

1001 Westlake Economic Analysis

Landmarks Preservation Board

June 2, 2021

Introductions



Timeline: Original Development Proposal

- March 22, 2016 – GEM Real Estate Partners acquires the property through its affiliated entity 1001 Westlake Partners LLC
- December 22, 2016 – Pre-Sub Conference for 81 room, 7-story hotel
- January 2017 – EDG Application for hotel proposal
- March 1, 2017 – Successful EDG for hotel proposal, West DRB recommended hotel proposal move forward to MUP application.



Timeline: Landmarks Process

- March 15, 2017 – LPB nominates 1001 Westlake building
- May 3, 2017 – LPB designates 1001 Westlake building as a Seattle landmark and indicates exterior of the building should be preserved
- May 14, 2017 – Property upzoned from SM-85 to SM-SLU 100/95 to implement the Mandatory Housing Affordability program
- June 2017 – April 2019 – Owner proposes adaptive reuse of building as boutique hotel, and seeks LPB feedback at three ARC briefings

Timeline: Economic Use Concern

- September 17, 2019 – Owner raises concern about reasonable economic use to LPB, Owner's concern supported by economic analysis by McKee
- October 2019 – March 2020 – DON staff raises questions on Owner's economic analysis, and Owner responds
- March 3, 2020 – DON staff advises Owner they will retain an economic consultant
- August 20, 2020 – DON staff provide analysis from AECOM accepting Owner's revenue projections and disputing construction cost assumptions
- September 2020 – Owner re-engages its economic consultant and seeks additional real world construction bid to validate cost assumptions (Venture)
- February 20, 2021 – Owner responds to AECOM analysis with updated cost assumptions
- April 30, 2021 – DON staff inform Owner that AECOM continues to disagree with economic analysis
- May 27, 2021 – DON staff report provides AECOM analysis rejecting Owner's revenue projections and accepting construction cost assumptions

1001 Westlake Economic Analysis

- Renovation and Continued Office Use Analysis
- Renovation, Expansion and Continued Office Use Analysis
- 7-Story Wood Frame Apartment Development Analysis
- 9-Story Steel Frame Apartment Development Analysis
- 99-Room Hotel with Landmark Controls Development Analysis
- 117-Room Hotel w/o Landmark Controls Development Analysis



Continued Use Analysis ~Office Use

Renovation of Existing Structure and Continued Use

- As Is Gross Building Area: 19,647sf **King County Assessor*
- Office Market Rent -\$26.00/sf/yr NNN with 95% Expense Reimbursements
- 5% Vacancy and Credit Loss
- NOI = \$463,942; Capitalization Rate = 4.75%
- **Value Upon Stabilization = \$9,770,000, \$497/sf of Bldg Area**
- Property purchase price = \$5,210,000
- Deferred Maint. Costs (Roof, HVAC, Elevator, Seismic, Life-Safety) = \$4,096,406 **MRJ Costs*
- Leasing Cost (TI, LC, Free Rent, Downtime) = \$2,545,146 **McKee Estimate*
- Entrepreneurial Profit (15% of Stabilized Value) = \$1,465,500
- **Total Costs = \$13,317,052**
- **Costs are higher than value. Return is Negative - Not Reasonable Return**

Continued Use Analysis ~Office Use

Renovation of Existing Structure and Addition of Two Floors

- As Is Gross Building Area: 28,889sf **King County Assessor + Two (2) 4,621sf Office Floors*
- Office Market Rent -\$27.00/sf/yr NNN with 95% Expense Reimbursements
- 5% Vacancy and Credit Loss
- NOI = \$714,212; Capitalization Rate = 4.75%
- **Value Upon Stabilization = \$15,040,000, \$521/sf of Bldg Area**
- Property purchase price = \$5,210,000
- Deferred Maint. Costs (Roof, HVAC, Elevator, Seismic, Life-Safety) = \$4,096,406 **MRJ Costs*
- 4th and 5th Fl Exp. (9,242sf office, 1,562sf deck 4,621sf rooftop terrace) = \$3,306,910 **MRJ Costs*
- Leasing Cost (TI, LC, Free Rent, Downtime) = \$3,771,227 **McKee Estimate*
- Entrepreneurial Profit (15% of Stabilized Value) = \$2,256,000
- **Total Costs = \$18,604,543**
- **Costs are higher than value. Return is Negative -Not Reasonable Return**



Apartment Development Analysis

7-Story Wood Frame Apartment Development Analysis

- Assumed Rentable Building Area: 49,780sf / 62 Units @ 800sf **McKee estimate*
- Apartment Market Rent -\$3.25/sf/mo or \$2,600/mo
- 5% Vacancy and Credit Loss; Expense Forecast \$9,200/unit/year
- NOI = \$1,271,879; Capitalization Rate = 4.5%
- **Value Upon Stabilization = \$28,300,000, \$569/sf of RBA**
- Construction Cost* + MHA Fee** = \$20,373,500 **Marshall Cost Manual & Cost Comparables **City of Seattle*
- Land Value = \$5,210,000
- Entrepreneurial Profit (15% of Stabilized Value) = \$4,245,000
- **Total Costs = \$29,828,500**
- **Costs are higher than value -Not Reasonable Return**

Apartment Development Analysis

9-Story Steel Frame Apartment Development Analysis

- Assumed Rentable Building Area: 63,984sf / 80 Units @ 800sf **McKee estimate*
- Apartment Market Rent -\$3.25/sf/mo or \$2,600/mo
- 5% Vacancy and Credit Loss; Expense Forecast \$9,200/unit/year
- NOI = \$1,634,791; Capitalization Rate = 4.5%
- **Value Upon Stabilization = \$36,300,000, \$567/sf of RBA**
- Construction Cost* + MHA Fee** = \$27,376,650 **Marshall Cost Manual & Cost Comparables* ***City of Seattle*
- Land Value = \$5,210,000
- Entrepreneurial Profit (15% of Stabilized Value) = \$5,445,000
- **Total Costs = \$38,031,650**
- **Costs are higher than value - Not Reasonable Return**

Hotel Valuation Methodology

Primarily an Income Approach

Revenue is much more variable than other real types

- A hotel lease is for 24hrs compared to 1-10-year leases
- Hotels derive revenue from a variety of sources including rooms, food and beverage and other variable revenue sources
- **Market Analysis is vital**

Expenses are analyzed on a **fixed** and **variable** basis

- Most of the largest expense categories have a variable component
- Hotel revenue can change year over year, hotel analysis must analyze effects from revenue change
- Fixed and Variable analysis

McKee Analysis: uses market data and industry valuation methods

- Analyze the competitive market to determine occupancy and average daily room rate (ADR)
- Forecast room revenue based on market analysis
- Prepare a cash flow using above market inputs and a model that recognizes fixed and variable nature



Market Analysis

1

**Room revenue
analysis** drives the
analysis

2

**Analyze market
occupancy**

3

Study new supply -
NEW HOTELS AFFECT
MARKET
OCCUPANCY

4

Study the subject
compared to current
AND future supply
and demand



Market Context

Very little new supply

Demand increased with growth of tech, bio tech and other related employment

Large amount of new supply delivered or soon to be delivered

11,000 rooms Upper priced CBD Hotels and 3,750 more?



Seattle CBD Historic Performance

- Outlook is good as of Q2 2017

Central Business District Performance - Upper-Priced Hotels

YEAR	OCC	Δ OCC	ADR	Δ ADR	REVPAR	Δ REVPAR
2012	78.4%	-	\$164.06	-	\$128.61	-
2013	80.1%	2.2%	\$175.33	6.9%	\$140.42	9.2%
2014	82.8%	3.3%	\$192.41	9.7%	\$159.26	13.4%
2015	83.1%	0.5%	\$206.56	7.4%	\$171.75	7.8%
2016	82.8%	-0.4%	\$212.67	3.0%	\$176.09	2.5%
2Q16 YTD	81.5%	-0.7%	\$196.03	1.8%	\$159.81	1.0%
2Q17 YTD	83.7%	2.6%	\$212.74	8.5%	\$178.00	11.4%



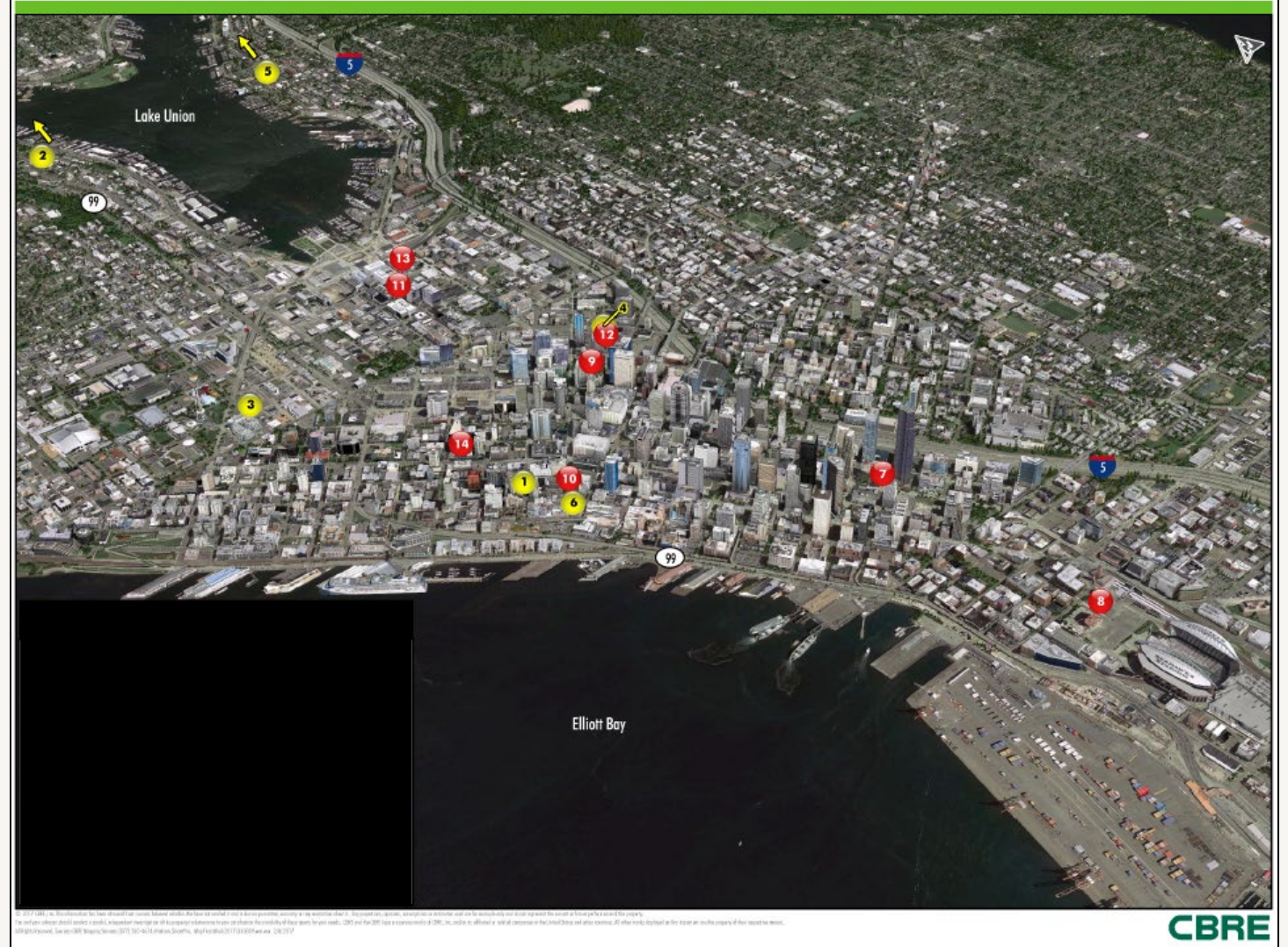
Key

● OPEN

● UNDER CONSTRUCTION

	Developer (Brand)	Rooms	Completion
1.	Cohanim (Kimpton)	97	2015
2.	Hotel Concepts (Staybridge Suites)	120	2015
3.	Kauri Investments (Hyatt House)	172	2015
4.	Touchstone (Hilton Garden Inn)	222	2015
5.	Pong Development (Residence Inn)	165	2015
6.	Touchstone (Thompson/Commune Hotel)	161	2016
7.	Daniels Real Estate and Stockbridge Capital (SLS Hotel)	184	2017
8.	American Life In. (Embassy Suites)	282	2017
9.	R.C. Hedreen (Hyatt Regency)	1260	2018
10.	Widewaters (Curio)	230	2018
11.	Stonebridge (Moxy)	147	2017
12.	Stonebridge (Residence Inn)	309	2017
13.	IHG (Even Hotel & Staybridge Suites)	235	2018
14.	Molasky Group and Binjiang Tower Corp	142	2019

SEATTLE HOTEL PIPELINE



McKee Appraisal
Real Estate | Consulting

Seattle CBD Construction Pipeline

- Source: STR CBRE Hotels' Americas Research Q2 2017
- **Pipeline indicates a 34% supply increase Upper-Priced CBD Hotel Supply**
 - With **23%** of pipeline supply under construction
- This data is used in our analysis of market supply and demand
- This data is used in our analysis of the subject property's penetration into the market

PHASE	UPPER-PRICED			LOWER-PRICED			UNCLASSIFIED/INDEPENDENT		
	PROPERTIES	ROOMS	%SUBMKT	PROPERTIES	ROOMS	%SUBMKT	PROPERTIES	ROOMS	%SUBMKT
Unconfirmed	0	0	0.0%	0	0	0.0%	0	0	0.0%
Planning	4	612	4.4%	1	180	1.3%	0	0	0.0%
Final Planning	3	641	4.7%	2	168	1.2%	0	0	0.0%
In Construction	7	2,497	18.1%	1	146	1.1%	0	0	0.0%
TOTAL	14	3,750	27.2%	4	494	3.6%	0	0	0.0%



Analysis Occupancy Assumptions

Market Occupancy Average-mid 80% range

- High compared to long term results
- New supply will bring down market occupancy
- Market occupancy projected to be under 80% at opening
- Subject estimated to be in upper 70% range
- Subject will first open with lower occupancy

Estimated Market Occupancy

Analysis Year	Market	99-Rooms	117-Rooms
Base Year	85.0%	-	-
Year 1	86.5%	69.6%*	68.9%*
Year 2	76.8%	73.9%*	73.4%*
Year 3 - Stabilized	78.3%	78.5%	77.5%

** Occupancy Ramp-up Period*



Average Daily Room Rate

<u>117-Rooms</u>		
Base Year		\$231.00
Adjusted to FYE March 2020		\$239.09
<u>FYE 2-28</u>	<u>Growth Rate</u>	<u>ADR</u>
2021	3.0%	\$246.26
2022	3.0%	\$253.65
2023	3.0%	\$261.25

<u>99-Rooms</u>		
Base Year		\$242.00
Adjusted to FYE March 2020		\$250.47
<u>FYE 2-28</u>	<u>Growth Rate</u>	<u>ADR</u>
2021	3.0%	\$257.98
2022	3.0%	\$265.72
2023	3.0%	\$273.70

<u>Subject Comp Set</u>	
<i>Year</i>	<i>ADR</i>
2017	\$217.55
2018	\$227.06

<u>CBRE - Upper Priced Hotels</u>	
<i>Year</i>	<i>ADR</i>
2017	\$197.27
2018	\$202.19
2019	\$193.59
2020	\$193.97
2021	\$196.16
2022	\$200.28
2023	\$206.72



Cash Flow Analysis~Fixed and Variable

<i>99-Rooms Cash Flow Analysis</i>						
FYE March Year	<u>2021</u>		<u>2022</u>		<u>2023</u>	
Average Room Rate	\$ 257.98		\$265.72		\$273.70	
% of Occupancy	69.6%		73.9%		78.5%	
REV PAR	\$179.44		\$196.34		\$214.85	
	<u>Total \$</u>	<u>% of Total Income</u>	<u>Total \$</u>	<u>% of Total Income</u>	<u>Total \$</u>	<u>% of Total Income</u>
Rooms	\$6,484,198	66.4%	\$7,094,619	66.8%	\$7,763,635	67.1%
Total Revenue	\$9,758,953	100.0%	\$10,622,367	100.0%	\$11,566,953	100.0%
Total Departmental Expenses	\$4,046,532	41.5%	\$4,241,747	39.9%	\$4,449,968	38.5%
Total Undistributed Expenses	\$2,768,624	28.4%	\$2,922,986	27.5%	\$3,088,886	26.7%
Total Fixed	\$511,060	5.2%	\$526,392	5.0%	\$542,184	4.7%
Total Expenses	\$7,326,216	75.1%	\$7,691,125	72.4%	\$8,081,037	69.9%
NOI - Before Reserves	\$2,432,737	24.9%	\$2,931,242	27.6%	\$3,485,916	30.1%
Less Replacement Reserves	\$195,179	2.0%	\$318,671	3.0%	\$462,678	4.0%
NOI - After Reserves	\$2,237,558	22.9%	\$2,612,571	24.6%	\$3,023,238	26.9%

Cash Flow Analysis~Fixed and Variable

<i>117-Rooms Cash Flow Analysis</i>						
FYE March Year	<u>2021</u>		<u>2022</u>		<u>2023</u>	
Average Room Rate	\$239.09		\$246.26		\$253.65	
% of Occupancy	68.9%		73.4%		77.5%	
REV PAR	\$164.75		\$180.76		\$196.58	
	<u>Total \$</u>	<u>% of Total Income</u>	<u>Total \$</u>	<u>% of Total Income</u>	<u>Total \$</u>	<u>% of Total Income</u>
Rooms	\$7,035,505	68.4%	\$7,719,518	68.7%	\$8,394,739	69.0%
Total Revenue	\$10,287,749	100.0%	\$11,230,005	100.0%	\$12,161,258	100.0%
Total Departmental Expenses	\$4,241,129	41.2%	\$4,448,909	39.6%	\$4,657,929	38.3%
Total Undistributed Expenses	\$2,975,180	28.9%	\$3,144,014	28.0%	\$3,312,981	27.2%
Total Fixed	\$554,238	5.4%	\$570,957	5.1%	\$588,086	4.8%
Total Expenses	\$7,770,637	75.5%	\$8,163,880	72.7%	\$8,558,996	70.4%
NOI - Before Reserves	\$2,517,112	24.5%	\$3,066,125	27.3%	\$3,602,262	29.6%
Less Replacement Reserves	\$205,755	2.0%	\$336,900	3.0%	\$486,450	4.0%
NOI - After Reserves	\$2,311,357	22.5%	\$2,729,225	24.3%	\$3,115,811	25.6%

Income Valuation Method~Direct Cap vs DCF

- Investment grade hotels typically use Discounted Cash Flow-McKee uses this analysis
- Direct Capitalization used as check of reasonableness



Discounted Cash Flow Analysis

Discounted Cash Flow Analysis		
<i>99-Room Upon Stabilization</i>		
IRR	9.00%	
TCR	7.25%	
Sales commission	5.0%	
2023	\$3,023,238	
2024	\$3,113,935	
2025	\$3,207,353	
2026	\$3,303,573	
2027	\$3,402,681	
2028	\$3,504,761	
2029	\$3,609,904	
2030	\$3,718,201	
2031	\$3,829,747	
2032	\$3,944,639	
2033	\$4,062,979	
Reversion	\$53,239,030	
Net Present Value	\$44,271,935	
Value by DCF	\$44,300,000	
	\$447,475	/room

Discounted Cash Flow Analysis		
<i>117-Room Upon Stabilization</i>		
IRR	9.00%	
TCR	7.25%	
Sales Commission	5.0%	
2023	\$3,115,811	
2024	\$3,209,286	
2025	\$3,305,564	
2026	\$3,404,731	
2027	\$3,506,873	
2028	\$3,612,079	
2029	\$3,720,442	
2030	\$3,832,055	
2031	\$3,947,016	
2032	\$4,065,427	
2033	\$4,187,390	
Reversion	\$54,869,246	
Net Present Value	\$45,627,572	
Value by DCF	\$45,600,000	
	\$389,744	/room



Direct Cap Stabilized NOI

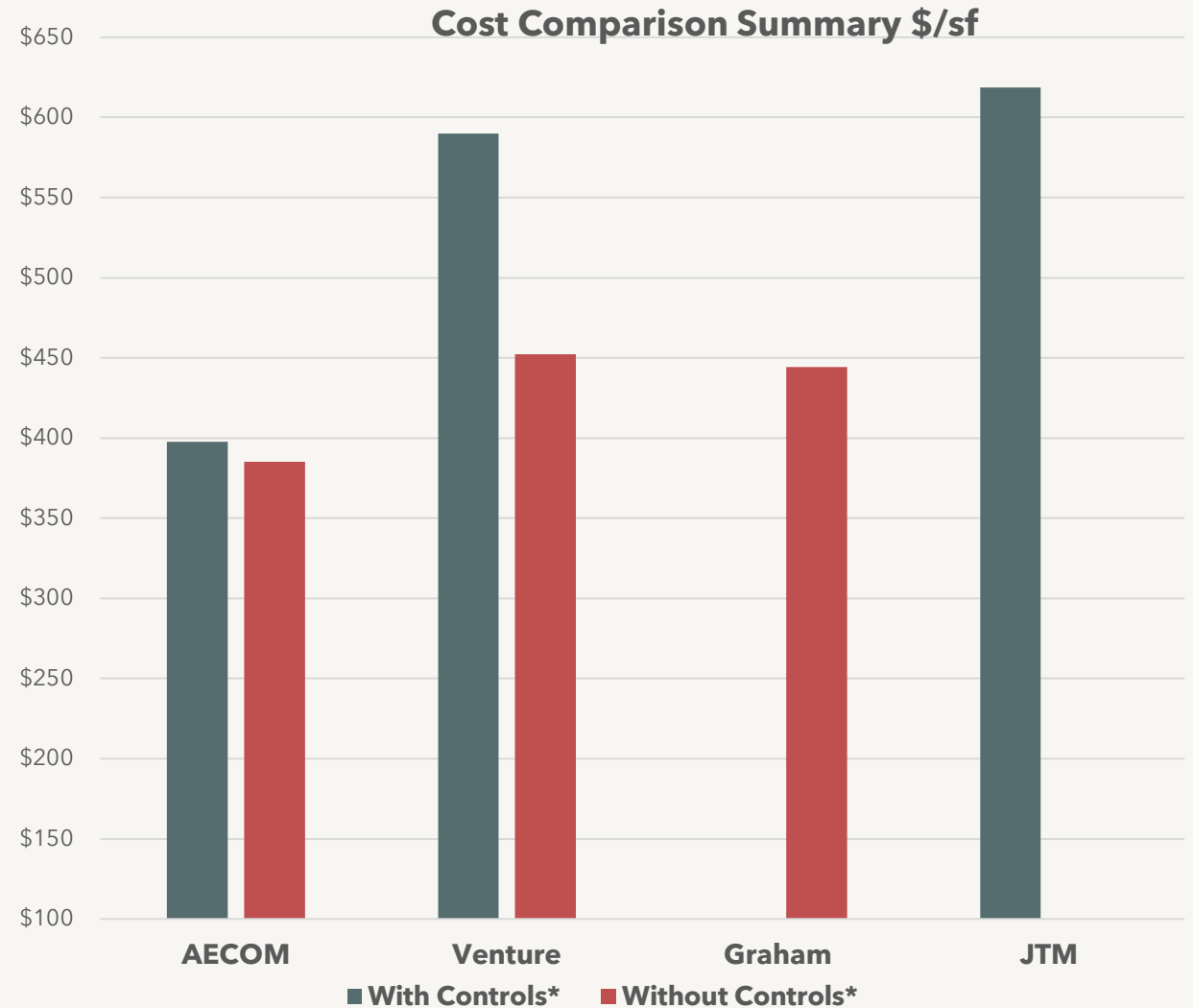
Direct Capitalization Analysis -Upon Stabilization		
# of Rooms	99	
Average Room Rate	\$273.70	
Percentage of Occupancy	78.5%	
RevPAR	\$214.85	
	Total \$	% of Total Income
REVENUE		
Rooms	\$7,763,635	67.1%
Total Revenue	\$11,566,953	100.0%
EXPENSES		
Total Departmental	\$4,449,968	38.5%
Total Undistributed	\$3,088,886	26.7%
Total Fixed Expenses	\$542,184	4.7%
Total Expenses	\$8,081,037	69.9%
NOI - Before Reserves	\$3,485,916	30.1%
Less Replacement Reserves	\$462,678	4.0%
NOI - After Reserves	\$3,023,238	26.1%
Capitalization Rate	6.83%	
Indicated Value	\$44,271,935	
Indicated Value - Rounded	\$44,300,000	\$447,475/room

Direct Capitalization Analysis - Upon Stabilization		
# of Rooms	117	
Average Room Rate	\$246.26	
Percentage of Occupancy	75.0%	
RevPAR	\$184.69	
	Total \$	% of Total Income
REVENUE		
Rooms	\$8,394,739	69.0%
Total Revenue	\$12,161,258	100.0%
EXPENSES		
Total Departmental	\$4,657,929	38.3%
Total Undistributed	\$3,312,981	27.2%
Total Fixed Expenses	\$588,086	4.8%
Total Expenses	\$8,558,996	70.4%
NOI - Before Reserves	\$3,602,262	29.6%
Less Replacement Reserves	\$486,450	4.0%
NOI - After Reserves	\$3,115,811	25.6%
Capitalization Rate	6.83%	
Indicated Value	\$45,627,572	
Indicated Value - Rounded	\$45,600,000	\$389,744/room



Construction Cost Indications

- With Landmark Controls
 - AECOM: \$398/sf
 - Venture: \$590/sf
 - JTM: \$619/sf
- Without Landmark Controls
 - AECOM: \$385/sf
 - Venture: \$452/sf
 - Graham: \$444/sf



Hotel Development Analysis

99-Room Hotel with Landmark Controls Development Analysis

- Upon Stabilization Value :\$44,300,000, \$447,474/room
- **Gross Profit: \$1,781,249;**
- **Resulting IRR of 3.58% -Not Reasonable Return**



Hotel Development Analysis

117-Room Hotel w/out Landmark Controls Development Analysis

- **Upon Stabilization Value: \$45,600,000, \$389,743/room**
- **Gross Profit: \$6,585,240**
- **Resulting IRR of 13.76% -Reasonable Return**



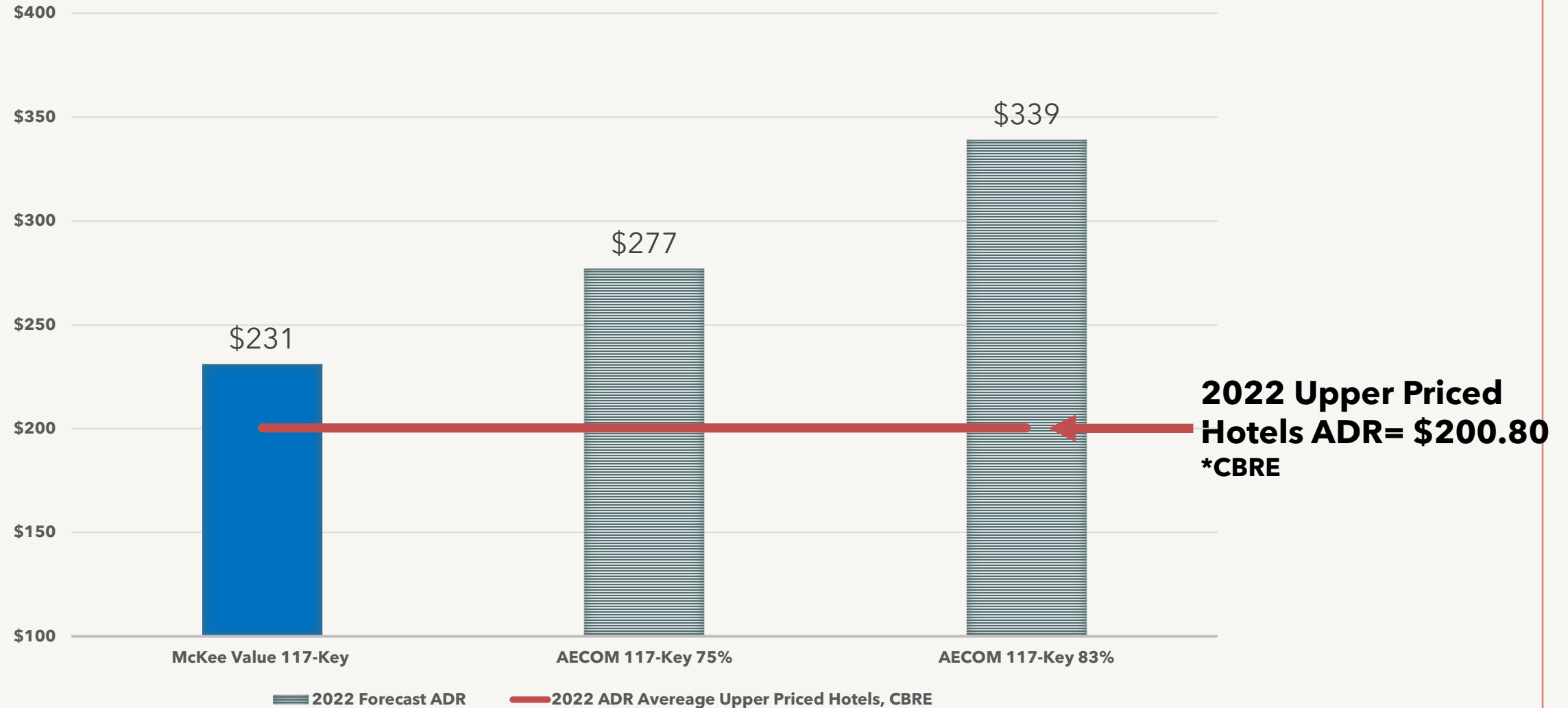
Review of Alternative AECOM Analysis

- **Are the alternative conclusions Reasonable?**
- **Are the alternative conclusions Reliable?**
 - Review of Alternative Net Operating Income Conclusions
 - Review of Alternative Valuation Conclusions



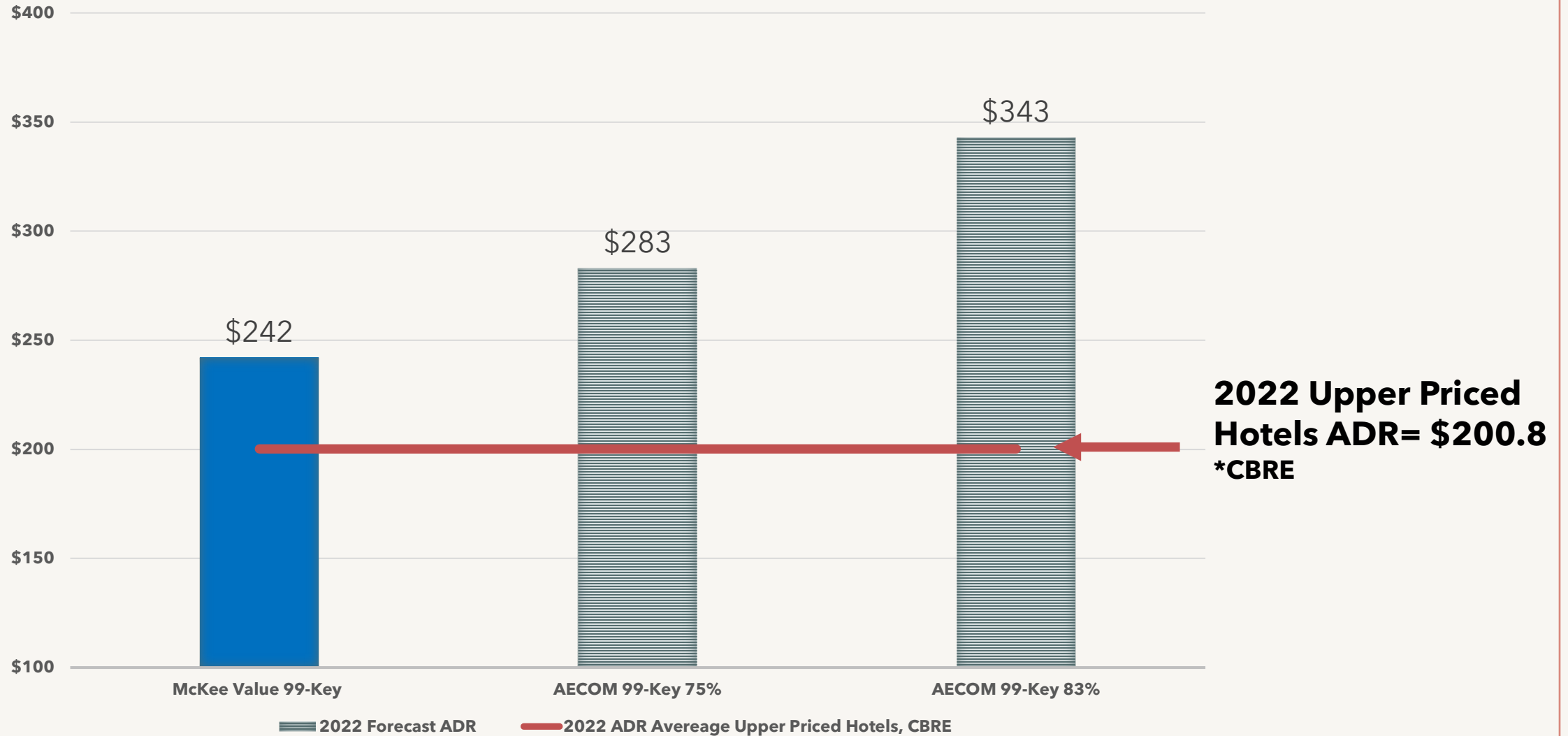
117-Room Hotel ADR Comparison

AECOM ADR FORECAST COMPARISON

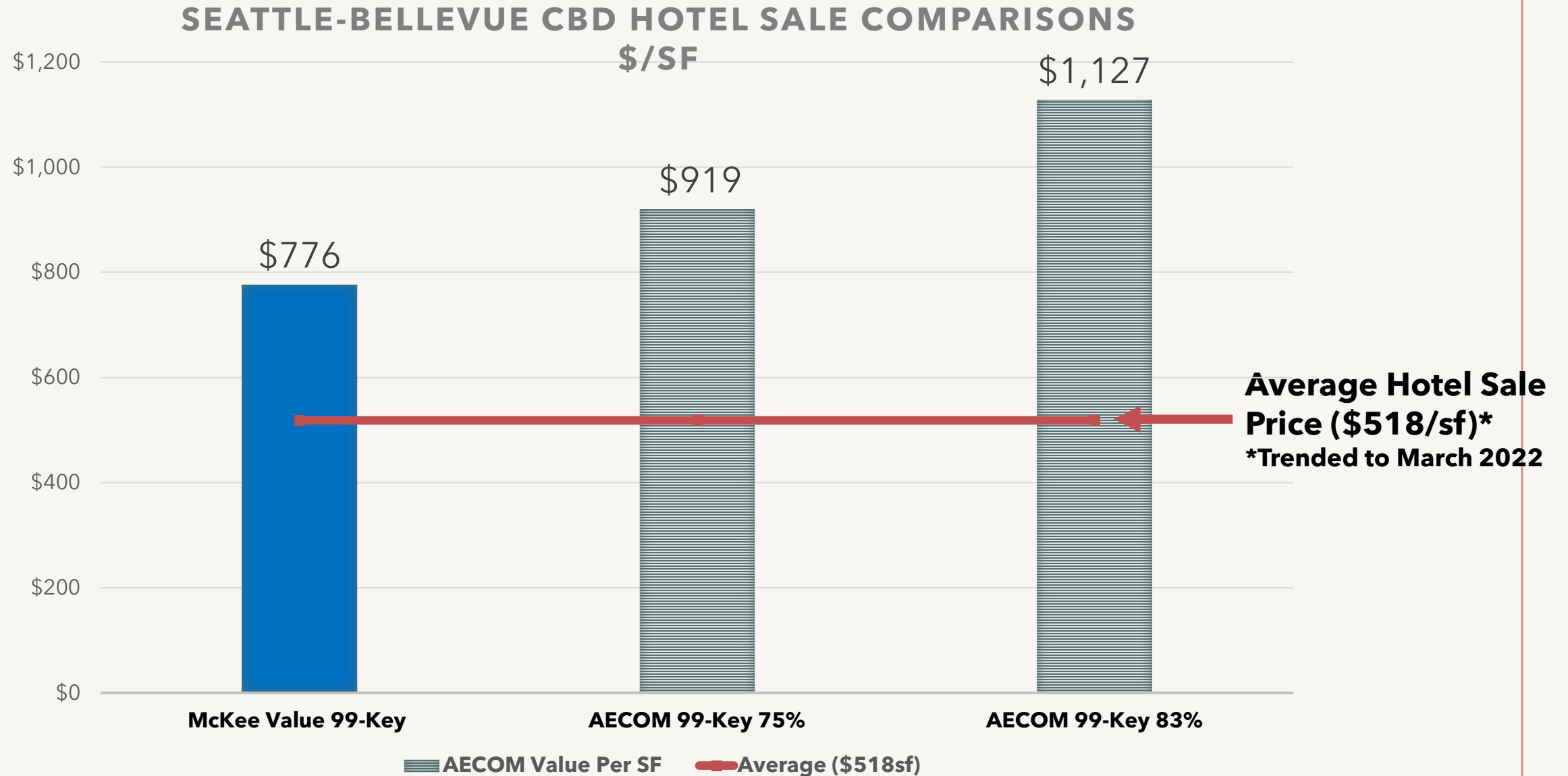


99-Room Hotel ADR Comparison

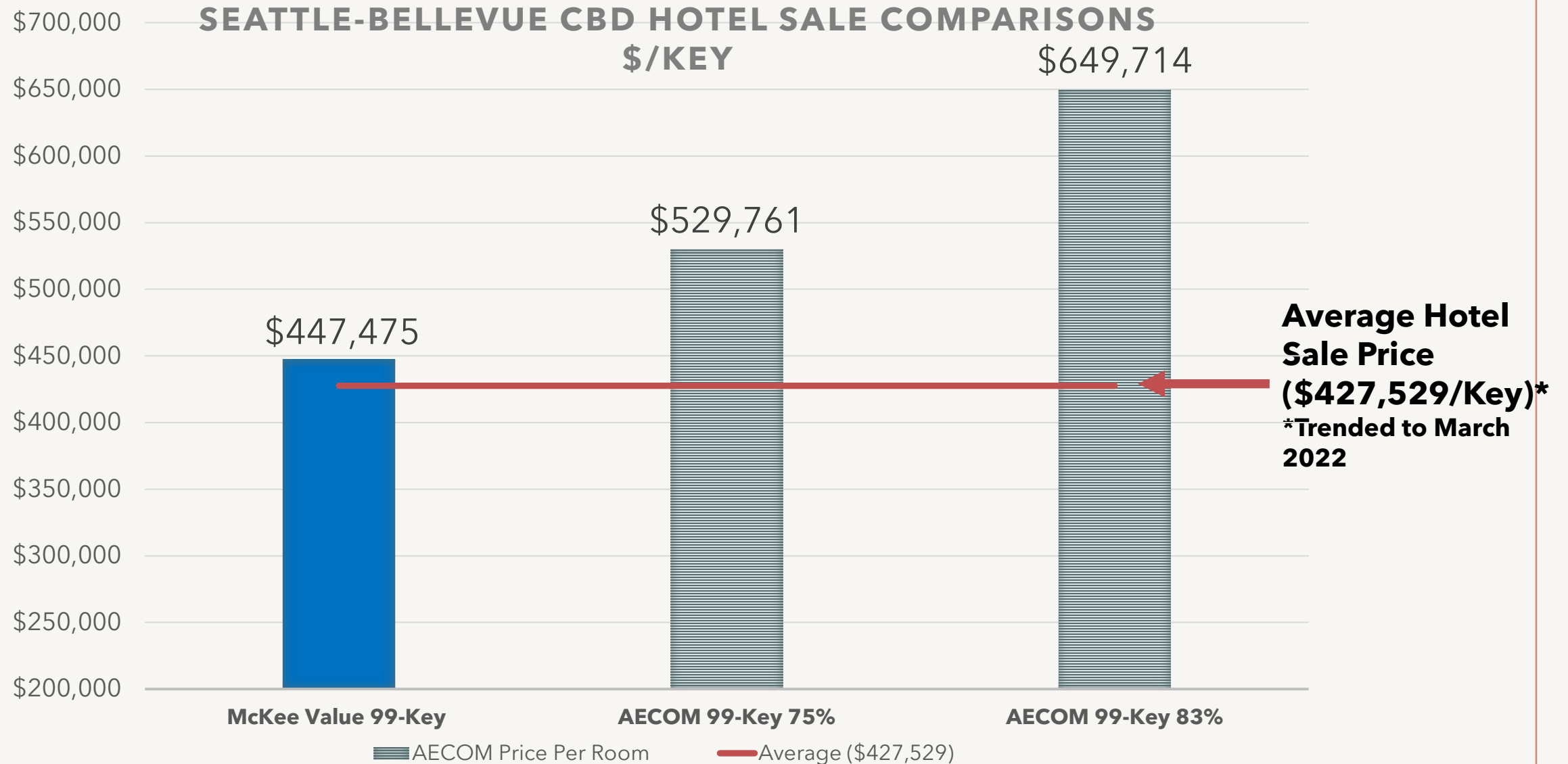
AECOM ADR FORECAST COMPARISON



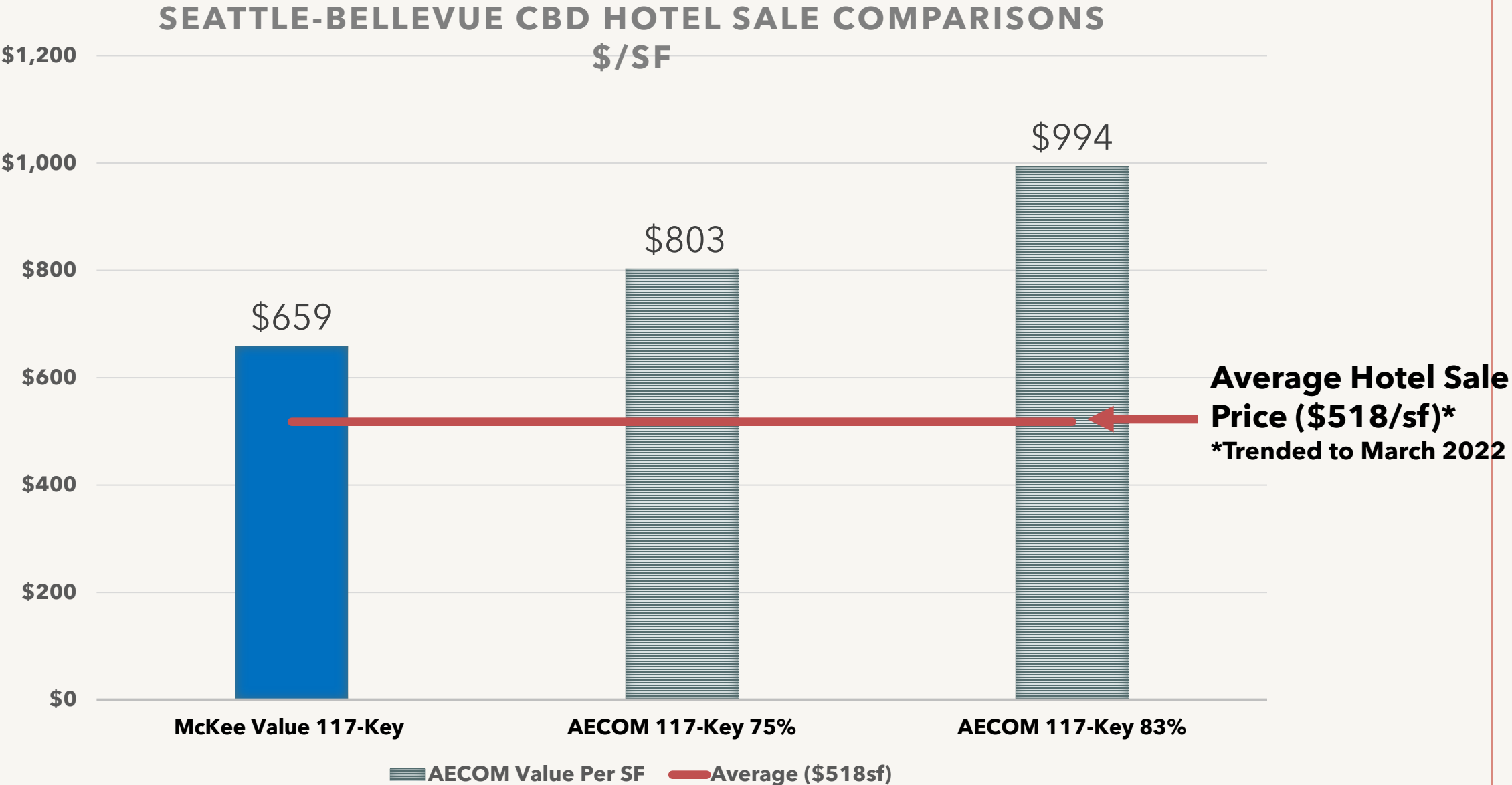
99-Room Hotel Value Results Comparison



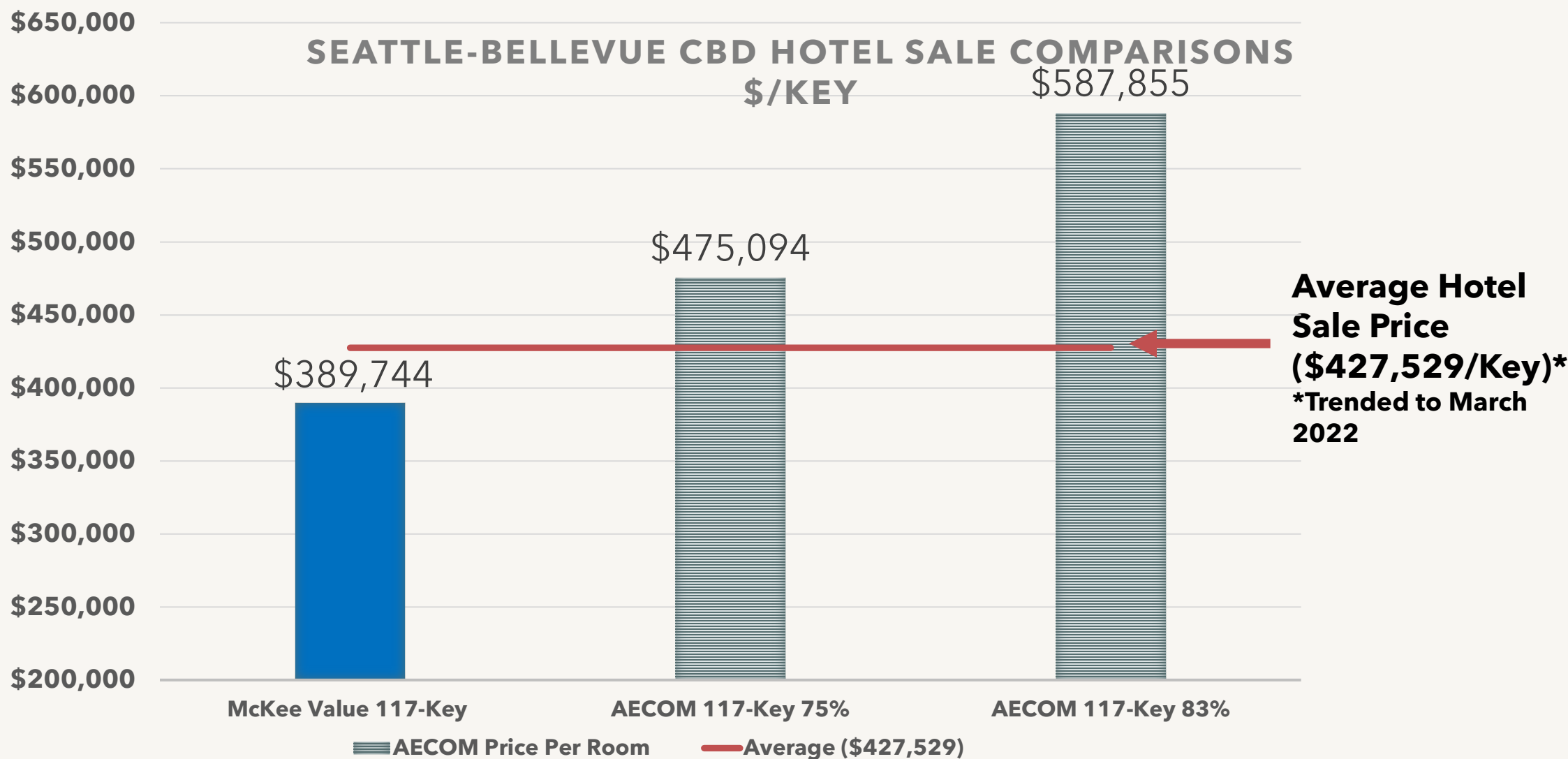
99-Room Hotel Value Results Comparison



117-Room Hotel Value Results Comparison



117-Room Hotel Value Results Comparison



1001 Westlake

Economic Analysis

Conclusion

- Reasonable economic return is not achievable with the constraints of the proposed Landmark Controls.
- 117-Unit Hotel w/out landmark controls results in a reasonable economic return.



Economic Use Limitation – SMC 25.12.580

“In no event shall the recommendation of the Hearing Examiner or any proceedings under or application of this chapter deprive any owner of a site, improvement or object of a reasonable economic use of such site, improvement or object.”

Factors to be Considered – SMC 25.12.590

- A. The market value of the site, improvement or object in its existing condition taking into consideration the ability to maintain, operate or rehabilitate the site, improvement or object:
 - 1. Before the imposition of controls or incentives, and
 - 2. After the imposition of proposed specific controls and/or incentives;
- B. The owner's yearly net return on the site, improvement or object, to the extent available, during the five (5) years prior to the imposition of specific controls and/or incentives;
- C. Estimates of the owner's future net yearly return on the site, improvement or object with and without the imposition of proposed specific controls and/or incentives;
- D. The net return and the rate of return necessary to attract capital for investment:
 - 1. In such site, improvement or object and in the land on which the site, improvement or object is situated after the imposition of the proposed specific controls and/or incentives, if such information is available, or, if such information is not available,
 - 2. In a comparable site, improvement or object and in the land on which such comparable site, improvement or object is situated; and
- E. The net return and rate of return realized on comparable sites, improvements or objects not subject to controls imposed pursuant to this chapter.

Factors to be Considered – SMC 25.12.590

- A. The market value of the site, improvement or object in its existing condition taking into consideration the ability to maintain, operate or rehabilitate the site, improvement or object:
1. Before the imposition of controls or incentives, and
 2. After the imposition of proposed specific controls and/or incentives;

Factors to be Considered – SMC 25.12.590

- B. The owner's yearly net return on the site, improvement or object, to the extent available, during the five (5) years prior to the imposition of specific controls and/or incentives;

Factors to be Considered – SMC 25.12.590

- C. Estimates of the owner's future net yearly return on the site, improvement or object with and without the imposition of proposed specific controls and/or incentives;

Factors to be Considered – SMC 25.12.590

D. The net return and the rate of return necessary to attract capital for investment:

1. In such site, improvement or object and in the land on which the site, improvement or object is situated after the imposition of the proposed specific controls and/or incentives, if such information is available, or, if such information is not available,
2. In a comparable site, improvement or object and in the land on which such comparable site, improvement or object is situated; and

Factors to be Considered – SMC 25.12.590

- E. The net return and rate of return realized on comparable sites, improvements or objects not subject to controls imposed pursuant to this chapter.

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