



HOTEL & LEISURE ADVISORS

Adding a Waterpark to a Hotel: Is it a Good Idea?

By David J. Sangree, ISHC

Numerous hotel owners are considering adding an indoor waterpark to their existing hotel as a way to boost occupancy levels and revenues at their property. How does one determine if this is a good idea? How much does it cost to add a waterpark to a property?

I have performed over 100 studies across the United States and Canada on existing and proposed hotels concerning waterpark additions. Indoor waterparks can be beneficial to certain types of properties which have a potential to attract stronger leisure demand on days when school is out including weekends, school breaks, summer, and other vacation times. However, the cost to build an indoor waterpark is also quite high. Therefore, it is necessary to perform a detailed analysis concerning the potential revenues and net income gained versus the cost to develop and potential loss of certain components of demand.

The following chart indicates the cost to construct an indoor waterpark addition for various sized projects located throughout the United States.

Indoor Waterpark Development Costs Waterpark Component Only				
Location of Waterpark Resort	Year Opened/ To Open	Cost	Sq. Feet of Waterpark Space	Cost Per SF
Eastern USA	2003	\$20,000,000	46,000	\$434.78
Western USA	2003	\$8,000,000	30,000	\$266.67
Midwest USA	2004	\$18,000,000	38,000	\$473.68
Midwest USA	2004	\$8,500,000	30,000	\$283.33
Eastern USA	2005	\$14,000,000	42,000	\$333.33
Midwest USA	2006	\$9,000,000	23,000	\$391.30
Western USA	2006	\$11,000,000	23,000	\$478.26
Eastern USA	2007	\$15,400,000	48,000	\$320.83

Source: Hotel & Leisure Advisors

The chart indicates that the cost to construct an indoor waterpark ranges from approximately \$250 per square foot to \$500 per square foot of indoor waterpark space. The cost range is rather wide and depends upon the types of waterpark

features included. For example, a water coaster can cost over \$1 million while a water slide can be less than \$100,000.

In order to justify the capital cost of adding an indoor waterpark, the property needs to analyze the incremental return which the addition would achieve. My analyses of other properties which have added indoor waterparks indicate that the leisure percentage of demand will typically increase while the group and corporate demand percentages will decline when an indoor waterpark is added to an existing property. The addition of many more leisure guests may increase revenues in the food and beverage, gift shop, arcade, and spa departments of a hotel. Typically, families visiting a hotel with an indoor waterpark will spend more time in the property and utilize the outlets of the property.

When considering the addition of an indoor waterpark, one needs to analyze the following:

- During what months/seasons does the property have the lowest occupancy rates?
- What days of the week does the property achieve its highest occupancy rates? What days of the week is the property currently slowest?
- Are the guest rooms at the property large enough for a family of four or five to utilize the room when visiting the indoor waterpark?
- Does the property have the land area to build an indoor waterpark connected to the hotel and additional space for expansion at a later point?
- Is the property's management team capable of implementing an indoor waterpark addition at the property as well as managing the major change in operation?
- How many other indoor waterparks are currently in the market and how many are proposed?
- What demand segments will be negatively impacted if greater numbers of children and families are in the hotel?

There are many questions which a hotel owner needs to answer before considering the waterpark addition. Research indicates that properties in markets with no indoor waterparks achieve the maximum benefit from an indoor waterpark addition. In comparison, a property in a market with many existing indoor waterparks will achieve a lower return. In such a case, the additional net income may not be sufficient to justify the development costs of an indoor waterpark addition.

Author

David J. Sangree, MAI, CPA, ISHC is President of Hotel & Leisure Advisors. He performs appraisals, feasibility studies, impact studies, and other consulting reports for hotels, resorts, waterparks, golf courses, amusement parks, conference centers, and other leisure properties. He has performed over 1,000 hotel studies and over 100 indoor waterpark resort market feasibility and/or appraisal studies across the United States and Canada.

He was formerly employed by US Realty Consultants in Cleveland and Columbus, Pannell Kerr Forster in Chicago, and Westin Hotels in Chicago, New York, Fort Lauderdale, and Cincinnati. Mr. Sangree received his Bachelor of Science degree from Cornell University School of Hotel Administration in 1984. He became a certified public accountant in 1989. He became an MAI member of the Appraisal Institute in 1995 and a member of the International Society of Hospitality Consultants in 1996.

Since 1987, Mr. Sangree has provided consulting services to banks, hotel companies, developers, management companies, and other parties involved in the lodging sector throughout the United States, Canada, and the Caribbean. He has spoken on various hospitality matters at seminars throughout the United States, and has written numerous articles for, and is frequently quoted in, magazines and newspapers covering the hospitality field.

He can be reached via telephone at 216-228-7000 or via e-mail at dsangree@hladvisors.com.

Hotel & Leisure Advisors
14805 Detroit Avenue
Suite 420
Cleveland, Ohio 44107-3921
Phone: 216-228-7000
Fax: 216-228-7320
Web Site: www.hladvisors.com