

PORT OF KINGSTON

Downtown Waterfront Properties Study and Site Development Plan



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Acknowledgments

Port Commissioners

- Bruce MacIntyre
- Walt Elliot
- Mary McClure

Port Leadership

- Jim Pivarnik, Executive Director

Port of Kingston Mission

The mission of the Port of Kingston is to enhance the economic and social well-being of the Port District Residents by support of the economy, and by providing a waterfront facility for recreation and leisure activities.



Executive Summary

Opportunity Statement

Kingston is a strong, established community with a rich history that is part of the greater Puget Sound’s story. While the Edmonds – Kingston Ferry moves over 4 million people a year through downtown Kingston, it is much more than just a drive through community. A booming regional economy is creating new jobs that are largely concentrated within the Seattle/Bellevue core. This growth has created an enormous demand for housing and has significantly increased commute times due to added traffic. Hundreds of new households are formed within the Puget Sound each day, and these families are seeking healthy places to explore, reside, and work. The geographical constraints of the region by bodies of water and the mountain ranges that frame it have created a shortage of developable land which is now increasing the cost of living at a rapid rate. Households are now showing a willingness to consider communities that are well connected, yet are beyond the bustle of the Seattle/Bellevue urban cores.

Downtown Kingston is in the early phases of what may be its next chapter. With that potential, two public entities, Kitsap County (the “County”) and the Port of Kingston (the “Port”) have been overseeing a number of studies that will help it prepare and shape the future of downtown. This focus is only increased now with the promise of the voter approved Kitsap County Fast Ferry that in summer 2018 will connect downtown Kingston to downtown Seattle in 33 minutes.

The Port’s mission is to enhance the economic and social well-being of the Port District Residents and to provide a waterfront facility for recreation and leisure activities. It does so with an active marina, destination waterfront park, and community programming; however, it is looking to do more by leveraging two properties it believes may be leveraged to advance its mission on behalf of the Port District residents. The West Kingston Site and Washington Boulevard Site (collectively referred to as the “Properties”) are the subject of this report. Each site is oriented towards the waterfront and relevant to adding to downtown Kingston’s vibrancy.

Purpose of This Report

The purpose of this report is to identify and analyze potential commercial development options for the two Port owned Properties. To accomplish this, Heartland has examined past studies, evaluated the regulatory environment, researched local and regional market drivers, and actively engaged with the Kingston community to identify a range of uses. This report summarizes this work and recommends a path forward for activating each property.

CERB Grant Overview

The Community Economic Revitalization Board (“CERB”) is a unique statewide economic development resource that helps communities encourage economic development and spur the creation and retention of higher wage jobs. Heartland’s work on the Properties could not have been conducted without the assistance of a CERB grant that supported 75 percent of the total project costs.

Across the state there is a range of public agencies with underutilized assets that could support the type of job growth that CERB seeks to encourage. This report advances CERB’s goals in that this report’s commercial development analysis and implementation plan will help position the Port to activate the Properties in support of the Port’s mission. The analysis found there to be niche development opportunities for the waterfront Properties that – when improved – may enhance downtown Kingston as a destination, and bring direct and indirect jobs into Kitsap County. Based on the uses identified and assessed, direct job growth could range from less than 10 for a boat storage facility, between 12 and 20 jobs for hospitality uses, and between 40 and 50 restaurant jobs.



Downtowns with character are difficult to replicate



The marina is an example of Kingston’s many waterfront activities



Kingston has an active community that can be characterized both as aging and as a family destination



Direct service to Seattle begins in 2018



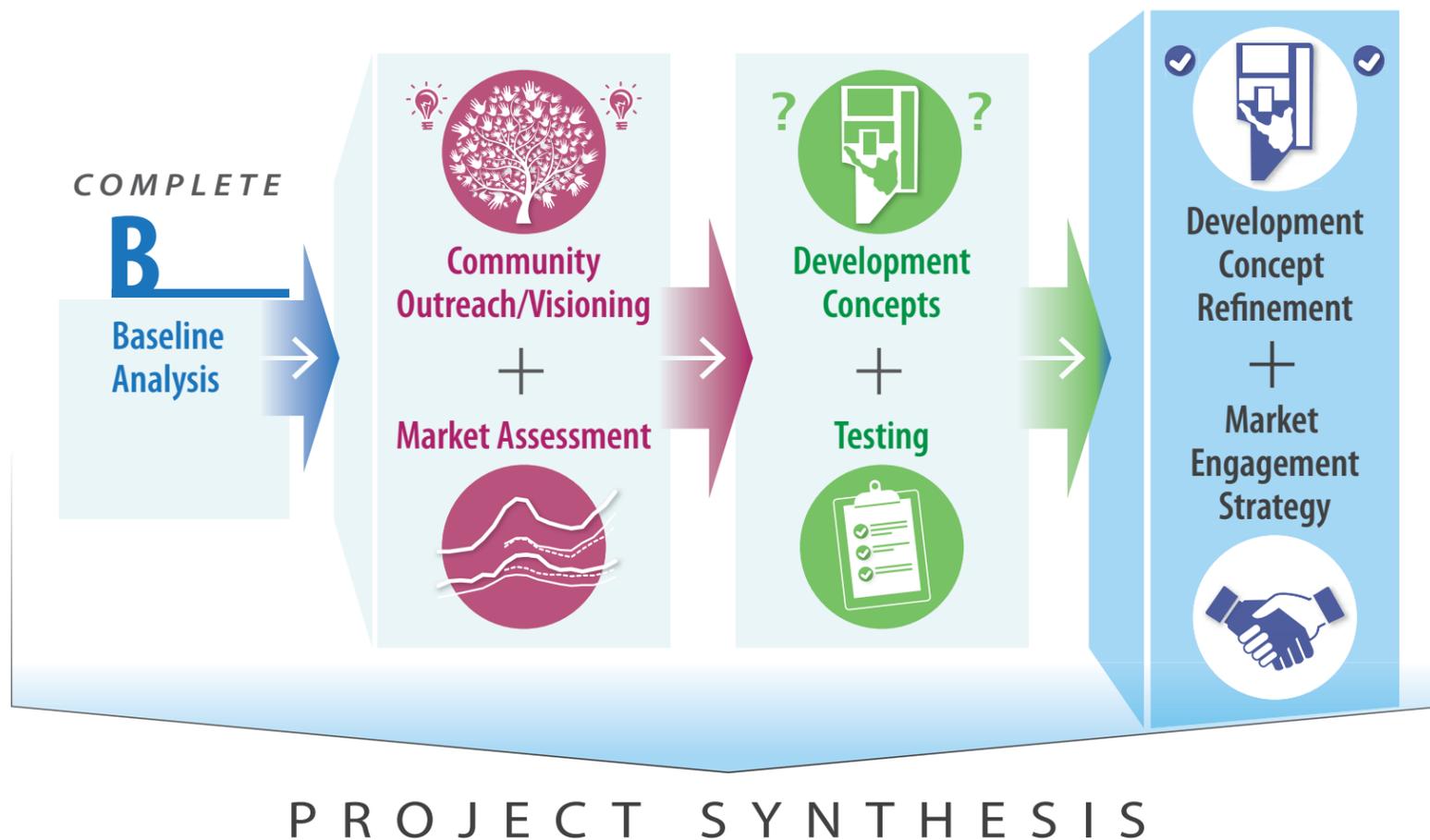
Kingston schools are well regarded

Executive Summary

Overview Process

The Downtown Waterfront Properties Study & Site Development Plan was completed in four phases.

1. The baseline analysis entailed a detailed study of past reports, regulatory conditions that frame land use, and an assessment of the Properties.
2. This knowledge was amended with a study of existing conditions that inform commercial real estate market decisions as well as two community visioning sessions that provided us with a pulse on opportunities and challenges facing the reuse of the Properties.
3. The third phase of the scope entailed the creation of a range of development concepts for the Properties that were tested, framed and presented to the community in a working session. Value input and reactions were received during this phase.
4. The final phase culminated in a refinement of the concepts for the Properties and a final assessment and market engagement strategy for each potential use.



Concepts Tested

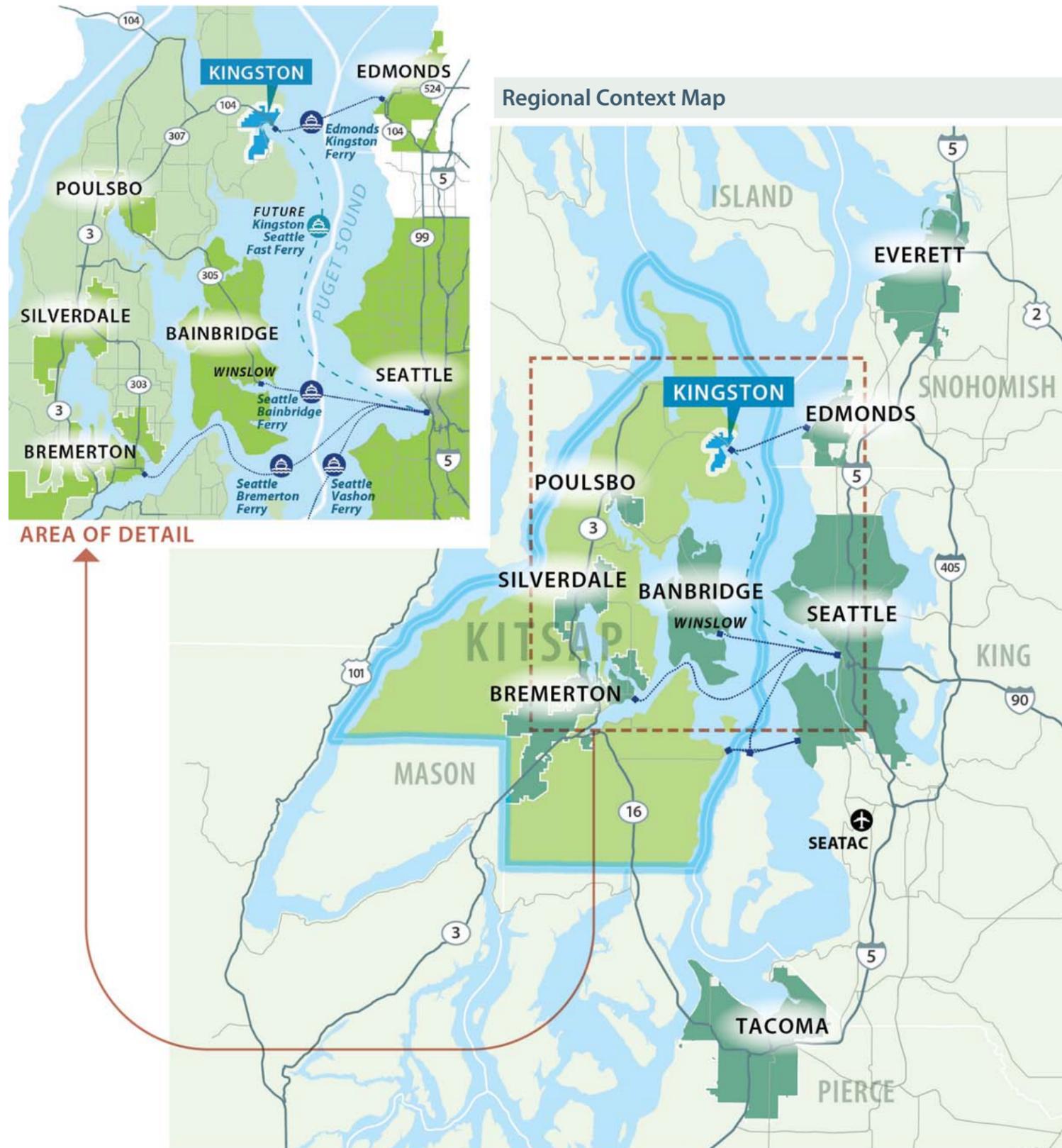
The graphic below generally depicts the conclusions from the Alternative Development Concept Testing. Each concept was viewed through the lens of a prospective developer and operator (receptiveness and feasibility) as well as the community (impact) based on input from the outreach engagement.

	RECEPTIVENESS	FEASIBILITY	IMPACT	OVERALL
West Kingston Site				
COTTAGE RENTALS 	Green	Light Green	Light Green	Light Green
DRY STACK BOAT STORAGE 	Yellow	Orange	Red	Orange
Washington Street Site				
BOUTIQUE HOTEL 	Yellow	Yellow	Yellow	Yellow
SIGNATURE RESTAURANT 	Green	Light Green	Light Green	Light Green

FAVORABLE ■■■■■ LESS FAVORABLE ■■■■■

Portfolio Overview

Portfolio Overview: Regional Context



Kingston is accessible by land-based and water-based modes of transportation. The adjacent Puget Sound waterway provides recreational boating access from the broader region and a public ferry, which runs to Edmonds, is operated by the Washington State Ferries. Recreational boaters enjoy convenient walking access to downtown from the marina and a protected harbor for the security of their vessel. Public ferry riders offload at the Edmonds – Kingston ferry which is conveniently located in the heart of downtown Kingston. The Kitsap Peninsula, of which the Port is located in the northeast corner, provides access to other communities by vehicle and is connected in the south to Tacoma via the Narrows Bridge.

The regional context map and table illustrate the Port’s location relative to other communities in Kitsap County, as well as the Port’s connectivity to the regional job centers in King County (Seattle), Snohomish County (Everett), and Pierce County (Tacoma).

Traveling to the Kingston Area		
	Travel Time (Minutes)	Mode of Transport
Edmonds	35	Ferry
Everett	90	Ferry + Vehicle
Seattle	85	Ferry + Vehicle
Seattle	33	Fast Ferry
Bremerton	40	Vehicle
Silverdale	30	Vehicle
Poulsbo	20	Vehicle
Bainbridge (Winslow)	30	Vehicle
Tacoma	70	Vehicle



Portfolio Overview: Downtown Kingston



The Port of Kingston District encompasses nearly 11,000 acres located on the northeastern end of the Kitsap Peninsula. The Port operates under a mandate to improve the lives of local residents both economically and through their social well-being. These objectives are achieved by providing access to a high quality recreational marina, by maintaining parking for local businesses and by creating public parks and open spaces. The Port’s revenue to support their mission is primarily funded through boat moorage fees at the Kingston Marina (60%), as well as parking fees (14%), leases (13%) and other miscellaneous sources (13%).

Downtown Kingston is known throughout the region as a pleasant community with noteworthy local eateries. The downtown is highly walkable for locals and visitors alike, which adds to the charm of the Kingston experience. The lack of quality hotel accommodations and a destination restaurant, coupled with ferry traffic, are commonly mentioned gaps in the experience that the town has to offer.

Downtown Improvements

Future infrastructure development in Kingston may be coming in the form of 20 actionable projects which will improve the pedestrian and automotive experience throughout the town. These projects stem from the Complete Streets Plan, and include a proposed shoreline trail system, pedestrian safety improvements and improved streetscapes. Major improvements are also planned for the Washington Boulevard Park corridor, including the development of a public park and improvements to traffic circulation near the ferry terminal and throughout downtown.

Fast Ferry

In 2018, the town will enjoy the addition of passenger-only ferry connection between Kingston and downtown Seattle with a dock to dock time of approximately 33 minutes. This opportunity may bring economic vitality and household growth to the local economy by allowing individuals to easily live in Kingston and work in Seattle.



Portfolio Overview: West Kingston Site

West Kingston Site – Context Map



Location and Surrounding Uses

The West Kingston Site is located at 11091 NE West Kingston Road in Kingston and consists of approximately 2.75 acres of land across five parcels. This assemblage is adjacent to Central Ave NE to the west, which is an important access road to the Kingston Marina and to the waterfront.

Physical Attributes

Across the Property there is a grade change of approximately fifty (50) feet from the uplands portion located along NE West Kingston Road down to the shoreline of Appletree Cove creating a gently sloping site. Currently, two of the parcels are being utilized as a surface parking lot that can accommodate 64 vehicles or 32 boat trailers from the nearby Kingston Marina. Two of the parcels are vacant and support an area commonly referred to as the West Kingston Park, which is not a Kitsap County operated park. The remaining parcel is improved with a vacant residential home. The following graphic depicts the West Kingston Site and its surrounding uses.

Zoning

The West Kingston Site is zoned Urban Low Residential (UL) which permits most residential uses and resource land uses, while allowing commercial, recreational, institutional and industrial uses on a conditional basis.

URBAN LOW RESIDENTIAL (UL)

- Min density of 5 units per acre
- Max density of 9 units per acre
- Max height of 35 feet
- Max impervious lot coverage of 85%

SHORELINE MASTER PLAN (SMP)

This regulation protects shoreline-based natural resources, promotes public access and encourages water-dependent uses. The jurisdiction of this regulation applies to properties located within 200 feet of the shoreline edge (ordinary high water mark). The majority of the West Kingston Site is within the High Intensity shoreline environment designation and beholden to a specific criteria of land uses.

Potential Future Uses Considered

COTTAGE RENTALS



DRY STACK BOAT STORAGE



Portfolio Overview: Washington Blvd Site

Washington Blvd Site – Context Map



Location and Surrounding Uses

The Washington Blvd Site is located at 25864 Washington Blvd NE and totals approximately 0.68 acres. This site is part of a larger 7.1 acre parcel that is owned by the Port, which is used for community parking and the Mike Wallace park.

Physical Attributes

The Washington Blvd Site lies directly to the north of Mike Wallace Park, which is a community and visitor gathering place that is managed and programed by the Port. On the northern border of the site is Washington Boulevard, which on the north side of the street is lined with three commercial buildings that house the Kingston Cove Yacht Club, a wellness center, and a bar and grill. This east/west right-of-way intersects with NE State Hwy 104. This road is currently a one-way street running south into the Kingston – Edmonds ferry terminal lot.

Zoning

The Washington Blvd Site is zoned Neighborhood Commercial which permits general commercial and recreational uses, while only allowing for limited residential and industrial uses.

NEIGHBORHOOD COMMERCIAL (NC)

- Min density of 10 units per acre
- Max density of 30 units per acre
- Max height of 35 feet
- Max impervious lot coverage of 85%

SHORELINE MASTER PLAN (SMP)

A small corner of the Washington Blvd Site is affected by the SMP with the remaining portion of the land regulated by the NC zoning code. This regulation protects shoreline-based natural resources, promotes public access and encourages water-dependent uses. The jurisdiction of this regulation applies to properties located within 200 feet of the shoreline edge (ordinary high water mark).

Potential Future Uses Considered

SIGNATURE WATER-ORIENTED RESTAURANT



BOUTIQUE HOTEL



Public Outreach Summary

Public Outreach Summary: Overview

Engagement Overview

Heartland Public Outreach

Public engagement was an integral part of this effort. Without the involvement of the community our work would have been conducted in a vacuum informed only by our perceptions of Kingston and its driving forces. The outreach sessions were publicly advertised throughout the Kingston community in an attempt to maximize participation.

A total of 3 events were held at the Kingston Village Green community center. Two separate visioning sessions facilitated by Heartland were held during a single day. Together, over 50 community members participated in a 2 hour workshop that provided a project overview and breakout sessions to discuss community opinions and attitudes.

A third community engagement event was held to present the initial development concepts for the Properties and to receive direct feedback from the approximately 30 participants. This was a lively interactive event that helped refine the final set of concepts that were assessed.

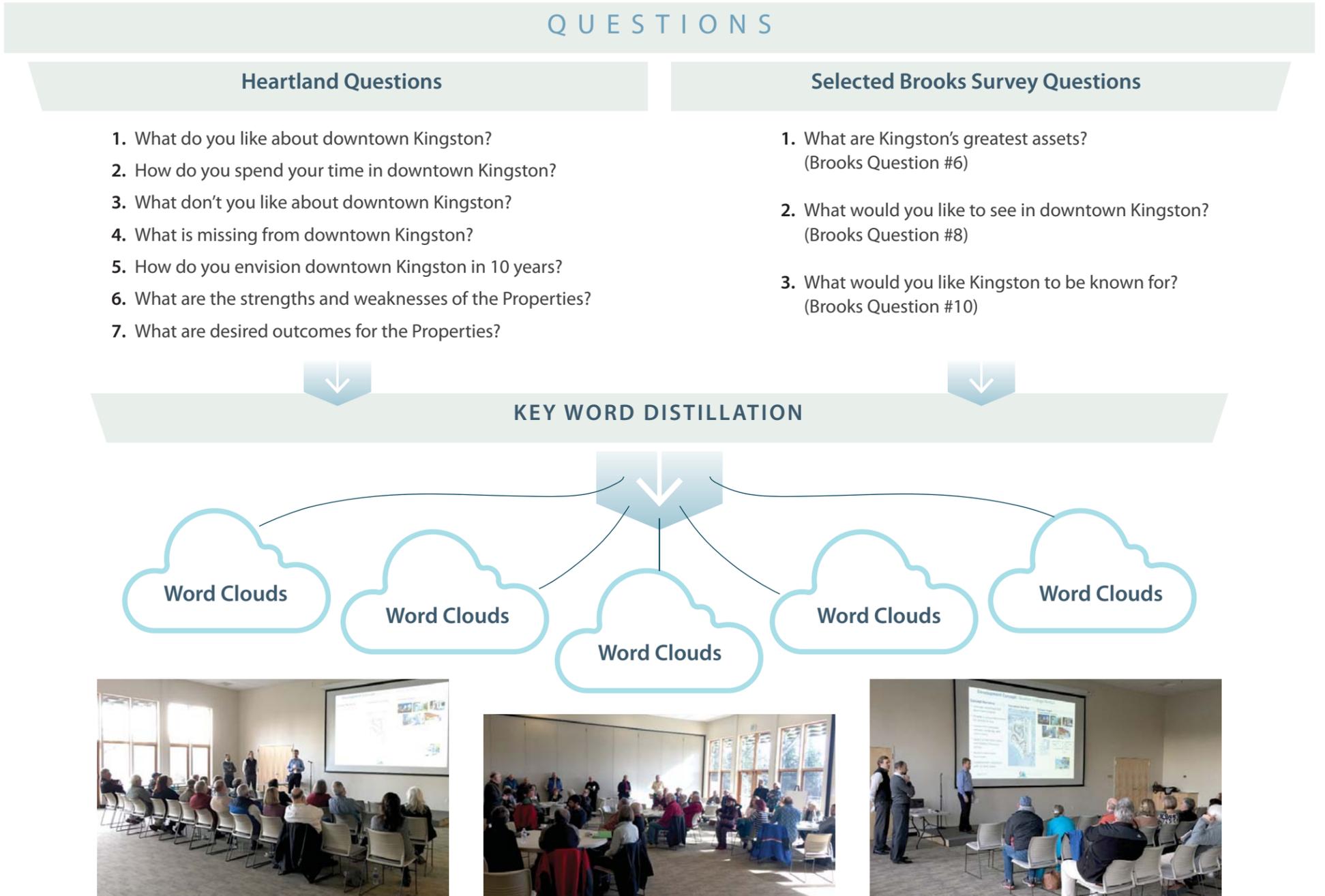
The Brooks Survey

It is important to note that while our outreach efforts permeated a portion of the Kingston community and resulted in useful input related to the Properties, we also leveraged a useful body of work conducted by Roger Brooks in the Fall of 2013.

The Brooks Survey was a collaboration with the Port and the Greater Kingston Economic Development Council that assessed how locals viewed downtown Kingston, and how it might be improved. The survey asked seven questions and 173 people responded. Our focus was on three of the seven questions.

Engagement Overview

Seven questions framed the discussion during the breakout portion of the visioning sessions. Each table facilitator asked these questions and captured the communities responses during the informative conversations. When combining this effort with several key questions selected from the Brooks Survey, Heartland gained a good understanding of the community's attitudes about downtown Kingston, the image and direction of Kingston, and insights into the Properties. To distill this information, we employed the process summarized in the graphic below. The output from this information distillation is illustrated and summarized on the subsequent pages.



Public Outreach Summary: Community Engagement Word Cloud Output

What is Kingston?



Image is important to a small community such as Kingston. The Brooks Survey asked residents what they would like Kingston to be known for and the result can be summarized as a family oriented small town, that is a welcoming destination.

How do you spend your time in downtown Kingston?



Visioning session participants cited community events around Mike Wallace park and the Village Green as ways they spend time in Kingston. Also noted was shopping, dining, and enjoying views of Apple Tree Cove and the Puget Sound.



Public Outreach Summary: Community Engagement Word Cloud Output

How do you see Kingston changing in 10 years?



Overwhelmingly, the visioning session participants felt that growth in Kingston is inevitable. This is important to acknowledge for proactive planning to occur. Drivers of this growth were noted to be the future operation of the fast ferry to and from downtown Seattle and the overall improvement of the regional economy. These factors may facilitate population growth as households from the east side of the Puget Sound, as well as those new to Washington, consider what Kingston has to offer. Captured words that ran along with “growth” included retail, families, population, services, and exponential. Managing traffic – largely traffic associated with the ferry terminal – was identified as a key factor in accommodating this growth. Implementation of the Complete Streets study recommendations, along with the adoption by WSDOT of the ferry reservation system at the Kingston ferry terminal, can improve the downtown experience and support improved retail along with the potential for new residences and offices.

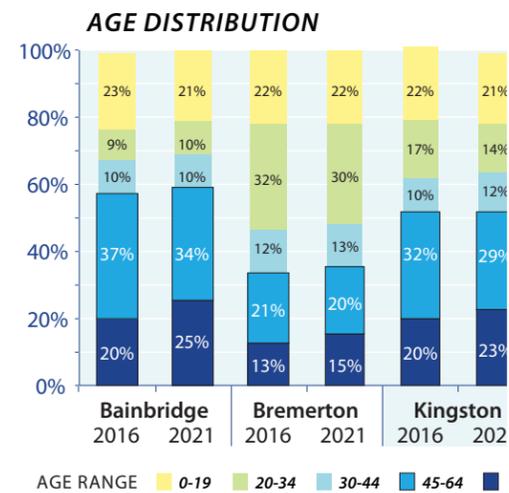
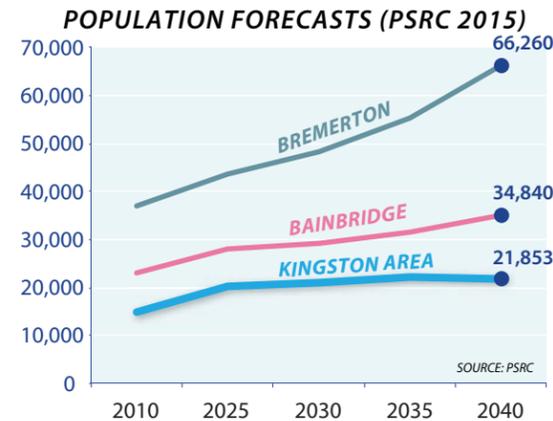
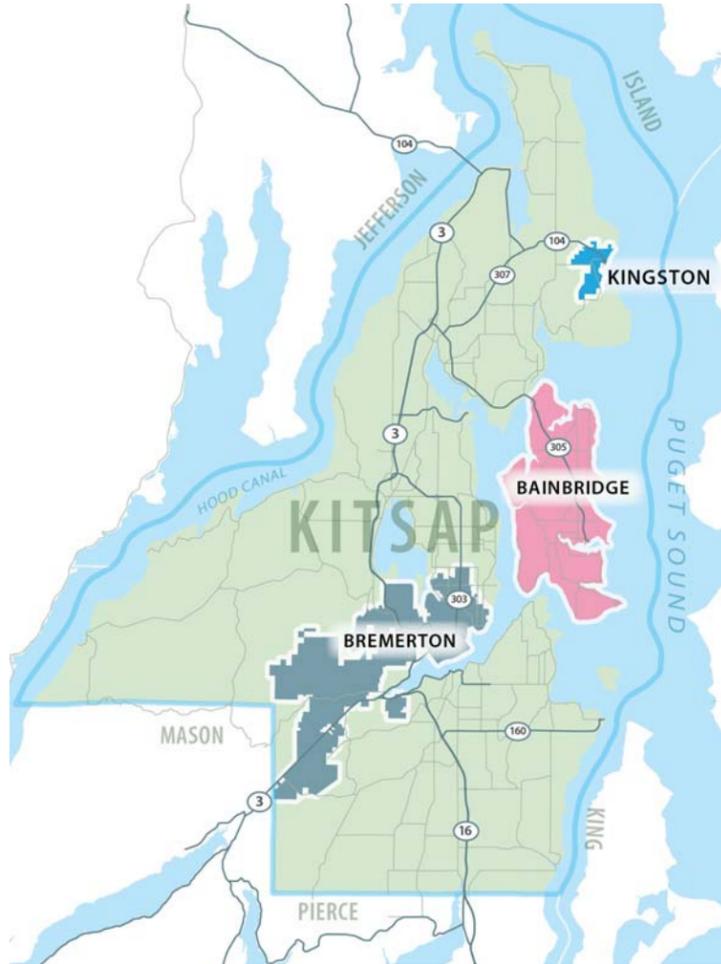


Market Overview

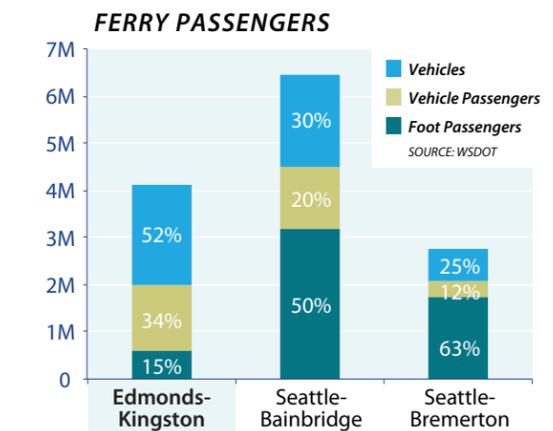
Market Overview: Demographics

The viability of future uses across the Properties can be informed by studying key demographic metrics and comparing these to other local geographies. The comparative graphics included below illustrate general demographic trends related to population growth and population distribution by age for Bremerton, Bainbridge and Kingston. Kingston is also influenced by ferry traffic via the state's second most busy route. Data from WSDOT revealed several relevant insights.

Demographic Overview Area Context Map and Summary



Ferry Traffic Observations by Route



Observations

- The 2016 population within the Kingston was 2,187 people within the designated census area ranging from NE Apple Cove Lane to the north, to NE Jefferson Pt. Road in the south, Puget Sound to the east and roughly the Barber Cut Off Rd to the west. The Puget Sound Regional Council (PSRC) measures the Kingston population Forecast Analysis Zone (FAZ), which is a larger area ranging from Huntsville in the north to Indianola to the south. This area encompasses a greater number of individuals and is reflected in the Population Forecast chart.
- The PSRC forecasts annual population within the Kingston census area to grow by .5% between 2015 and 2040. The projected growth forecast over the same period in Bremerton and Bainbridge is 2.85% and 1.45% respectively. The forecasted growth projection for Kingston may prove to be conservative as

- the future fast ferry could encourage substantial local growth.
- Between 2025 and 2040, the Kingston census area is forecasted to add 1,554 new individuals.
- Kingston is forecasted to maintain a balanced distribution of age within its population that will trend slightly younger over the next 4 years.
- Compared to other nearby cities, Bremerton is a much younger city due to the large military presence within it's immediate surroundings.
- 4 million riders travel through Kingston each year with a much greater bias toward auto-oriented transportation than other ferries in the region.

Market Overview: Comparative Economics

Key economic metrics allow a comparative look between Kingston and other nearby Puget Sound communities. The charts below illustrate general market indicators as they compare between Kingston, Bainbridge, Bremerton, and Seattle. Seattle is an important benchmark to include as general pricing and expenses within its market continue to skyrocket with unmatched growth. This dynamic has created an environment where Seattle households will continue to experience pricing pressure, and will likely be inclined to consider Kitsap County – and Kingston – for relocation and housing opportunities.

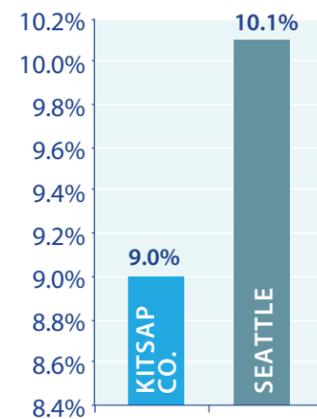
The market observations below each highlight the key economic metrics in greater detail and offer insights as they relate to Kingston. The key economic metrics provide information pertaining to income, livability and costs for each of the nearby Puget Sound communities selected.

Geographic Economic Overview

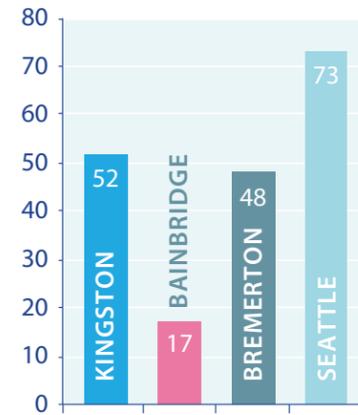
PROPERTY TAX ON MEDIAN HOME PRICE



SALES TAX RATES



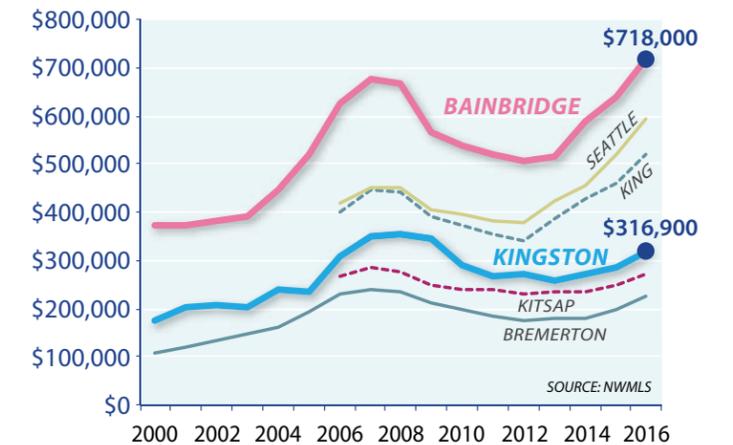
LOCAL WALK SCORE



MEDIAN INCOME



MEDIAN HOME PRICE



Observations

- In comparison to nearby locales, Kingston compares well economically across a number of key variables.
- Both property and sales taxes are significantly lower in Kitsap County than nearby King County. Lower taxes can be an attractor of future economic opportunities as businesses choose to leave higher tax jurisdictions such as nearby Seattle.
- Kingston is fairly walkable when compared to other nearby towns and cities. The local Walkscore measures pedestrian friendliness by analyzing population density and road metrics such as block length and intersection density.
- As compared to other regional markets, the median home price in Kingston provides an accessible entry point for families at \$316,900. The median home price in Bainbridge is \$718,000 and is \$630,000 in the Seattle Metro area.
- Kingston's median income as a percentage of median home price is nearly twice what it is in Seattle. This metric measures affordability of housing in comparison to income, which can be a tool to attract new residents.



Market Overview: Kingston Area Tailwinds and Headwinds

To fully analyze future uses across the Port-owned properties it is important to understand both the tailwinds and headwinds throughout the local market. In the near future, the Kingston market will be the beneficiary of a number of key development and infrastructure projects that will significantly benefit the broader community. These projects will collectively increase the standard of living for local residents, and will improve the appeal of Kingston to outside visitors. The positive momentum generated by these projects will directly benefit the existing local Kingston businesses and will likely attract new businesses to the area.

The headwinds affecting Kingston, such as seasonality, are shared by other Puget Sound communities and are not unique to Kingston alone. Kingston's most pressing headwind lies in the arterial design within its downtown core. This headwind is as much of an opportunity as it is a challenge. Once an effective plan is designed, and strategic partnerships for implementation are formed, the entire downtown will significantly benefit from the completed work.

Projects and Progress

Arborwood

The most significant development project in Kingston is the community of Arborwood, which is currently being proposed by the Olympic Property Group (OPG) across 361 acres of property owned by Pope Resources. This single project, located 1.5 miles from downtown Kingston, would add 765 residential units including 88 higher density townhomes. The project would also include a 20,000 square foot retail area to support the larger community. OPG has announced that they will begin to clear the development site as part of Phase 1 of the development towards the end of 2017.

Fast Ferry

In 2016, the voters of Kitsap County approved a ballot measure to establish a passenger-only ferry connection between Kingston and downtown Seattle. With a dock to dock time of approximately 33 minutes, this new mode of transportation has the potential to be catalytic for Kingston. The ferry will provide an opportunity for households to live in the more affordable Kingston while still having the ability to access jobs and opportunities for higher education in Seattle.

Kingston Lumber Site

A local group has plans to redevelop the existing structures into a collaborative bakery, restaurant and brewery. The location benefits from both ferry traffic and local interest with adequate parking to support the use. The local group closed on the property in June 2017.

Complete Streets

In 2018, major improvements are planned for the Washington Blvd corridor, including the development of the Washington Blvd Park and improvements in circulation near the Ferry Terminal and throughout downtown.



Key Local Challenges

The most pressing challenge for Kingston is to manage the flow of traffic and automobile circulation throughout the downtown in a better way. The opportunity presented by the challenge is to “unlock” economic opportunity and vibrancy within the downtown by providing a street grid and ferry queuing system that compels visitors to exit their cars and venture into the local shops and eateries. This challenge must be addressed in a collaborative manner by securing adequate public funding for the projects, by leveraging technology such as reservation systems and by working closely with WSDOT to achieve mutually satisfying objectives.

Parking in downtown Kingston may present a challenge in the future. Our public outreach efforts revealed this to be a community concern. The Fast Ferry will likely increase demand for parking stalls. This, coupled with the possibility of replacing some Port controlled stalls with the possible development of the Port properties, will only add parking pressure.

Local Amenities

Kingston has an attractive array of amenities available to residents and visitors within a short distance from the downtown.

- **Puget Sound** - offers kayaking, fishing, boating and other water-related activities.
- **Bike trails** - plentiful throughout the area with easy family-oriented rides, challenging mountain bike trails, and road races for cyclists.
- **Casino** – the nearby Point Casino provides slot machines, table games, fine dining and live entertainment.
- **Golf** – the White Horse Golf Club hosts nationally recognized tournaments and excellent northwest views on each of the 18 holes.
- **Olympic National Park** – each year nearly 3 million people visit Olympic National Park which is located 1.5 hours from Kingston. Many of these visitors pass through Kingston and Kitsap County on their way to the Park.

Market Overview: Potential Site Uses – West Kingston Site

COTTAGE RENTALS

The West Kingston Site is well positioned to leverage its waterfront location and proximity to downtown for development as vacation cottages. The concept would provide a collection of individual for rent units that utilize common amenities and open space. The venue may be ideal for corporate retreats, weddings, and other events, while driving pedestrian traffic into the downtown Kingston core. It is estimated that a project of this nature could introduce an additional ~5,500+ visitors to Kingston each year. The future presence of the Fast Ferry provides walkable access to the Site from not only downtown Kingston but also downtown Seattle.

Rental Rates

- The forecasted rental rate for the cottages is approximately \$250 - \$300 per night.
- Additional income may be generated by a waterfront café or retail.

Market

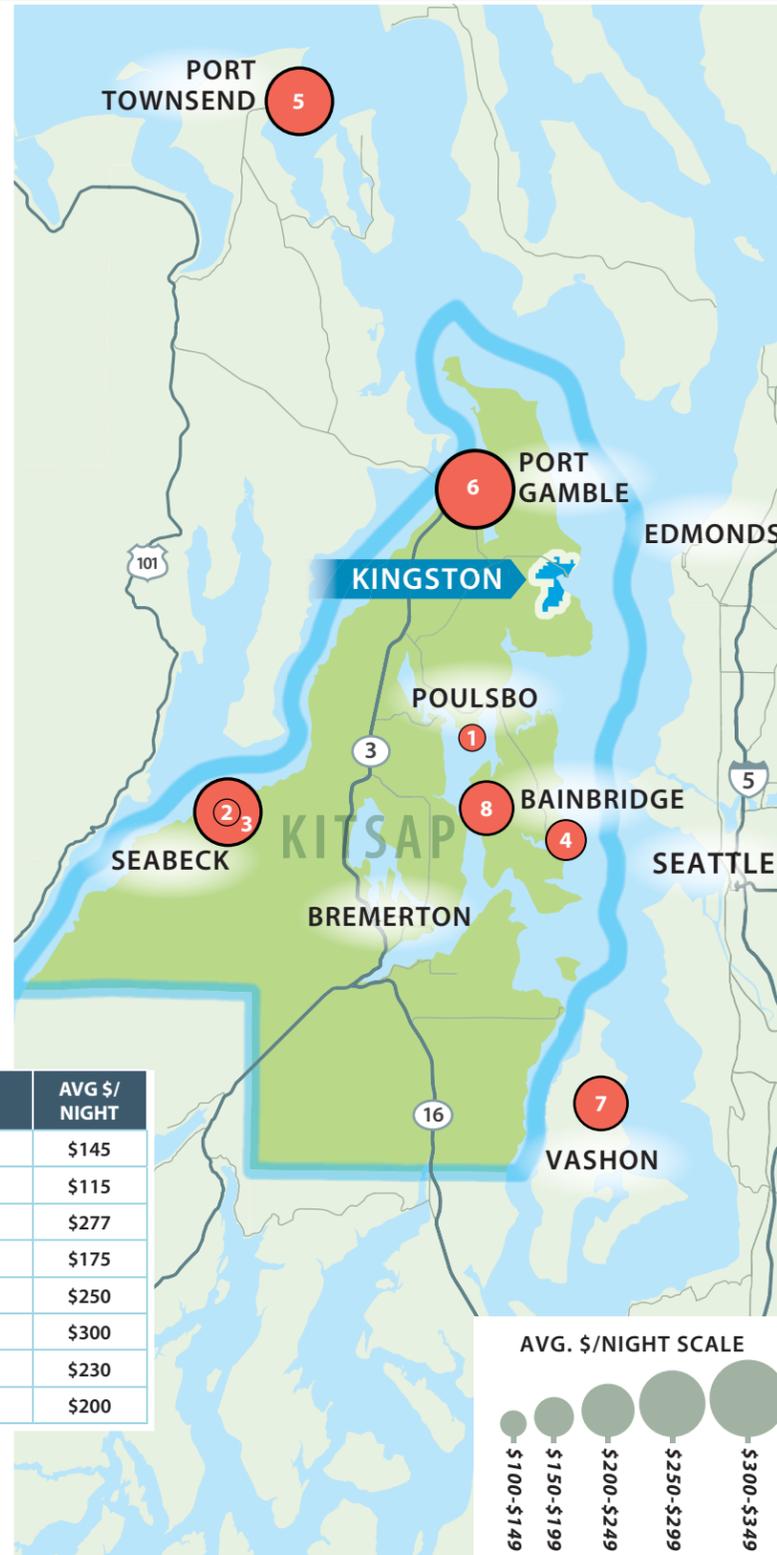
- The current market for cottage rentals is fragmented within the Kingston market. Small B&Bs along with individual rentals through platforms such as Airbnb comprise the majority of the local market place.
- The cottage rental model has been proven in other Puget Sound communities and is differentiated from more traditional hospitality.

Implementation

- The Port of Kingston should engage potential developers and operators with a request for development proposals and business plans.
- The Site should be made available on a long-term ground lease with the operator assuming all development costs and ongoing operational responsibility for the project.

Considerations

- There may be pushback in the Kingston community due to the loss of parking stalls for cars and boat trailers.
- The 200-foot shoreline setback is a regulatory challenge that must be addressed.
- Seasonality is a key variable in understanding the viability of a project of this nature and must be factored into any business plan.



Market Overview: Potential Site Uses – West Kingston Site

DRY STACK BOAT STORAGE

The West Kingston Site possesses a number of key characteristics that are supportive of a future dry stack boat storage facility. The Site is easily accessible from the water and sits adjacent to a regional marina. A future waterfront dry stack storage facility would allow for the expansion of marine-related businesses and job creation across Port of Kingston owned land.

Rental Rates

- Regional dry stack boat storage rental rates are quoted on a monthly basis.
- Pricing tends to be higher in desirable locations and at facilities that offer amenities to boat owners such as electricity, maintenance and climate controlled storage.

Market

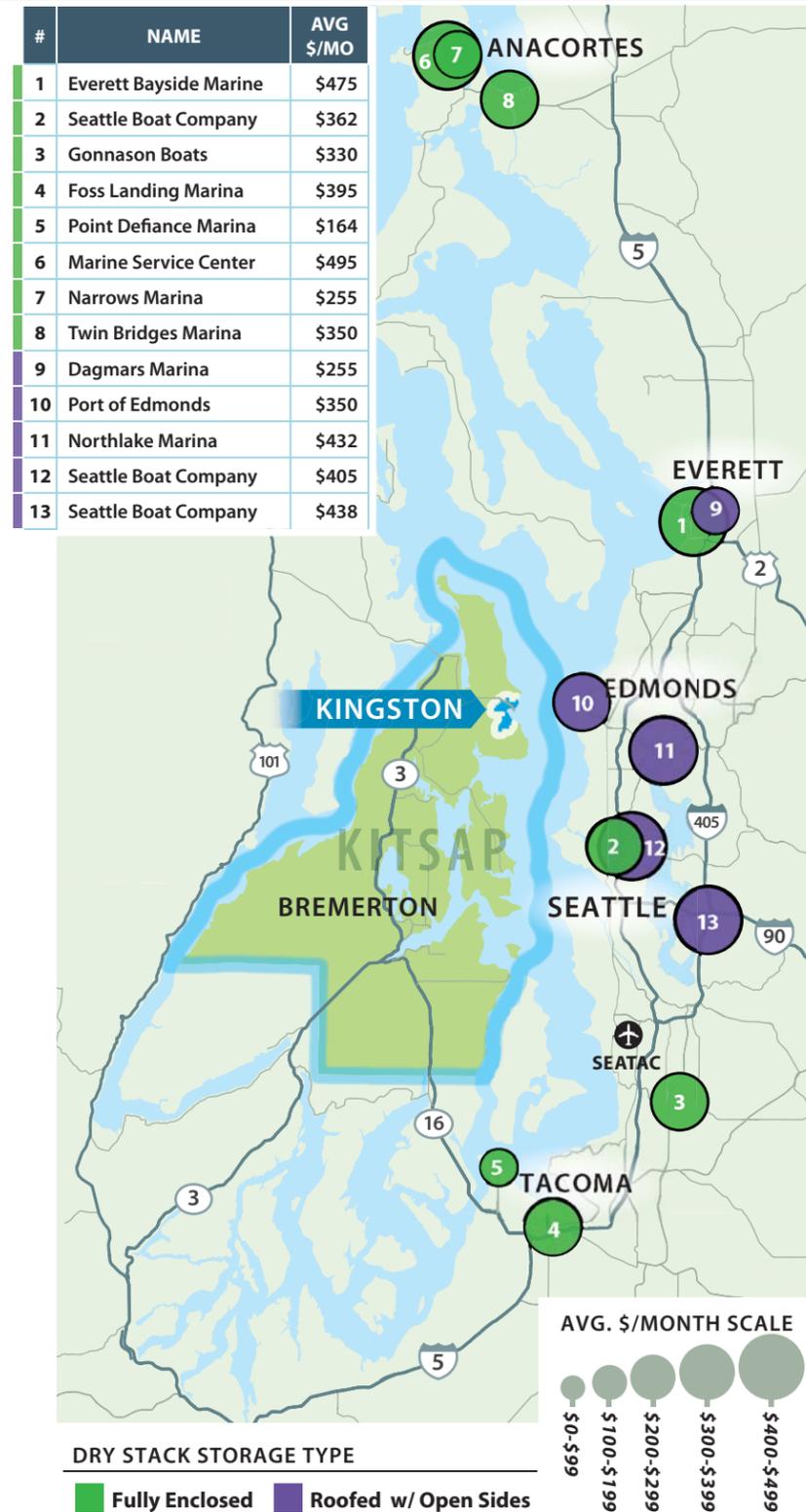
- There is virtually no existing supply for waterfront dry stack boat storage of scale within Kitsap County.
- Dry stack boat storage operators typically offer additional services such as marina repair and boat supplies as part of their operation.
- High demand boat storage operations on Lake Washington have multi-year waitlists and the Port of Edmonds facility is currently at full capacity.

Implementation

- The Port of Kingston should engage potential developers and operators with a request for development proposals and business plans.
- The Site should be made available on a ground lease with the operator assuming all development costs and ongoing operational responsibility for the project.

Considerations

- There may be pushback in the Kingston community due to the loss of parking stalls for cars during events and the summer season.
- The slope across the Site may present challenges for vertical boat storage and boat transportation to the water via forklift.
- A future operator should be required to design a facility that is aesthetically pleasing for the broader Kingston community.



Market Overview: Potential Site Uses – Washington Blvd Site

BOUTIQUE HOTEL

The location of the Washington Blvd Site may support a future boutique hotel development comprised of approximately 10 - 15 rooms. The intimate size of the development and the waterside views stand to produce a unique character and ambiance for the guests. The concept would target a destination level experience and a price point that reflects the unique offering of the hotel. Additional amenities would need to be provided by the hotel to supplement those offered within downtown Kingston. The hotel experience would need to be one-of-a-kind in nature and would likely operate independently.

Opportunity

- The forecasted rental rate for hotel rooms is approximately \$200 - \$250 per night.
- Additional income could be generated by an adjoining café, spa or retail space.

Market

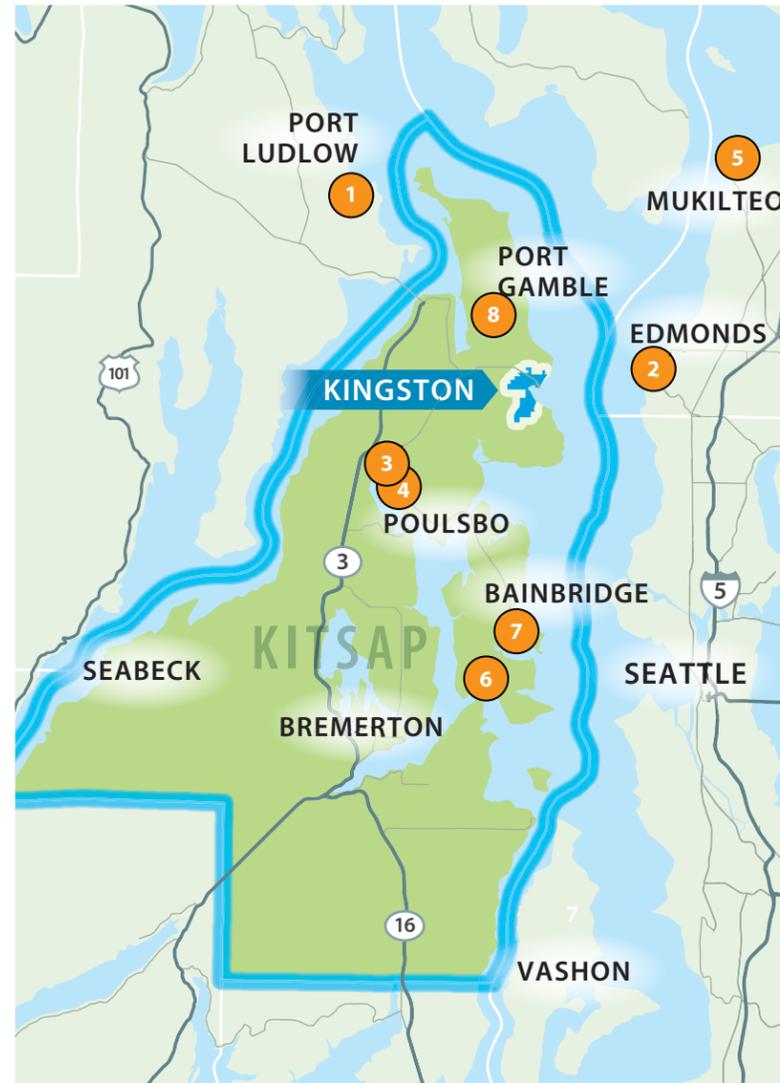
- The current supply for hospitality in downtown Kingston is virtually non-existent.
- Visitors to Kingston often stay in vacation homes being rented through platforms such as Airbnb.
- Neighboring communities such as Poulsbo and Edmonds are able to maintain year-round hospitality establishments.

Implementation

- The Port of Kingston should engage potential developers and operators with a request for development proposals and business plans.
- The Washington Blvd Site should be made available on a ground lease with the operator assuming all development costs and ongoing operational responsibility for the project.

Considerations

- In mid-2015, a hotel study in Kingston was conducted by HVS Consulting and Valuation Services which determined that the use was not viable in the near-term.
- Seasonality is a key variable in understanding the viability of a project of this nature.



#	NAME	AVERAGE ROOM RATE	ROOM COUNT
1	The Resort at Port Ludlow	\$260	37
2	Best Western Plus	\$135	91
3	GuestHouse Inn	\$99	63
4	Poulsbo Inn & Suites	\$93	83
5	Silver Cloud Inn	\$149	71
6	The Inn at Pleasant Beach	\$179	12
7	Best Western Plus	\$170	51
8	The Point Casino & Hotel	\$109	94



Market Overview: Potential Site Uses – Washington Blvd Site

SIGNATURE WATER-ORIENTED RESTAURANT

The Washington Blvd Site is well positioned to support a signature water-oriented restaurant. The location supports substantial pedestrian and auto traffic, as well as regional connectivity through water-based transportation. The site welcomes individuals to Kingston from the water and boasts territorial views of Puget Sound and the Cascade Range.

Opportunity

- Vibrant waterfront communities throughout the Puget Sound region typically have a signature restaurant along their waterfront.
- Signature restaurants serve as culinary lighthouses that typically serve local seafood such as local salmon, dungeness crab and oysters. These restaurants provide a destination experience for community members and visitors alike.

Market

- Kingston currently does not have a signature water-oriented restaurant.
- Edmonds presents the closest option for such an experience and is 35 minutes away via ferry.
- Vibrant Puget Sound waterfront communities benefit in many ways from the presence of a noteworthy waterfront restaurant.
- The future foot ferry from Seattle will provide a viable opportunity for individuals to come to Kingston for brunch or dinner.

Implementation

- The Port of Kingston should engage potential Puget Sound-based restaurant operators with a request for development proposals and business plans.
- The Site should be made available on a ground lease with the operator assuming all development costs and ongoing operational responsibility for the project.

Considerations

- Seasonality and demand are key variables in understanding the viability of a restaurant on the Site.
- A future operator should be required to design a facility that is inviting for Kingston visitors to be welcome by.

#	NAME
1	Duke's Chowder House
2	Duke's Chowder House
3	Duke's Chowder House (2019)
4	Arnies
5	Arnies
6	Anthony's
7	Palisade
8	Anthony's
9	Elliot's Oyster House
10	Anthony's HomePort
11	Lombardi's Italian
12	Anthony's at Sinclair Inlet
13	Yacht Club Broiler
14	The Loft



Alternative Development Concept Testing

Alternative Development Concept Testing: Comparative Evaluation

Over the course of this engagement a broad range of potential development concepts for the West Kingston Site and Washington Blvd Site were considered. The potential future uses that were selected for concept testing were the result of community engagement and market evaluation. There are uses that were not selected that may be viable under the right conditions and could arise during the marketing process of the sites. Examples of potential uses not selected are multifamily, a parking structure, aquatic center and an RV facility. The four concepts that were selected, two for each property, have been summarized in the preceding pages. This section focuses on the concept testing results.

On this page we summarize how each concept performed based on a cash on cash and operating margin standpoint. These metrics measure how the businesses of the lessors/operators would perform. This evaluation also considers development feasibility, market receptiveness, and the potential community impact on the right panel.

On the next page the concepts are viewed through the Port's lens. Each concept is evaluated using a 10 year discounted cash flow and considerations related to potential funding sources to support pre-marketing activities (the Port's "uses") as well as its potential ground lease revenue from future users rent payments ("sources").

Overall this evaluation finds that the Cottage Rental concept on the West Kingston Blvd Site and the Signature Restaurant on the Washington Blvd site are the strongest targets for the Port to pursue.

Concept Operating Performance Evaluation

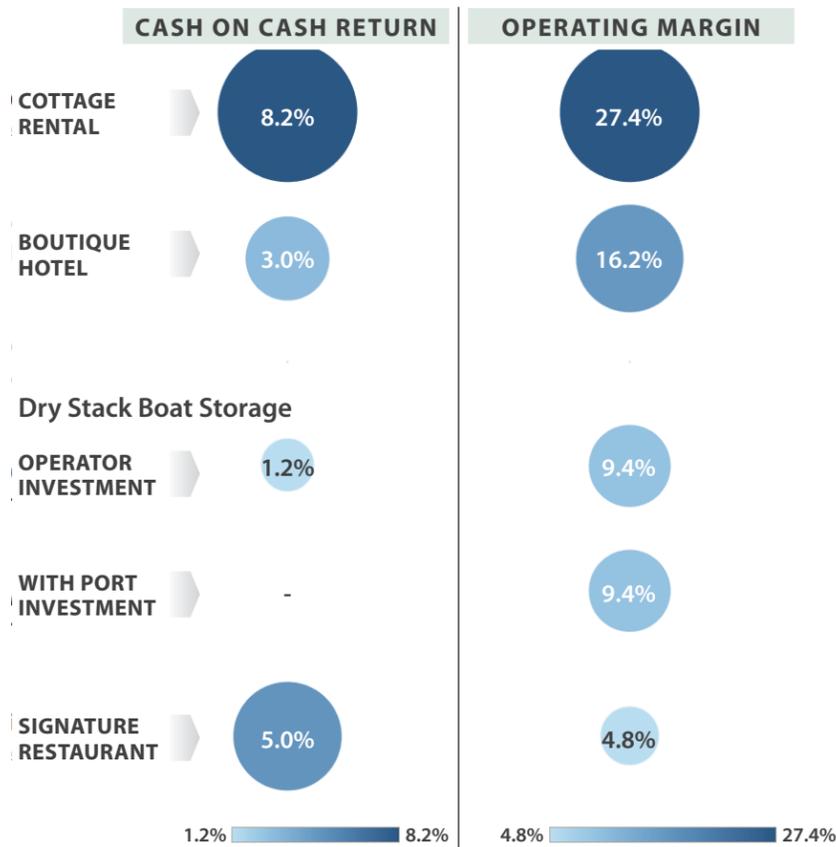
The chart to the right summarizes the cash on cash return, or the net operating income divided by the total investment by the lessor as well as the operating margin, or the net operating income divided by the gross revenue. These metrics are useful to evaluate how a project may perform relative to its investment (cash on cash return) and how it may sustain over time (operating margin).

In general the cash on cash return should exceed at least 6%, though a minimum 10% return is optimal.

- The only concept that exceeds that threshold is the Cottage Rental concept.
- The Signature Restaurant concept achieves a 5% return; however, our 10-year cash flow look at this business shows that by year 3 of operations it may exceed the 6% threshold.
- The Boutique Hotel's cash on cash return is roughly 3%. This is a function of the high development costs and a concept with between 15 to 20 rooms that does not generate sufficient income based on our market assumptions. This concept may perform better as a condominium project with units used as second homes available for vacation rental.
- The cash on cash return for the Dry Stack Boat Storage concept is not applicable in an operating model scenario in which the Port delivers the facility. Should the operator also develop the storage facility then the cash on cash return is a suboptimal 1.2%.

The operating margin reveals how tight restaurant operating margins are; while the Cottage Rental operating margin appears to be very strong. This is a function of the cost of goods to support a restaurant. As the chart shows, the other users have operating margins around 10% or more except for the restaurants' 4.9% margin. This tight margin should not be viewed as a detriment to this use, as this typical for this industry.

Operating Metric Performance Summary



Multi-Criteria Comparative Assessment

Another lens the development concepts were evaluated through was a multi-criteria evaluation. This approach blends the objective financial feasibility testing with a subjective assessment of the likely market receptiveness and impact the development may have on the community.

This chart summarizes the assessment below:



COTTAGE RENTAL

- **Feasibility:** This is the most feasible concept of the set tested with a combination of lower development costs and strong revenue potential.
- **Receptiveness:** There is a limited number of operators that have proven this concept; however, outreach indicated this is a strong site for this use.
- **Community Impact:** There could be over 5,000 visitors a year.

DRY STACK BOAT STORAGE

- **Feasibility:** Low due to site costs. The Port is unlikely to make the investment and it is infeasible if an operator makes those investments.
- **Receptiveness:** It would be strong due to limited supply in Kitsap County; however, the site slope and costs may limit the market.
- **Community Impact:** This use may bring boaters to the area but will be aesthetically unappealing.

BOUTIQUE HOTEL

- **Feasibility:** A good cash on cash return, but the project value is less than the total costs.
- **Receptiveness:** The fast ferry may make this a stronger market for a small scale hotel.
- **Community Impact:** A desired community use; its main impact are visitors.

SIGNATURE RESTAURANT

- **Feasibility:** This concept appears to be feasible.
- **Receptiveness:** There will likely be a strong response for this location, especially when coupled with the fast ferry and the cottage rental concept.
- **Community Impact:** High as this is a very strong desire from the community.

Alternative Development Concept Testing: Port Perspective

Financial resources are required to prepare the Port-owned properties for development. Port outlays will fund due diligence work that is necessary to market the properties to future developers or operators. These studies include geotechnical analysis, environmental analysis, surveying and legal documentation. The potential sources of these funds to support the pre-marketing work are similar across the four potential scenarios and would likely be spent ahead of any revenue generation. However, the dry stack boat storage scenario presents a unique funding opportunity. In Washington State, there are programs, such as the Recreation and Conservation Office (RCO), which provides a Boating Infrastructure Grant Program (BIG) to fund the development of boating facilities. Across all four scenarios, development costs beyond the pre-marketing period would likely be paid by a future ground lessor. A lessor that makes significant investments will expect ground leases with longer terms.

Potential Sources of Funds

- Grants
- General funds
- Levy increases
- Future ground lease revenue
- LID

Uses*

- Studies and site prep
 - ALTA Survey
 - Geotechnical study
 - Phase 1 ESA
 - Legal Documentation

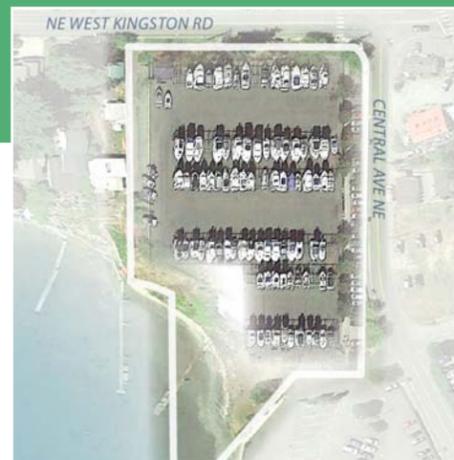
Estimated Per Site Cost: \$150K to \$300K

West Kingston Site

COTTAGE RENTALS



DRY STACK BOAT STORAGE

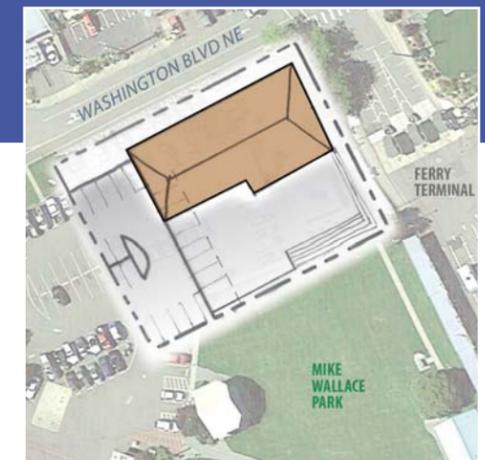


Washington Blvd Site

BOUTIQUE HOTEL



SIGNATURE WATER-ORIENTED RESTAURANT



PROPERTY	SCENARIO	YEAR	1	2	3	4	5	6	7	8	9	10	PAYBACK PERIOD	NPV
WEST KINGSTON SITE	Cottage Rentals	Pre-Marketing Costs	\$300,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	Year 4	\$479,737
		Ground Lease Payment	\$0	\$114,123	\$116,976	\$119,900	\$122,898	\$125,970	\$129,120	\$132,348	\$135,656	\$139,048		
		Net Cash Flow	\$300,000	\$114,123	\$116,976	\$119,900	\$122,898	\$125,970	\$129,120	\$132,348	\$135,656	\$139,048		
	Dry Stack Boat Storage	Pre-Marketing Costs	\$300,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	Year 7	\$83,367
		Ground Lease Payment	\$0	\$54,612	\$55,977	\$57,377	\$58,811	\$60,281	\$61,788	\$63,333	\$64,917	\$66,539		
		Net Cash Flow	\$300,000	\$54,612	\$55,977	\$57,377	\$58,811	\$60,281	\$61,788	\$63,333	\$64,917	\$66,539		
	Dry Stack Boat Storage with Port Investment	All-In Development Costs	\$2,300,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	Year 9	(\$290,279)
		Operator Agreement	\$0	\$279,148	\$286,127	\$293,280	\$300,612	\$308,127	\$315,830	\$323,726	\$331,819	\$340,115		
		Net Cash Flow	\$2,300,000	\$279,148	\$286,127	\$293,280	\$300,612	\$308,127	\$315,830	\$323,726	\$331,819	\$340,115		
WASHINGTON BLVD SITE	Boutique Hotel or Signature Water-Oriented Restaurant	Pre-Marketing Costs	\$150,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	Year 2	\$448,631
		Ground Lease Payment	\$0	\$88,405	\$90,615	\$92,881	\$95,203	\$97,583	\$100,022	\$102,523	\$105,086	\$107,713		
		Net Cash Flow	\$150,000	\$88,405	\$90,615	\$92,881	\$95,203	\$97,583	\$100,022	\$102,523	\$105,086	\$107,713		

- KEY ASSUMPTIONS:**
- Land values equal \$12/PSF
 - Annual CPI increases 2.5%
 - Assumes a 7% discount rate
 - 6% ground lease rate

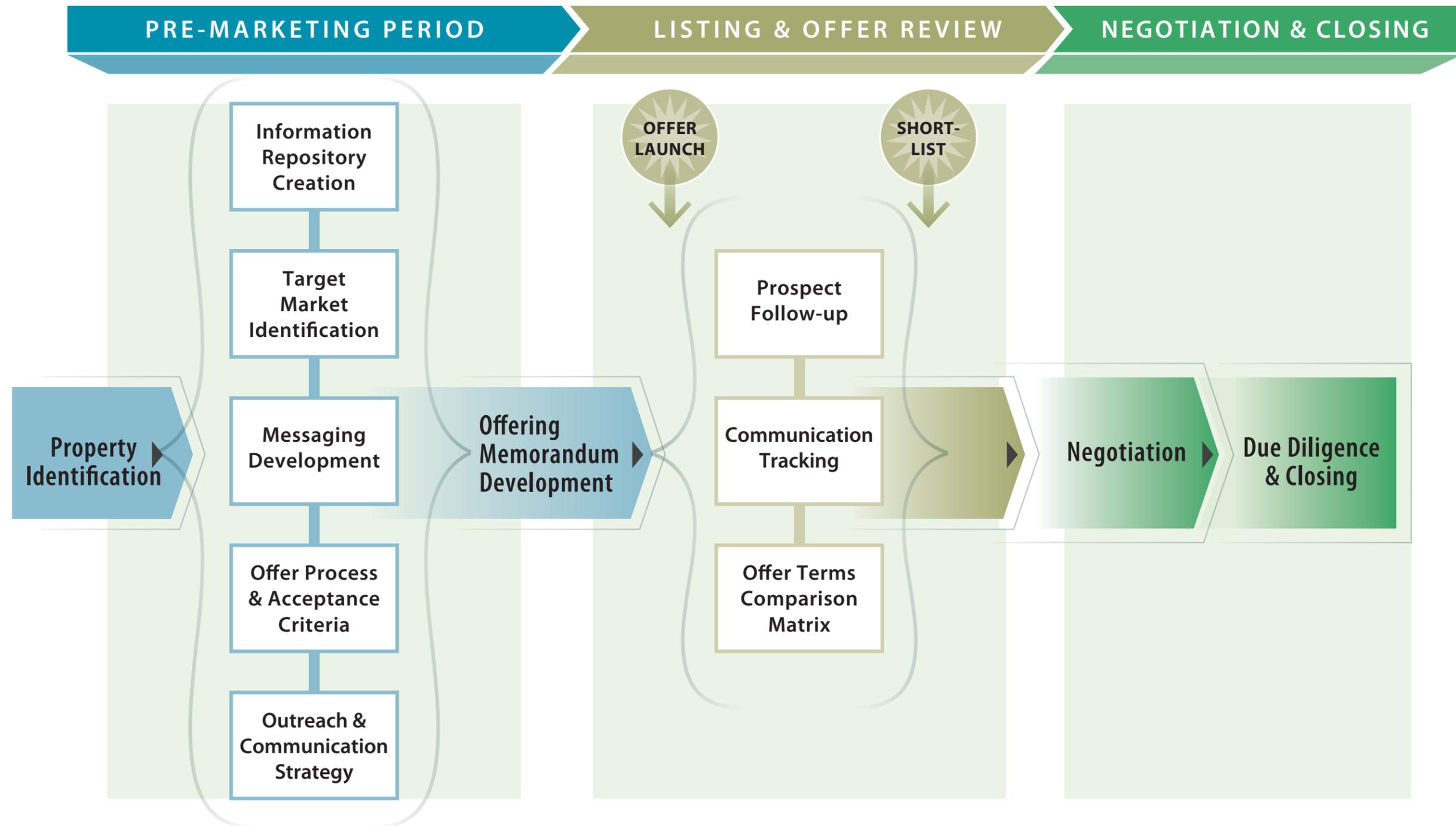
*The key considerations from the 10-year cash flow under each scenario is the payback period and the net present value of the investments. The payback period defines the amount of time required for the Port to recover its initial investment in studies and site prep for each of the properties. The net present value uses an assumed discount rate of 7% to calculate the value today of the cash outflows and cash inflows that are forecasted for each of the scenarios. The Dry Stack Boat Storage with Port Investment scenario differs from the other scenarios in that it measures the return of the Port funding the pre-development and development costs for the project with the expectation that a 3rd party operator manages the facility. This scenario is likely not feasible as it offers the greatest amount of risk to the Port, the longest payback period of 9 years and a negative net present value. The remaining scenarios offer varied payback periods and net present values based on the differences in incoming cash flow from ground lease payments. Each scenario was valued at \$12 per land square foot with a reasonable market ground lease rate of 6% that is adjusted annually based on the Consumer Price Index (CPI).



Marketing Strategy

Marketing Strategy: Process and Approach

The roadmap below depicts a tested strategy for property owners to engage potential developers and operators in an effective manner to achieve their specific goals. Currently, the process on behalf of the West Kingston and Washington Blvd sites are in the "Target Market Identification" section of the Pre-Marketing Period. The subsequent steps in this period are preparation for the creation of an Offering Memorandum which is used to engage potentially interested parties in the market. The Port of Kingston has the ability to lead the process effectively by satisfying each incremental step in a methodical manner. Success through this process results in the ability to share clearly identified goals with future development partners and negotiating terms that support strong partnerships for years to come.



Marketing Strategy: Pre-Marketing Period

Craft the Components of the Port's Story

Below are examples of headlines and highlights that can be illuminated within the marketing material.



Land

Land prices and permitting timelines within Kingston are significantly less than other waterfront communities within the Puget Sound area.

- The cost of raw land ranges around \$10 - \$12 per square foot in Kingston.
- The cost of land in Kingston is very favorable compared to other communities through out the region.
- Land is zoned for a wide variety of potential uses.
- The Port will help coordinate needed utility connections.
- Port land may be ground leased, or in some cases, sold fee simple.



Business

The cost of doing business in Kitsap County is very competitive with a skilled workforce that is relatively larger than those found along the I-5 corridor.

- The local community is supportive of new businesses coming to Kingston.
- Kitsap County's unemployment rate was 5.5%.
- Sales and property tax rates in Kitsap County are lower than rates in King and Pierce County.
- The Kitsap Economic Alliance provides a strong advocate for companies looking to relocate or invest in the area. The organization provides free resources such as market research, permitting assistance and capital formation.
- Kitsap County provides relocating and expanding businesses incentives to assist in their move.



Connectivity

The regional connectivity to Kingston is set to improve drastically with the introduction of the planned foot ferry from Seattle.

- In 2018, major improvements are planned for the Washington Blvd corridor which will aid the flow of traffic and circulation.
- The planned Kingston Fast Ferry scheduled to commence in 2018 will provide a 33 minute commute to downtown Seattle.
- CenturyLink provides high speed internet to the area with above average reviews.
- The Washington State ferry system is Washington's #1 tourist activity.



Community

Kingston and Kitsap County offer a high quality of life that is true to the Pacific Northwest with unparalleled access to the outdoors, affordable housing stock, and high quality schools.

- Median homes prices in Kingston are under \$350,000, and are on par with the median price of homes across Washington. By comparison, Seattle's median home price is \$630,000 and Bainbridge's is \$718,000.
- According to Niche.com Kingston receives an "A" grading in the areas of commute times, health and fitness and outdoor activities.
- Kingston is a highly walkable community.
- A local ice cream shop was voted one of the top ten best ice cream spots in the U.S. by Food & Wine Magazine.

Marketing Strategy: General Approach

Components of an Effective Marketing Strategy

PRE-MARKETING PERIOD

- Create a documentation repository that may be accessed by prospective lessors/purchasers. Examples of documentation includes:
 - Title report
 - Survey
 - Phase I/II environmental site assessment
 - Building conditions report
 - Geotechnical report
 - Regulatory condition summary
- Identify your target audience to craft the story:
 - Consider your target market to proactively assist prospective buyers in developing their business case for locating on Port property. Detail the market dynamics and local advantages, county, city, and Port specific incentives, and locational benefits to the Property.
- Define the process for the Port and offer respondents:
 - Clearly present pricing information, minimum requirements for responses, and response timing expectations.
 - Identify the Port's target terms or minimum acceptance terms.
 - Develop an outreach strategy. This includes identifying the appropriate outreach channels, such as such as commercial multiple listing services (CBA, CoStar, etc.), the Port's website, and association groups related to the target audience.
 - Create a communication protocol and tracking system between the Port, its broker (if used) and, prospective developer/operators.

LISTING & OFFER REVIEW

- Proactively follow-up with contacts from your target list to solicit interest, answer questions, and receive feedback.
- Track communications with prospective developers/operators as well as communication with the Port's listing broker, if one is used.
- Develop an offer comparison matrix so that terms from multiple respondents can be compared. Include a column for target terms identified in the pre-listing period for easy reference.

NEGOTIATION & CLOSING

- If multiple offers are received with terms that are comparable, then begin multi-party negotiations. Select preferred offer and begin the negotiation and closing process
- Work closely with the Port lawyer and real estate advisor to draft ground lease agreement or purchase and sale agreement (if property is to be transferred).
- Be responsive to prospective tenant information requests prior to execution.
- Execute negotiated lease or close sale.



HEARTLAND