by four steel pilings that were driven in 2011, replacing multi-pile timber dolphins. The primary entrance is at the east end of the south elevation. The single-leaf, wood door with clear-glass panels and the adjacent multi-light window are inset. A built-in wood storage box with hinged double doors sits below the window. A three-sided bay window, containing a large multi-light unit flanked by multi-light casements, is centered on the second story. The long west elevation has one opening on the first story – a single-leaf entry leading that accesses a secondary hallway. Adjacent to the entry are full-height, wood storage bays with hinged doors that were added in the mid-1990s. There are two three-sided bay windows on the second story. The north elevation, facing Lake Union, serves as a sort of gateway to the water. Two pairs of wood-and-glass doors open to join the first-floor interior classroom with the sprawling outdoor deck. The primary entrance on the south elevation opens into a full-height, two-story entry hall with a reception desk.

She said the campus grew and changed as its needs changed. She said a floating classroom was added; it has been moved over time but has been at its current location since 2011.

Ms. Martin said during all this growth, the CWB maintained its original vision preserving and sharing knowledge of traditional small watercraft. The mid-1990s programming truly emphasized education and hands-on experiences, doing so through an impressive variety of activities that reached all kinds of people. Programs in 1995 included year-round sailing instruction for homeless teenagers, weekly boat rides for people with AIDS, sailing instruction programs with local schools, and "All Aboard" during which 10 or 15 "at risk" teenagers participate in summer-long instruction in sailing, rowing, seamanship, and woodworking. It is important to emphasize that Colleen Wagner's influence on the organization can be seen in these educational programs, and, still today in the popular toy boat building program and signal flag making activities. Dick Wagner continued to run the all-volunteer organization, but by the mid-1990s the governing board recognized the need for an executive director to guide operations. His influence is seen in the buildings and the setting where the focus is on all small boats moored there. He refined the design over his lifetime.

At the heart of everything the Center has done and continues to do is their fleet of traditional small craft. The Center maintains one of the most diverse and active collections of working and static boats in the country, which began in the late 1960s at the Wagners' Old Boathouse. The influence Dick and Colleen Wagner had on the success of the organization cannot be overstated, and it is truly fitting that the new education center bears the Wagner name. They used their professional talents in art, design, and teaching to share their passions for maritime heritage and lifelong learning with the public. Although both Dick and Colleen are now gone, their impact on the organization is evident in all facets of today's Center for Wooden Boats.

Ms. Martin said the buildings meet criteria B, C, and D and she recommended inclusion of F as well. She said Dick and Colleen Wagner were at the forefront in reigniting appreciation for wood boats. She noted the transformation of Lake Union shoreline from industry to maritime center. She said the buildings are distinctly boat livery. She said the campus is easily identifiable and serves as a public gateway to the lake.

Mr. Kiel said the presentation was comprehensive.

Ms. Chang appreciated the presentation and noted how permitting can be tricky and noted it is interesting that it is a leased property. She said considering how much work has gone into the site, it seems permanent. She said the board doesn't see many young buildings from the 1980s and 1990s; it is important to landmark them. She said the campus is in a great location that has transformed so much the last few years. She supported criteria B, C, D and F because you know where it is.

Mr. Inpanbutr said it as an excellent presentation. He supported designation on criteria B, C, D and F noting the changes in the neighborhood and that you won't get small scale buildings anymore.

Ms. Johnson supported designation and said she appreciated seeing all Dick Wagner's drawings. She said there is a feeling of 'hand-made' which is appropriate. She said it is a distinctive building. She agreed with the Staff Report and would support Criterion D if there was other support for it but said it could be moved so it is odd to consider it. She said it is such a wonderful location and she noted the rebirth to remake or reestablish connection to maritime history.

Mr. Rodezno appreciated the well-done presentation and supported designation on criteria B, C, D. He noted the design is typified by vernacular style which contributes to the area. He said the CWB contributes to aspect of cultural maritime history. He didn't support Criterion F because it gets lost by MOHAI.

Ms. Wasserman said it was a wonderful presentation about history and culture of the area. She supported designation on criteria B, C, and D. She noted it is a definite style of maritime work. She had no problem with inclusion of Criterion F but said it fades in comparison to MOHAI.

Mr. Barnes appreciated the presentation which he said was thorough and clear and highlighted key points. He supported designation on criteria B, C, D but said he was ambivalent about F. He noted the historic continuation to be able to go there and visit, and see the handwork being done on wood boats, and noted that Seattle is a boating city.

Mr. Kiel supported designation on criteria B, C, and D but not F. He said the program is so of its place and he noted the connection to the water and maritime history and culture. He said B and C are the strongest and while he was ambivalent about D, it is a distinctive style so he would support it.

Action: I move that the Board approve the designation of The Center for Wooden Boats at 1010 Valley Street (Waterway 4) as a Seattle Landmark; noting the legal description above; that the designation is based upon satisfaction of Designation Standards B, C, and D; that the features and characteristics of the property identified for preservation include: the entire Pavilion structure, both exterior and interior; the exterior of the Boat Shop, and the pilings and platform that support it; the exterior of the Oar House, and the platform that supports it; and the exterior of the Boat House (Education Center), and the pilings and platform that support it.

MM/SC/MI/ROI 7:0:0 Motion carried.

060221.6 CONTROLS & INCENTIVES

060221.61 Turner-Koepf / Beacon Hill Garden House
2336 15th Avenue S
Request for extension

Ms. Doherty said the owners are undecided on their plans for the property. She said they proposed building additional residential units on the land; ARC asked for more information and exploration of options. She said the owner asked for a six-month extension which she supports.

Action: I move to defer consideration of Controls and Incentives for the Turner-Koepf / Beacon Hill Garden House at 2336 15th Avenue S for six months.

MM/SC/JR/HW 7:0:0 Motion carried.

060221.62 **líq'təd** / Licton Springs Park
9536 Ashworth Avenue N.
Request for extension

Ms. Doherty said it has been a challenge for Parks and Recreation because SPU has major utilities running underneath. She said Parks wants to put together language for a separate agreement with SPU before completing the C&I Agreement. She said a Certificate of Approval for a site sign recently went through the administrative process. She said they have asked for six months, which she believes is reasonable.

Action: I move to defer consideration of Controls and Incentives for **líq'təd** / Licton Springs Park at 9536 Ashworth Avenue N, for six months.

MM/SC/KJ/HW 7:0:0 Motion carried.

060221.63 Frederick Boyd / American Meter & Appliance Building
1001 Westlake Avenue N

Text taken from transcript.

MR. KIEL: Onto, I believe, our last item this evening, which is the Frederick Boyd American Meter and Appliance Building Controls and Incentives, and it's at 1001 Westlake Avenue North.

MS. SODT: Yes. I will start giving my staff report.

MS. DEWEESE: Before you jump in, Sarah. Erin, my shared button is still greyed out. Is there something else that needs to be clicked for that?

MS. DOHERTY: I will give you presenter rights. I didn't know if, Sarah, do you want Melinda to host your staff report on the screen or should we just let Abbey --

MS. DEWEESE: Oh, I don't need to do it right now. I just want to make sure that I can in the future.

MS. DOHERTY: I will. I will switch it when she's done.

MS. SODT: Why don't you allow her to share right now and then you can put up my staff report at the end.

MS. DOHERTY: Okay.

MS. SODT: I'll just give a quick introduction. So, the Board is definitely familiar with requests for extensions and approvals of Controls and Incentives agreement. So, I am just going to quickly just go over some background. As the Board knows, the designation process is a four step process. The Board votes on nomination, the Board votes on designation. Controls and incentives negotiation and the Board vote on that occurs as a third step. And then finally the city council will vote on a designating ordinance. So, in this case, the owner agreed to negotiate. However, they submitted a letter outlining why they believe controls will deprive the owner of their reasonable economic use of the property. And that is what they are going to be presenting on today. So, I will let them go forward on that. And then I will wrap up my staff report after their presentation and answer any questions. And after they have their presentation, you will also be able to ask them questions. So, Abbey, go ahead.

MR. KIEL: You're muted.

MS. DEWEESE: Can you hear me now?

MR. KIEL: Yep.

MS. DEWEESE: Great. Thanks so much for that introduction, Sarah. And good evening Landmarks Preservation Board Members, it's nice to be with you virtually. My name is Abbey DeWeese, and I'm an attorney from Hillis Clark and legal counsel for the property owner 1001 Westlake Partners, LLC. This evening you'll hear a few remarks from me and then an economic analysis from the owner's consultant McKee explaining why we do not believe there is any reasonable economic use of this property with the proposed controls on the exterior of the building. Collin Madden and Erich Guenther, who are partners in the owner entity and my colleague Amit Ranade are also available to answer your questions. Collin, Erich and Amit may jump in to clarify aspects of this proposal either during this presentation or during your questions. First, we wanted to build on the information and the staff memo with some information, some additional information on how we got here. The owner originally purchased the 1001 Westlake site in 2016 for hotel development. You'll see later on that our economic analysis also focuses on a hotel development because this is the owner's intended use and because it makes the most sense based on the size and the location of the site. The owner invested in a proposal for a new total through the early design guidance stage for the City's design process and received favorable comments from the West Design Review Board. Prior to submitting the master use permit application, however, this building was landmarked with a 6 to 4 vote from the Board. After designation, the owner modified its development plans to an adaptive reuse hotel project that retained the existing exterior walls but added two stories. They hired a new architect team with historic building experience and explored several schemes, but it took to the ARC on three occasions over the next two years. Payback from the last of these briefings was not supportive of these additional floors. So, ownership looked at whether a project would "pencil" without the added stories. The result of that analysis was that ownership determined the project would be economically infeasible with or without the additional floors if the existing exterior walls were required to be retained. This led to the current objection on controls. The owner first notified the City of this objection in September of 2019, more than a year and-a-half ago and 6 supplied a detailed economic analysis at that time. That economic analysis is based on the economic conditions in 2017 when the site was landmarked. It was also by McKee Real Estate, who we have here tonight, who we specifically engaged because the City has used them as a trusted consultant in the past for this exact analysis. Since 2019, there has been significant back and forth with the City and, notably, there's been an 11th hour 180 degree shift in the City's approach. The City's consultant AECOM initially accepted the owner's revenue projections for our hotel but disputed the construction cost assumption and relied on academic RS means data rather than the three real world subcontractor price bids by the owner that are from the local construction companies Graham, JTM, and Venture. We think the JTM and Venture bids for the control scenarios are correct because both general contractors have extensive experience with adaptive reuse projects and were trying to win the work. Until last Thursday, we were preparing to defend those bids at this meeting. Now, as you will hear more about from McKee shortly, the City's consultant has pivoted and accepted the owner's construction cost projections but now dispute the revenue assumptions. Like the cost assumption, the owner's revenue assumptions are credible. They are backed by McKee's extensive experience. The owner's revenue experience as the owner of a Palladian hotel and are generous when benchmarked against the values of actual hotel sales comps. These are compelling reasons to accept McKee's analysis and reject the City's. I'll now turn it over to Scott Biethan, Ken Barnes, and Julian Rondello from McKee, who will step up to the podium and introduce themselves.

MR. Ken BARNES: Hi, I'm Ken Barnes from McKee Appraisal. And McKee Appraisal is an independent appraisal and consulting firm, it's been around for 31 years. I, Ken Barnes, have been around for a bit longer than that. I've worked both sides of the landmark issue. I specialize in office properties and difficult appraisal questions. I've got here with me Scott Biethan. Scott's a fellow MAI. I've had the great pleasure to sit down the hall from him most of my career. And Scott graduated with a hotel and restaurant administration degree and worked for a while in hotel operations, then became a hotel feasibility consultant, then found his true calling in hotel appraisal that he's done for more than 30 years now. The main time that we didn't sit down the hall from each other is when he took a detour to run the CBRE National Hotel practice. But then he got smart and came back to work with me again. Recently he did an eight-hour presentation to the local chapter of the appraisal institute, eight hours on to value a hotel. And so, he's got to boil that down into 10 to 15 minutes for you tonight. And then, finally, Julian Rondello is another MAI in our office. He's been with McKee for about eight years. He worked for me on the Sullivan House Landmarks case and specializes in income producing property. So that's why we had him on the team. We're going to be talking a lot tonight about reasonable rate of return. There's no real definition of that, what we're supposed to be doing, but the industry standard is internal rate of return. We abbreviate that as IRR. And essentially layman's definition is that it's the rate of return on each dollar that's invested over time and then calculated as each dollar of return comes in over time. So, it's a time weighted return. And since we're talking here about development real estate, you know, this is really risky stuff. And if things go well, you make a lot of money, if things go poorly, you lose it all. You know, so this isn't buying a house and renting a house out, it's higher rate of return. So, I'm going to jump into my slides here. We looked at a lot of different analyses of this. We looked at, you know, renovation and continued use of the current office building. We added on a couple floors to see if that made sense. We looked at the seven story and nine story apartments, none of those made sense. And finally, we got to hotels, and we'll get to that in a bit. And we have a number of different things that we need to prove, I think, in this. And one of our tasks is what is the market value of the site or the improvement, you know. Before the imposition of controls and after the imposition of controls, we've submitted this in a separate document. The City didn't contest what we said, but I'll just summarize it here for purposes of record. Our opinion was before the controls, the value is 5.21 million, after the controls 1.7 million. Next piece, owner's yearly net return on the site. So, we only have, you know, partial years because of when ownership started, this is their history through when we created this report. And our opinion is that's not a good enough return. Here is when I mentioned our office use, I'm not going to go through the numbers because that will put us all to sleep here, but our conclusion is, you know, not a reasonable 25 return. Again, office adding a couple more floors, not a reasonable return. Apartment development analysis, same thing, not a reasonable return. Nine story, not a reasonable return. Gets us to hotel. And so that's where I'm going to turn it over to Scott because he's the pro in 5 hotels.

MR. BIETHAN: Thanks, Ken. And I'm Scott Biethan. As Scott mentioned, I'm with McKee. And my background is hotels. I've spent pretty much my career, you know, looking at hotels and thinking about them. So, for this particular instance for this particular assignment, we were really posed with a question, how do we view the proposed hotel development with and without Controls? And the measurement that we're doing is an internal rate of return. You can imagine that a little bit and -- and I kind of think of the very simplistic in my mind as I explain it is, you know, what is the benefit that you got by owning the hotel? So, after the hotel is developed, you get some cash flow before it can stabilize. And then you get to own the hotel when it's stabilized or sell it. But that's the valuation method that we use. And so, we're looking to say, okay, what are the benefits, the economic benefits you get from owning that total versus the cost? And if you get a greater return, then that is something that's acceptable. If it's a lower return, it's not acceptable because it doesn't compensate for the risk that you had to undertake in developing that hotel. So, we're going to talk a little bit here in the next few minutes about essentially the cash flow methodology and the valuation methodology because that really defines the totality of the economic benefits. I will touch briefly on, then, costs. And then Julian will really then after that, you know, kind of dissect that a little bit more. So simply put, cash flow and revenue and value. There's some terms I want to define starting out, one is occupancy. And you may already know this, and forgive me if you do. Occupancy is the total number of rooms occupied in a hotel and divided by the total number of available rooms. And we think about that as an annual metric. Summertimes can be busier, wintertimes can be less busy. Depending on the hotel, weekends can be busy or not busy, but it's the annual number of rooms occupied divided by the total available rooms, that's an occupancy percentage. Average daily room rate is a second term you'll hear a little bit and even more in the materials that were presented. That's simply the average of the room rate that was sold. So, of the guest room, if every single room of the hotel sold for $200 a night, the ADR, the average room rate would be $200. If some above, some below the average would be, $200. And so that's ADR. You might see a term called RevPAR, it's a simple metric occupancy times ADR. And it's one that kind of levels out the analysis of ADR and occupancy. So basically, the question is, what did we do? So, we develop a cash flow of the hotel starting from when it opened to when it stabilized. And we looked at that both for 99 rooms and 117 rooms. And in a nutshell, you know, we had found, compared to the cost, the 99 room, the cost burden that evaluation as opposed to the 117 rooms. The next slide is -- next slide is basically, really quickly, room revenue drives the majority of the income analysis for a hotel. And we really spend a lot of time looking at the market. And you will see later the market's really important because in Q2 of 2017, the market looked okay or actually relatively good, but it was really on a cliff, and we'll talk about that in a second. But it's really important when we look at a hotel valuation, a hotel cash flow, to understand not only what happened in the past, but what's happening in the future, and that's any investor, any buyer, any seller, or any analyst will look at that. This is a brief look at what's happened 2012 through Q2, 2017. The take home message is when you look at that Q3 or Q2 2017 at 83.7 percent and you see outlook is good as of Q2 2017. But what we know is if you look at this map, and I'll 25 just briefly say the red dots are hotels that are under construction, the yellow dots are ones that just had opened up, there had been an impressive amount of new supply coming into the marketplace. That needs to be considered when we look at our cash flow analysis. This slide really just kind of indicates that the -- there was a 34 percent pipeline. What that means is, in a central business district, so basically the central -- the CBD, the central business district of downtown Seattle, there were -- of the total supply, there was again another 34 percent increase proposed and/or under construction; 23 percent of the existing inventory was to be added again at that point in time. So, there was a lot of new rooms coming into the market. And that really helps to guide us in how we look at the analysis. What we did is we do an analysis that takes into consideration existing occupancy in the marketplace, future occupants in the marketplace and really kind of think about the time the hotel would open. And, you know, essentially in Q2 of 2017, the market would be -- you know, the property would be acquired, the site would be acquired. You have to assemble all the permits and do all the titling process. And so essentially as forecasted out at the time the hotel would open through the day in which it would stabilize. And that's a few years down the road. But essentially what we've done here, in these two columns we show, all right, we're going to say that, you know, at the time that the property stabilizes, the 99 unit would have, you know, around a 78 and-a-half percent, and the 117 unit would have around a 77 and-a-half percent occupancy. And it's essentially where we're seeing the market would be at point in time as well. So, everything kind of matches with the market and that's important for us to state because later when we'll talk about the, you know -- not as fully understanding some of the AECOM analysis, it was like, well, you know, we had to kind of use market data to come to -- and real life data and hotel data to understand where the market would be when this thing would open up, and where it would be when it stabilized. And so, we're pretty comfortable with our projections and we understand where we think the market is going. So, we really kind of take that into consideration. And so, we'll just leave it as that. Here's the important part of, you know, the next piece. Because we've already talked about, all right, we've gone through a cash flow analysis. We've looked at occupancy in the market. We've looked at occupancy in the subject property. We've looked at average rate. We did prepare a cash flow and you saw the one, the slide, the previous slide, and we have income and expenses. Basically, our income and expense analysis, the ratios, are based on real life operations because we've got a lot of total statements that we rely on, proprietor information in our files, industry information that we're aware of, studies, you know, that we subscribe to, and we use in our analysis. So, we're pretty comfortable to where we got in our cash flow and the evaluation and the end of that evaluation. But ultimately then the next piece we had to just kind of stop and think about was the construction cost. And so, when the construction costs -- you know, we saw what the AECOM numbers were. We've got bids from Venture, on the weight of it, but Jim has bids from Venture and from Graham and from JTM. And the Venture bid, as you can see, the 99 unit with Controls, the green line there in the red box, you know, it's a lot higher for the reason because they have to work around an existing structure, so it's more expensive to do that. And the comparison which Venture, they were bidding -- these were actual bids for them to win the work, if they could get it. And you could see that the 99 unit per rata had more -- it was more expensive. And even though we only had with and without controls of Graham and JTM, it still gives us that same kind of conclusion in that it's more expensive to build a property that has controls in it. So ultimately at the end of the day when we put all this together, income, value, costs, gross profit, you can see that the 99 room scenario, it's not a reasonable return, 3.58 percent. It's a positive return, but it's not enough to get an investor to say, yep, I'm going to accept the risk of the deal for that perceived return. 13.76 gets there, and it's a reasonable return. And so, with that being said, I'm going to turn it over to Julian, and thanks.

MR. RONDELLO: Hello, my name is Julian. I worked on this project with Ken and Scott. Part of our analysis included not just the support of our conclusions, but we also looked at and evaluated the alternative conclusions that were provided us by the City's consultant, AECOM. Just for some clarification, AECOM, to our understanding, is an engineering firm who specializes in infrastructure consulting. We didn't know they had much hotel experience. And so, some of the conclusions we were very surprised by. When we -- as a way to kind of further expand on the concept of IRR, and I know Scott's touched on it and Ken's touched on it, but, you know, you will have to forgive me, I'm more of a visual thinker. And so, I would like to present a way to think about this as a stool. And say this is a four-legged stool. And each leg of the stool represents one of the conclusion inputs. We have a cost input. We have a revenue input. We have a value input, and ultimately an IRR input. And in a feasibility analysis where your stool is sound and all of the -- all four of those legs are equal, you're going to have a stable, secure investment and you're going to be able to convince an investor to step up on that stool. As soon as we start seeing one of those stool legs get out of balance, say value is getting too high or revenue is too high, cost is going -- getting too low, we're going to get that stool out of balance. And as a result, you're going to have less confidence and investors are going to have less confidence looking at these investments. The reason I bring this up is because we have been provided an alternative analysis by AECOM that presents IRRs for the 99 unit scenario that do appear like they would be reasonable. But the reason why I point this out is because the reason they become reasonable is because the other stools of this chair or the other legs of the stool they have been building that include value and revenue are so far out of whack away from the market that this is not a really stable analysis. Ultimately, we've looked at AECOM's analysis through the typical lens that we would on any appraisal review. So, we oftentimes utilize three main criteria. We ask, are the conclusions, are they reasonable; are the conclusions consistent, and ultimately, are those conclusions reliable. As a way to help understand or as part of the conclusions that AECOM presented, they presented a value conclusion as well as a revenue conclusion, a year one revenue conclusion. As we have attempted to understand how they achieve their year one revenue forecast, and, unfortunately, there's just not enough sufficient detail for us to fully understand that. But what we can do is we can utilize the extensive hotel valuation model we have and say, hey, if we increase ADR, how much do we have to increase it by in order to get to the value conclusions that AECOM later presents? By using that metric, we are able to analyze that it's either 277 to $339 for their ADRs. Whereas our McKee Appraisal, we're at 231. As a benchmark, we use the 2022 ADR market average for upper-class hotels published by CBRE. And, again, it's important to point out that the reason we're using a 2022 metric and not say, a 2017 metric, it has to do with the fact that this property, the valuation we're analyzing, is the fund stabilization, which we have forecasted to occur in 2022. Again, just so we can point this out, ADR, AECOM's ADR is between 41 and-a-half percent and 71 and-a-half percent above the market benchmark, whereas McKee's ADR is 21 percent. That's for the -- excuse me, likewise for the 117, which we are looking at right now, this represents a 15.5 percent increase for the McKee over the benchmark, whereas AECOM's analysis indicates 38 and-a-half to 69 and-a-half percent above the market benchmark. The other aspect that we've looked at as well has to do with the valuation characteristics. In the -- in order to analyze whether or not the conclusions of AECOM are reasonable, we compare it to a set of market data. And so, the market data we'll utilize in this situation represents 15 hotel sales that occur between 2015 and 2018. These are -- all 15 of these sales are located in either the Seattle or Bellevue central business districts. And we've trended these costs for us March 2022, again, just like we did in the previous analysis. Again, we're trying to capture what is the value going to be, what are the benchmarks going to be indicating as of 2022. We've considered two units of comparison in this analysis. We've looked at a dollar per square foot, as well as a 15 dollar per room or dollar per key analysis. And it's important to look at both of them because we can see that some rooms -- some hotels that sell are going to be larger average size rooms, where others are going to have smaller average size rooms. So being able to look at per square foot as well as per key, you're able to get a balance of the real valuation aspects. Again, we see here at AECOM's valuation conclusions range between 77 percent and 118 percent above market benchmark of $515 per square foot. On a per key level, AECOM's analysis with a 99 room scenario is 24 percent and 52 percent above market average. Whereas our conclusion, McKee's conclusion, is only about 5 percent above the market average. When we look at the 117 room results as well, which is the other scenario that AECOM's forecasted valuation for, likewise we see that they are between 55 and 92 percent above the market benchmark as well as a dollar per key basis they are 11 and 37.5 percent. Ultimately, we found that the value and revenue conclusions contained in the alternative analysis provided to us by the City tend to be on board for the actual market realities that we're seeing. As I mentioned earlier, the other thing that we look at is consistency, we're doing reviews. And so, it's important for us to look at the history of the submissions we received from AECOM when analyzing the consistency of the analysis. As you see we have two submissions. And in our first submission, AECOM accepted the valuation and revenue conclusions that we put forward. However, they contested the costs. As a result, they were able to show that the 99 unit scenario was able to achieve a higher IRR, or internal rate of return, than the 117 unit. However, in their second submission, which we received last week, the AECOM accepts the cost conclusions that we concluded earlier but then reevaluates the valuation conclusions. And so, in this graph here, the blue lines represent the construction costs. The grey lines represent the value, and the orange represents the IRR. What's interesting about their second submission is you see that in the second submission they go from -- in the second submission their 117 unit scenario ends up having a higher IRR than the 99 unit scenario, which was the opposite, it flip flopped from the first situation. Ultimately, we look at AECOM's suggestions of IRR based on the value conclusions and the revenue conclusions, which we can't fully understand. We do not believe those conclusions are a reasonable comparison to the market average and the market benchmarks. We found that their analysis is inconsistent and -- between their submissions. And ultimately we find that the analysis is unreliable. And in this light we have to entirely reject the results provided by AECOM and ultimately we give them no weight. I am going to turn over the presentation one more time to Ken to wrap it up.

MR. Ken BARNES: Thanks, Julian. Ken Barnes back on the record. And, yeah, so we get to our conclusions here. That basically the assumptions that we find in the AECOM analysis are outside the realm of market reality. That reasonable economic return is not achievable with the constraints imposed by the landmark controls and that 117 unit hotel without landmark controls would result in a reasonable economic return.
I actually had meant to comment earlier that some of the slides we're presenting today are a bit different than what we provided you a few days or whenever. We just got the AECOM stuff very recently and so we were reacting to that. And we, you know, modified those slides a bit to -- I don't think there's any new material there, but we wanted to create a clear communication about what we were thinking and how we arrived at that.

MS. DEWEESE: Thanks. Just to wrap up really briefly, I would like to just touch on the criteria you have to consider at the meeting tonight. The Landmarks Preservation Ordinance states that you must consider reasonable economic use in every proceeding. This means that you can't just rely on what the historic preservation officer recommends or vote for control simply because this matter may be further considered by the hearing examiner. As board members you have an obligation to fully consider the analysis presented and vote based on your own determination of reasonable economic use. As you heard from McKee, their analysis is reasonable, consistent, and credible because it's backed by their experience and by real world data. You heard that their relevant experience is not just as appraisers, but as professionals with more than 30 years' experience in valuing hospitality projects. McKee's opinion is that there's no reasonable economic use of this site with controls and that the assumptions used by AECOM are outside the realm of market acceptable. McKee is staking their reputation on that conclusion, and we ask you to take note of it. As for the specific code criteria. This slide and the next one summarizes our conclusions. On Criterion A and B can explain how the market value of the site in its current condition has a negative return. The cost to keep the building and office use in its existing condition or in a renovated condition are higher than the value generated by this use. On Criterion C, D and E, Scott and Julian explain that the expected current rate of return on a hotel development with controls is only 3 and-a-half percent, which is too low to attract investment. Without controls, the hotel development would have an expected return of nearly 14 percent, which should be sufficient to attract investment. Scott and Julian have also shown how the value of these scenarios compares to other hotel projects in our market and the value with controls is lower than the average value for the hotel sale in the Seattle or Bellevue central business districts, again, indicating this is not economically reasonable. McKee looked at this building through the lens of multiple uses and benchmarked redevelopment scenarios based on real world data and using multiple methodology. His conclusions are reasonable, consistent and credible. We ask that you accept them and vote against controls on the exterior of the 1001 Westlake Building. We look forward to your questions and thoughtful deliberation. And thank you so much for your time this evening. Sarah, are we going to do questions now or wait until after you present?

MS. SODT: I think the Board can ask you questions now.

MS. DEWEESE: Great.

MR. Dean BARNES: I've got a couple questions for you there. In terms of the desire to build a hotel, that particular location is not close to a core down business area. So why was the rationale to put the hotel there versus something else?

MS. DEWEESE: I'm going to have Collin Madden jump in as the property owner to touch on that, and Ken may also jump in.

MR. MADDEN: Hi, Collin Madden, one of the partners. So, at the base level that -- none of the other scenarios we posted work. We looked at just about everything that we could do with the site. And the highest return that we could get to was through a hotel. I would also point out that we own another hotel that is almost a direct analog to this. And that is we're the owners of the Palladian Hotel, and that's a 97 room national historic register hotel that, you know, we're delighted to take care of and work with. But that location is -- limitations include the small parcel size and, you know, how many square feet we would be able to, you know, generate for other rentable, you know, in an office condition or other residential locations. So, the highest and best use we could find for it was the -- was as hotel. So, does that help? And so, you said it is not a central business hotel, and we agree with that. We think it actually has appeal because of its water use and relative proximity to some other important locations like the Bill and Melinda Gates foundation, et cetera, as well as its proximity to MOHAI and things like that.

MR. Dean BARNES: Okay. Also, in terms of the rate of return, the 3.58 versus the 13.76, is that a one year rate of return, or is that based on the five year rate of return?

MR. MADDEN: I'll let these guys answer that.

MR. Ken BARNES: Hi, Ken Barnes back here. So that's a life of the project rate of return. So, you know, basically it considers all of the inputs as you're developing it, buying the land, doing the construction cost and what not. But then also considers, you know, coming back out of it all the positive returns, cash flow and then ultimately selling the project at the end of the time. So, it basically is a time weighted return. So, the reason we do that is so that whether or not you're projecting it to be, you know, a one year hold, or a five year hold, or a 20 year old hold, it's a time weight of return so that internal rate of return will, you know, equalize out over time, if that makes sense.

MR. Dean BARNES: I think I understand what you're saying, but make sure I understand, that based on the construction of the building and then you sell it, then your rate of return is based on the 13.76; is that correct?

MR. Ken BARNES: Right.

MR. Dean BARNES: Okay. The other question I have is, you know, in terms of the hotel being there and, you know, the occupancy rate, et cetera, I believe a lot of information you provided was based on 2017. I was just curious if you had more updated data than that?

MS. DEWEESE: Yeah, so the 2017 was used as a base year in our analysis because that's when the site was landmarked. So, the building was landmarked in 2017. And then projections were made based on, you know, the assumed length of time for an entitlement process and construction based on that base CR. So, now, updated projections might be available. I think these guys will tell you that they're much worse based on the pandemic and the number of hotel projects that have opened in Seattle since 2017. So that's kind of why the time periods are the way that they are.

MR. Dean BARNES: And you actually bring up a good point about the number of new hotels. Do you have an idea how many new hotels have been built since the 2017 point that you started with?

MS. DEWEESE: So that was on one of the prior slides.

MR. Dean BARNES: Yeah, because I thought the slide ended in 2018.

MS. DEWEESE: Okay. So, it did –

MR. Dean BARNES: You just passed it.

MR. BIETHAN: Hi, this is Scott Biethan here. So, I don't have that statistic right in front of me, but I can tell you that 23 percent of around 11,000 was under construction at the time that the -- so, call it, maybe plus or minus 3,000 rooms, the big one was the convention center hotel. And no other hotels opened up after that. I just don't have that data point. I can get it in probably just a couple of minutes here, but I just don't have it. Yeah, but a lot of hotels have opened up, and we knew that, and we took that into consideration in trying to estimate how we would look at the future occupancy as we did our own measurements as of the date of opening and the date of stabilization.

MR. Dean BARNES: Great, thank you.

MR. BIETHAN: Yep.

MR. KIEL: Any other questions from the Board?

MR. INPANBUTR: I'm curious about the estimating process or I guess the sub number -- the general contractor numbers. You guys had numbers for Venture for both scenarios, but only one for each for both Graham and JTM, and I was curious about that.

MS. DEWEESE: Do you want to –

MR. MADDEN: The reason we have a 99 unit scenario -- this is Collin Madden, by the way. The reason we have a 99 unit scenario is that was what we could achieve with the landmark and a five story addition on top. So, we -- you know, we perceived the most -- those contractors came with the most favorable, they were winning the business. So, these were actual bids we obtained at the time. And in fact, one of those bids was from Graham Construction that we obtained in 2017. Again, at the actual time, so that didn't have to sort of revert it back to 2017 dollars. I'd also like to just point out, this reliance on a 2017 time period and a decision point was the Landmarks Board, that's the process that we're following. So, it's not arbitrary on our part, it was, you know, that's the way it's done. Am I answering your question? So why do we have -- why don't we have bids for each scenario?

MR. INPANBUTR: Yeah, I guess that's what I was curious about, right.

MR. MADDEN: Yeah, so we -- do you want to flip back to those bids? So, I would also just like -- how can I -- these are relationships that we've had. And these are actual bids that we obtained to build the project. Only Venture did both scenarios for us. Graham was chosen -- you know, at the time they were, you know, the most cost effective builder for us. And you can see their cost was actually a little bit lower. I mean, these guys were vying for the work and --

MR. GUENTHER: I'll jump in, this is Erich Guenther. And JTM we had bid the project because they actually built the Palladian for us, which is a historic landmark and their expertise in taking a building and converting a historic building.

MR. INPANBUTR: Okay. So, they all bid the work in 2017. And these figures are escalated to match up with AECOM's 2020 and '21 estimates; is that right?

MS. DEWEESE: No, Julian will jump in and explain that kind of blend that was applied.

MR. RONDELLO: With all the costs, some of these costs were submitted to the ownership after the 2017 date. And so, in those situations, we've trended the cost backwards to the 2017 date. For instance, I think the Venture bids included the 2019 and a 2020 date. And so, we've relied on a variety of cost -- construction costs indexes in order to bring it all back to a certain date.

MR. INPANBUTR: So, you've deescalated them.

MR. RONDELLO: Each one of those is the same de-escalation measure. So, it's the same between all of them.

MR. INPANBUTR: Got it.

MR. RODEZNO: I have a question. This is John. Speaking on this slide, does the 117 unit without control, is that including the cost to demo the building on site or was that cost not taken into consideration on this slide?

MS. DEWEESE: Yes, that's including the cost of demolition.

MR. INPANBUTR: And just to be clear, again, about the process, everyone was bidding and/or estimating the exact same set of documents between AECOM and the three contractors; is that right?

MS. DEWEESE: Yes.

MR. INPANBUTR: Okay.

MS. DEWEESE: So, I guess we'll assume about AECOM because we gave the City the set of documents that Venture and JTM used. And so, we assume that they perhaps looked at those, but we also know that they used RS means data, which is more of an academic tool for cost estimation as opposed to Venture and JTM, which went through a subcontractor bid process. So, they talked to their subs, got costs for different components of the project and then put those into their overall bid.

MR. INPANBUTR: Thanks.

MR. KIEL: What level of development were those drawings that were "bid" at? Because it doesn't seem to me at any point in this process, from what we've seen at the ARC, you've been in a position to be at a place where you have, what I consider, biddable documents there. Are we talking about just getting quotes from contractors?

MS. DEWEESE: We have architectural plans from DLR. Collin, do you know what level like DD or SD?

MR. MADDEN: Hi, this is Collin, I can't -- they were quite detailed plans. And I can tell you that each of those were exhaustive processes with Venture, Graham, and JTM. So, they were not construction documents. Let's be clear, we did not get that far. Although, for each of those, I want to point out we've spent in excess of $750,000 in architecture to get to that point. So, they were pretty well developed, and with engineering too. So, Swenson Say Faget and other engineers were involved all the way through the process. So, these were not stab in the dark or, you know, wild guesses, these were, you know, real attempts to try to get the costs. Again, I am going to point out, we were trying to make this work. And we have been consistent the whole way through trying to, you know, execute a project here. And here we are five years later, and we haven't been able to make it work.

MR. BIETHAN: And this is Scott Biethan. If I can just add one other thing to that too. And, you know, coming back to that whole, you know, how we look at that IRR calculation, what we liked about this is these were -- you know, they might not have been the final construction costs, but they were really detailed to the subject property, not using a cost annual that you would have to make assumptions. These are actually people who have gone out and at least got to that level of detail. So, it may not be that 100 percent mark, but it's pretty far down the path for us to be able to say we're pretty comfortable with these numbers. And I would also say, the numbers seem consistent. The Venture and Graham at the 117 were somewhat similar. The Venture and JTM at 99 were somewhat similar. So, we got a couple of different data points for us to use in our analysis. And we thought, huh, this helps us to being comfortable for where we landed. So, I don't want to just jump in. If I didn't say, I'm Scott Biethan. I know we're supposed to say that.

MR. KIEL: I'm curious why you came to ARC a number of times to show us the room option that you are now claiming never worked in the first place? You spent time and resources on that, I'm curious why you would do that?

MS. DEWEESE: Yeah, and I know that Collin and Erich want to speak to this, but that our position isn't that it never worked, they thought it would work. And they went to ARC in a good faith attempt to make something work with this building in its landmark condition. They have experience with historic projects, and they said, okay, we'll work with this. And then it was -- after they got negative feedback from ARC that they went back and crunched numbers and said, well, why are we pursuing this because it's not going to work in this condition ever, essentially.

MR. KIEL: They didn't do back of the envelope number crunching before coming to the ARC with a design?

MS. DEWEESE: Do you guys --

MR. MADDEN: The answer is, yes, we did. But I will tell you by the end, we crunched the numbers, and it was, we were at a point where we were sort of -- the very time Abbey asked us, is this a go, can you do this? And we're like, no, the numbers are looking like we're not even going to be able to do this, even with the five on top strategy. And so, our hope at the time was, well, maybe we can get this thing. You know, at least we can get some -- in the future, maybe it would make sense because, you know, this is sort of the Damocles over us at the time. So, there you go. So, we've been trying to make this work and we were unable to.

MR. KIEL: All right. Are there other questions from board members?

MS. CHANG: This is Roi. I have a question about -- I just want a little additional clarification on the construction cost that we're looking at here. We have Venture from 2020, 2021 that was deescalated. What were the dates of JTM and Graham? And I also saw on some of the other documents that we looked at through the history of the ARC submittals, that there was also MRJ Constructors at some that point bid as well. Can you let us know what those dates are?

MS. DEWEESE: Sure. So Julian is looking up the dates right now. And then MRJ worked on a proposal to upgrade the building in its kind of existing condition for office use at acquisition. So, it's not kind of replotted to the hotel cost analysis here.

MS. CHANG: Okay, I see.

MS. DEWEESE: Julian, do you have those dates for them?

MR. RONDELLO: Just to answer that question, the JTM bid, that is from December 2018. And the Graham bid is from -- that was updated February 2017. So that's exactly, you know, the time of the analysis.

MS. CHANG: Okay. And it sounds like AECOM ended up matching and using the same numbers.

MS. DEWEESE: In their new approach they accepted these numbers and just appeared as the revenue side of things.

MS. CHANG: Okay. And then I guess another question I have in kind of both with -- both for you and then something for the Board to discuss as well with ARC, because I was not on the Board back in 2017, '18, when this first came through. Was -- how much of the discussion focused on a specific design for that 99 unit? Because I know it's not locked in until, you know, it's been approved. And whether there was any wiggle room to get up to a higher unit approach that could be more profitable.
I think, you know, in the past there's been compromises between the board and the owner to get you there, whether it is, you know, limiting how much view we have and an area allotment versus setbacks and things like that so we can get the amount of area square footage that you need all the way up to, you know, whether -- negotiating whether we're keeping the existing structure fully as a seismic upgrade in its position with a new building on top versus just keeping the facade of a building. That's usually, you know, a lot of coordination that happens with the board and ARC with whether we can, you know, allow that sacrifice, you know, just keeping just the exterior, which is what the designation holds and then keeping as a facade, so essentially have a brand new building and then have that facade sitting out there so it still represents the landmark itself. I'm wondering if that was ever discussed or if you guys initiate that approach to push back and get more bang for your buck on the return?

MS. DEWEESE: Yeah. So, I think all of those things were considered by the owner. Erich, do you want to jump in and --

MR. GUENTHER: Yeah, in great detail -- sorry, Erich Guenther. In great detail we tried to build the largest building envelope we could under the current zoning. So that's also why the building's kind of cantilevered. The building footprint is, I believe, about 6200 square feet and the parcel is 7200, roughly. So, we believe we did try to execute every, you know, square inch that we possibly could. On top of it spent quite a bit of time with structural engineers figuring out how to do that and also, you know, how to build the core and get elevators in there and everything. It's a tight parcel or building.

MS. DEWEESE: Does that answer your question?

MS. CHANG: It does for now. I think I'm interested in further discussion with the board members who were at the ARC and what Sarah has recommended for the report because I think her report also covers the negotiations as well.

MS. DEWEESE: Any other questions?

MR. KIEL: Okay. Not hearing any. Sarah, do you want to share your report?

MS. SODT: Yeah, I can jump in and perhaps Melinda can share the staff report. So, I won't read my staff report, you've all had it for a while. But I am just going to go over some key points. As you all know, this was reviewed by ARC and the full Board at several meetings. It was identified at the time by the owner as economically viable. However, no certificate of approval application was submitted and the Board neither approved nor disproved a proposal at the site. So, the City's consultants, AECOM, reviewed the owner's submittals in detail and really focused in on the hotel alternative. In the most recent analysis by AECOM, they really replicated the owners -- they use the owners pro forma and performed a sensitivity analysis, which you see at the end of the report. And they only made slight changes to the occupancy based on market data and cap rates, otherwise they really used McKee's pro forma that was submitted back on November 5th. So, and that's what you see at the end. And then the other point I want to make is that AECOM was asked to review assumptions made by the owner, including revenue projections and construction cost assumptions. However, AECOM did not take a position either rejecting or accepting those assumptions. They did ask -- we did a lot of asking for clarification of the owner's assumption. And one clarification was with the type of hotel assumed in their proposal was a luxury full service hotel. And it was really that on that assumption that AECOM based their market data and research and subsequent analysis. So, we still feel that the information presented by the owner does not substantiate the assertion that imposing controls would prevent the owner from realizing a return or deny them reasonable economic use within the code. Let me see what else. So, finally, it appears that the owner has changed some key assumptions and methodology in today's presentation materials. Regardless, those changes don't impact our recommendation, and we maintain, as I said above, that they have not substantiated their assertion. The other thing I wanted to mention given some of the questions that the Board had was that we really only had access to the preliminary MUP level drawings and those were the drawings that we used for any of review of the owner’s submittal. And I think that is all I have. Do you have any
questions for me?

MR. Dean BARNES: Yeah, this is Dean, I've got a couple questions. With the owners, they submitted a report about the difference in rate of return. Were you able to do a comparable analysis on the rate of return?

MS. SODT: So, I think the other thing to note was in their earlier submittal, their rate of return, kind of their return that they were targeting was 15 in their most recent submittal at 15 percent. In their most recent presentation, it's now down to 13. But it is this chart here that you see on your screen that AECOM, and you see at the top, AECOM's analysis has the IRR at the time for those scenarios.

MR. Dean BARNES: Okay. For example, like the 10.7 and 15. I don't remember, I think is the 10.7, is that the hotel number at 117 rooms? Because, you know, this kind of cut off at the top there.

MS. SODT: Yeah, so that's -- this 10.7 was in our scenario 2 in their analyses.

MR. Dean BARNES: Okay. And then -- similar to the question I asked them, is this based on 2017 data?

MS. SODT: We really relied on their data.

MR. Dean BARNES: Okay.

MS. SODT: Yeah.

MR. Dean BARNES: Okay. And I think it looked like the occupancy rate that's under 75 percent. I thought they said around 80 percent for the occupancy rate, which would be the far right columns then.

MS. SODT: Yes.

MR. Dean BARNES: Okay. And could you explain what the cap rate means?

MS. SODT: You know, I am going to have -- I am going to have our consultant just hop in and answer that question, if she doesn't mind. And Lucia -- Erin, do you want to bring her on.

MS. FISCHER: Am I -- can you hear me?

MS. SODT: Yes.

MS. FISCHER: Okay. Hello everyone, this is Lucia Fischer from AECOM. The cap rate that was utilized by McKee and their pro formas was 7 percent. We looked at capitalization rates from a CBRE report to get a better understanding of cap rates for hotels in the Seattle area. Although the data we had available was a 2019 report. When we made that slight change to the cap report and scenarios -- I'm sorry the cap rate and scenarios 3 through 6, the reversion value is what changed. And so that is what then adjusts the IRR value.

MR. Dean BARNES: I guess the question I am trying to get at, is what is the cap rate? Is it like the return on the capital investment?

MS. SODT: Are you asking just what the definition is?

MR. Dean BARNES: Yes.

MR. KIEL: It's the relationship of upgrading income to the value of the property.

MS. FISCHER: Is everyone able to hear me?

MR. KIEL: Yes.

MR. Dean BARNES: Jordan, I heard you and her at the same time. I couldn't hear the explanation.

MR. KIEL: Oh, sorry.

MS. FISCHER: Go ahead.

MR. KIEL: No, no, you're the expert, go ahead.

MS. FISCHER: Yes, but as he was saying, I believe I heard him say, that it's the NOI, the net operating income, which is income less expenses and then you divide it by the value of the assets. So, the main thing here is we were trying to show just a sensitivity analysis looking at a couple different market levers. And that was just one market lever that we looked at that seemed to be a little bit off from the market data we were seeing. So that's one change that we made that then set into this IRR calculation.

MR. Dean BARNES: Okay. Great, thank you.

MR. KIEL: Are there any other questions? Sarah, I wonder if you could clarify for the Board our charge and the choice that we have in front of us here today.

MS. SODT: Sure. Melinda, why don't you move up to choices.

MS. DEWEESE: Sarah, would you mind if we just clarify a few things about the McKee analysis that was raised by those questions?

MS. SODT: Ask Jordan.

MS. DEWEESE: Jordan, sorry, same question directed at you. Can we clarify a couple of things?

MR. KIEL: You can if you wish. I just want to be clear. You've thrown a lot of numbers around today and, you know, this Board is not in a position to have emphasized all of those right here and now and understand them in great detail. So, you can, but I'm not sure it has a ton of use at the moment.

MS. DEWEESE: Sure, we're just going to be really, really, really brief. I think they're going to be clarifying.

MR. BIETHAN: Hi, Scott Biethan here. Couple of things just to clarify. And I am not going to throw out a bunch of numbers. Actually, I would agree with. It's an economic and financial analysis that, you know, is done by months of people studying these things. So, we're not trying to explain all that in just a few short minutes. To start with, number one, we presumed it was a boutique hotel and it was full service. And so, I don't believe any of the materials we presented previously said that it was luxury. In mean, luxury -- I mean, there's different ways you can class hotels, but we did not presume it to be the very top end of the market and total luxury. It's going to be a nice hotel, but it's not luxury. There's a nuance there and it goes to kind of the construction cost, and it goes to the rates you can get and ADR and all that stuff. The second thing is is, yes, we did present some different things here in the analysis, our methodology never changed. So, what was presented last week, all of the data, it was -- that didn't change, we just tried to get the presentation as succinct and kind of high level as we could to get through 25 it in 10 or 15 minutes. And how do we look at the IRR? And the IRRs did change with some previous versions and part of that is, when, you know, last week, we got some revised opinions from the consultants on the other side. And I think they had percent and 83 percent as some scenario pulling both levers, but ultimately, you know, because that had not been raised before, we had to go back and look at our numbers. And we did change a few things just on kind of further consideration and thinking about it a little bit more and making sure we were comfortable, nominal changes in what those numbers look like. So, we really try to, again, be fair to the process and fair to the whole valuation. So, I think that's everything else -- did I miss -- I don't think so. Thanks for letting me step back in. I know you guys have a big job, and we really do appreciate it.

MR. KIEL: All right. So back to you, Sarah, our task today is around consulting consent agreement, correct?

MS. SODT: Right. And so, I have made my recommendation which is attached. And you may take one of these two following actions that you see on your screen. Approve the recommended Controls and Incentives in the attached recommendation on controls. Or not approve the Controls and Incentives recommended by me and forward your own recommendation to the hearing examiner as provided in the municipal code.

MR. KIEL: Gotcha. Well, I'm curious to hear what other board members think, but I personally would propose that we move forward with the City's recommendation, given all the analysis that's gone into it. You know, what I see AECOM doing is trying to present a unified perfect pro forma for anybody, that's not their task. So those comparisons between their first round of review and their second round of review doesn't really mean much to me because what they're just trying to show is what happens when you turn a certain knob on the pro forma. So, again, they're not trying to paint a picture of here's how you make the project work more as just trying to pass the pro forma that was provided to us or to the City and look at its assumptions and see what happens. The other thing I see is costs that don't make sense on their face. You know, some of them you dig into them, some of the line items line in my view and others which I expect to see, I just don't. Personally, I have quite a bit of experience working on historic jobs and the idea that you could build a shorter, smaller building using the landmark and have it still cost you $5,000,000 more than the bigger building, even though it's a blank slate, doesn't backup for me at all. There's simply -- there's just not enough creativity going into how you deal with the site logistics on that. That's not a real premium in my experience. So those few little things add up for me as being put in the camp of wanting to support AECOM's analysis and move forward with imposing Controls and Incentives. I'm curious how other board members view this. Maybe we could start with the architects who maybe are a little more fluent in some of these things. Kristen --

MS. JOHNSON: Yeah, this is Kristen. Since I've been on the Board for the designation of this property and I think I missed some of the ARCs, but I was certainly there for some of them. And I just acknowledge at the beginning, I see how it's difficult to see how it's difficult for the owner to go through the ARC and, you know, members change and the Board changes. And I recognize, being on the other side of the table, that it's often frustrating not to get a final answer. But I do think the ARC and the Board is generally willing, has been willing, to look at options for buildings, like adding stories on top. And I think, given, you know, I'm certainly no expert on the economics of building buildings or the hotel market. And I think there's certainly been a lot of volatility in construction costs and probably hotels in the past year, it's hard for me to make any judgment on that. But I think given the position we're on on the Board, I support the staff recommendation. And while I think, you know, there's -- I don't have the expertise to review either side, you know, with a fine-toothed comb, I think just kind of given what I've seen on the past on the Board that often it is economically feasible for other properties, which may or may not be hotels that have other difference. But, you know, to make a historic building work, given the Board's flexibility to add on top, I think I feel comfortable supporting the staff recommendation.

MR. INPANBUTR: Yeah, I'm in the same camp. I got to believe that there is some project out there that will pencil out given the Controls and Incentives. I understand there's some frustration in the methodologies, but we have the numbers in front of us, and all we can do is trust that they're true. I find it very odd that you guys are -- that the various parties are so far apart. And I wish there was a way to have, I guess, that discussion a little bit more transparently so we can understand really where these numbers are coming from. But that's not the purpose of us. It was a lot of numbers and it's really hard for, I think, this group to really understand what's exactly going on, but I haven't seen enough to go away from the staff's recommendations.

MR. KIEL: Roi, do you want to share your thoughts? Excuse me.

MS. CHANG: Sure, and I appreciate hearing your and Kristen's point of view from being there for the designation and the ARC discussions. I think from what I've heard and from our past experience, we have seen many projects that do work out with these scenarios and ARC's willingness and flexibility along with the Board and compromise on allowing these costs to align. And, you know, while sometimes while it may not be the highest rate of return compared to a brand new building, it's usually still economically viable from other projects we've seen. I, too, agree with Matt that the numbers are a bit hard to digest, I think would be the best way to put it. That the years and then the cap rates that seem slightly variable in comparison and scenarios that could be changed, it's hard to discern that and it's hard for us to see that it is absolutely not economically viable. And I think it does come down to, I think, what the code that we've worked with that it is the owner's burden of proof to show us that these numbers absolutely do not work. And I think there is a little bit of room there that, you know, for us uncertainty here. So, I, too, am left here to … in favor of the staff's recommendation with the City that that the C and I agreement should stand and penciling out a further viable option can further be negotiated in ARC.

MR. KIEL: All right, thanks. John, Harriet or Dean, would either of you like to weigh in here?

MS. WASSERMAN: Sure. I did look at this ahead of time. I also looked at the small number -- the few public comments we got, which were from people that I trust and admire. And so, I was glad to see their comments on this too in considering things that weren't just the numbers. But I learned a ton that I didn't know about how you do these sort of analyses. And I agree, I appreciate the things the other people have said. I agree -- I wasn't here when we designated it. But I agree we haven't looked at other options. We haven't looked at other ways to tweak it to make it work. And we do a lot of that. We've done an amazing amount of that with some buildings that come out not like we would have expected in the beginning but that actually work in the end. So, I support approving the staff recommendations on Controls and Incentives for this.

MR. KIEL: All right. Dean or John? You don't have to speak if you don't want, but just giving you the option.

MR. Dean BARNES: Yeah, I think for me when I listen to both presentations, the thing that kind of puts me in a quandary is that the date is still based on the 2017 information, and a lot of things have happened since that time period. I understand that 2021 we are had the pandemic, which makes things out of whack. But I still think as an economic forecast to be able to look at that piece of it, to be able to do the analysis I think could be done. And, again, this is -- you're taking down inflation factors, labor costs, et cetera, and, particularly, I know the labor costs are lower in the last year or so, but I think they're starting to go up and get more stabilized and work is getting more competitive out there, particularly around construction work. And so, I'm just concerned to get this information and not have it, I'm trying to think of the right word, but upgraded or influenced or, you know, inflated to show what it looks more like '22 and beyond is concerning for me. And so, I think for what I've seen, I would still stay with the staff's report and maintain what they have until we hear something a little bit different.

MR. RODEZNO: Hi, yes, this is John. I'll re-up my comments. I'm disappointed in the Board -- sorry. I'm disappointed the building owner and the Landmark Board could not come to agree on the place and Control and Incentives on this building. The Palladian Hotel was previously brought up. The hotel that markets itself as a luxury property, much as this proposal was evaluated at, and it was acquired by the current building's owner after it was listed on NRHP. This claim is misleading by the current building's owner and provide the false representation of what it means to be a good steward of star properties. It is for this reason I suggest that the Board follow the staff's recommendation to impose Controls and Incentives on American Meter and Appliance Building. Thank you.

MR. KIEL: All right. I think all that is left this evening is a motion.

MS. SODT: And just to remind folks, like other recommended controls and incentives, you just have to make a motion to approve the staff recommendation and give the name and address of the building.

MS. JOHNSON: I approve that the Landmarks Preservation Board approve the recommended Controls and Incentives for the Frederick Board American Meter and Appliance Building at 1001 Westlake Avenue North.

MR. Dean BARNES: I second.

MR. Dean BARNES: Approve.

MS. WASSERMAN: Approve.

MR. RODEZNO: Approve.

MS. JOHNSON: Approve.

MR. INPANBUTR: I approve.

MS. CHANG: I approve.

MR. KIEL: I approve as well.

MM/SC/KJ/DB 7:0:0 Motion carried.

060221.7 STAFF REPORT

Respectfully submitted,

Erin Doherty, Landmarks Preservation Board Coordinator

Sarah Sodt, Landmarks Preservation Board Coordinator