



HOTEL & LEISURE ADVISORS

Indoor Waterpark Destination Resorts - A Growing Trend

by: David J. Sangree, MAI, CPA, ISHC

The indoor waterpark resort and the addition of indoor waterparks to existing hotels have become more widespread phenomena since 2000 in the hotel industry in the United States and Canada. The growth of indoor waterparks is due to their popularity with children and the interest by parents and grandparents in selecting lodging locations that will be fun for their children. In addition, indoor waterpark resort properties are increasingly popular for short weekends and two- or three-day getaways for families who may not have time for longer vacations. Across the United States and Canada, new indoor waterparks are being added to existing hotels, and new indoor waterpark destination resorts are being constructed. The primary growth of indoor waterparks in hotels and resorts is in historically summer resort locations, although they are also increasingly being developed in suburban and urban locations. This article focuses upon the growing trend of developing large-scale indoor waterpark destination resorts through new construction projects and through additions to existing resort facilities.

An indoor waterpark resort is defined by Hotel & Leisure Advisors (H&LA) as a lodging establishment containing an aquatic facility with a minimum of 10,000 square feet of indoor waterpark space and inclusive of amenities such as slides, tubes, and a variety of indoor water play features. Although numerous hotels bill their indoor pools as waterparks, those with less than 10,000 square feet should be categorized as properties with water features rather than as waterparks. H&LA has divided indoor waterpark resorts into two categories: indoor waterpark destination resort and hotel with indoor waterpark. A hotel with indoor waterpark is a hotel with an attached waterpark with between 10,000 and 30,000 square feet of indoor waterpark space where the waterpark serves as an amenity to the hotel versus as a true destination. An indoor waterpark destination resort is a resort with over 30,000 square feet of indoor waterpark space which is considered a true destination resort that families visit on a year round basis primarily to visit the waterpark and secondarily to visit other attractions or events in the area. The following table indicates H&LA's definition of the three types of indoor waterparks which currently exist and are being developed in the United States and Canada.

| TYPES OF INDOOR WATERPARKS | | | |
|-----------------------------------|---|--|---|
| | Hotel with Water Features | Hotel with Indoor Waterpark | Indoor Waterpark Destination Resort |
| Size of aquatic area | 1,000 to less than 10,000 square feet | 10,000 to less than 30,000 square feet | 30,000+ square feet |
| Possible Amenities | swimming pool, slide, toddler area with mushroom, spray gun | multiple slides, tree house with slides, spray guns, tipping buckets, Jacuzzi, various pools, lazy river | multiple slides, tree house with slides, spray guns, tipping buckets, Jacuzzi, various pools, lazy river, wave pool, water coaster, surfing, outdoor waterpark features |
| Capacity | up to 250 people | 250 to 750 people | 750 to 5,000 people |
| Minimum Number of Lifeguards | 1 | 3 | 10 |
| Arcade Size | 0 to 1,000 square feet | 1,000 to 3,000 square feet | 3,000 to 10,000 square feet |
| Source: Hotel & Leisure Advisors | | | |

An indoor waterpark destination resort differs from a typical hotel in that it offers resort and leisure amenities not found in typical hotel properties. The destination resorts attract families on a year-round basis who are interested in the many activities of the waterpark as well as other activities of the resort which may include a large arcade, retail shops, kids club, spa, fitness facilities, indoor play land, supervised play activities, story time areas, and multiple food and beverage outlets. They include a variety of room types including themed rooms, kids cabins, suites, etc. The indoor waterpark destination resorts attract travelers because of the amenities of the resort in addition to the amenities of the area. In contrast, a typical hotel attracts travelers primarily because of the amenities of the area.

Supply Analysis

Indoor waterpark destination resorts are located in the northern United States and Canada with a concentration of these properties in Wisconsin. The following chart indicates facts and figures concerning indoor waterpark destination resorts in the United States and Canada.

| Indoor Waterpark Destination Resorts as of October 2005 | |
|--|-----------|
| Total Number in United States and Canada | 21 |
| Total Available Rooms | 6,727 |
| Average Room Count per Resort | 320 |
| Total Waterpark Square Footage | 1,302,300 |
| Average Waterpark Square Footage per Resort | 62,014 |
| Number of Independent Resorts | 20 |
| Number of Hotel Franchise Resorts | 2 |
| Percentage Independent Resorts | 91% |
| Source: Hotel & Leisure Advisors | |

As of October 2005, there were 22 indoor waterpark destination resorts located in the states of Kansas, Michigan, Minnesota, Ohio, Virginia, and Wisconsin with one additional resort in Alberta, Canada. There are 71 hotels with indoor waterparks and indoor waterpark destination resorts located in the United States and Canada. This indicates that indoor waterpark destination resorts equal 31% of properties with indoor waterparks.

The chart indicates that the average waterpark size for the indoor waterpark destination resort is 62,014 square feet with an average room count of 320. A vast majority of indoor waterpark destination resorts are independent properties not affiliated with a national franchise.

The first indoor waterpark destination resort was the Fantasyland Hotel/World Waterpark at the Edmonton Mall, which contains 355 guest rooms and 217,800 square feet of indoor waterpark space. This property opened in 1985 as part of the Edmonton Mall and has achieved strong success with the hotel portion achieving some of the highest occupancy levels within the province of Alberta. The Edmonton Mall is one of the largest malls in North America.

During the 1990s a number of indoor waterpark destination resorts were developed in the Wisconsin Dells which included Polynesian Resort, Great Wolf Lodge, Wilderness Resort, Kalahari, Chula Vista and Treasure Island. The Wisconsin Dells currently has 16 indoor waterpark resorts but only six are classified as destination resorts based upon the criteria of having indoor waterpark space of over 30,000 square feet.

Since 2000, the Great Lakes Companies, now called Great Wolf Resorts, have begun an aggressive expansion plan to add Great Wolf Lodge properties in other markets across the United States. Their first market was in Sandusky, Ohio where they opened the 271-room Great Wolf Lodge with a 33,000 square foot indoor waterpark and additional amenities including an arcade, gift shop, kids club, outdoor pool, two restaurants, and lounge. This property has achieved strong success due to strong summer demand from travelers visiting Cedar Point Amusement Park as well as winter visitors from the Cleveland, Columbus, and Detroit metropolitan areas who are visiting the resort itself for family getaways and vacations. The company has since added indoor waterpark destination resort properties in

Traverse City, Michigan; Williamsburg, Virginia; Kansas City, Kansas; and Sheboygan, Wisconsin. They have properties under construction or beginning construction in Poconos, Pennsylvania; Centralia, Washington; and Mason, Ohio. Since going public, their financial information is available to review as shown in the following table.

| GREAT WOLF LODGE INDOOR WATERPARK RESORTS | | | | | | | | |
|---|-------------------------------------|--------------|---|--------------------------|-------------------------------------|-------------------------|--|---|
| STATISTICAL DATA FOR TWELVE MONTHS ENDED DECEMBER 31, 2004 | | | | | | | | |
| Location | Great Wolf Resorts Year Open | Rooms | Indoor Entertainment Area (1) (approx. ft²) | Occupancy (%) | Average Daily Rate (\\$) | Revpar (\\$) | Total Revenue per Occupied Room (\\$) | Total Revenue per Available Room (\\$) |
| Wisconsin Dells, WI | May 1997 | 309 | 65,000 | 62.2 | \$188.76 | \$117.47 | \$267.20 | \$166.29 |
| Sandusky, OH(2) | March 2001 | 271 | 42,000 | 68.0 | \$231.45 | \$157.50 | \$325.78 | \$221.68 |
| Traverse City, MI | March 2003 | 281 | 53,000 | 69.4 | \$223.43 | \$155.04 | \$320.68 | \$222.52 |
| Kansas City, KS (3) | May 2003 | 281 | 50,000 | 64.4 | \$196.18 | \$126.31 | \$285.85 | \$184.05 |
| Sheboygan, WI (4) | July 2004 | 183 | 50,000 | 58.3 | \$190.35 | \$110.93 | \$351.61 | \$204.91 |

(1) The indoor entertainment areas generally include the indoor waterpark, game arcade, children's activity room and fitness room, as well as an Aveda concept spa, 3D virtual reality theater, Wiley's Woods and party room in the resorts that have such amenities.

(2) Prior to May 2004, this resort was operated as Great Bear Lodge.

(3) They currently lease the property on which the Kansas City resort is located pursuant to a 10-year ground lease with a local governmental authority. They intend to convert this leasehold interest into a fee simple interest.

(4) The Sheboygan resort is known as the Blue Harbor Resort

Source: Great Wolf Resorts SEC Filing, February 2005

The chart indicates 2004 year-end performance for their five properties. The figures shown for Sheboygan represent seven months of performance while the other properties include 12 months of performance. We have also analyzed the year to date 2005 performance of all of the Great Wolf Lodge properties as shown in recent SEC filings. The following table indicates these results.

| GREAT WOLF LODGE INDOOR WATERPARK RESORTS STATISTICAL DATA FOR SIX MONTHS ENDED JUNE 30 | | | | |
|--|--------------|--|-----------------|-----------------|
| | | | YTD 6/05 | YTD 6/04 |
| Wisconsin Dells: | | | | |
| | Occupancy | | 54.4% | 61.9% |
| | ADR | | \$180.34 | \$181.95 |
| | RevPAR | | \$107.79 | \$112.58 |
| | Total RevPOR | | \$264.14 | \$260.84 |
| | Total RevPAR | | \$157.89 | \$161.39 |
| Sandusky: | | | | |
| | Occupancy | | 63.3% | 72.3% |
| | ADR | | \$220.94 | \$227.90 |
| | RevPAR | | \$139.88 | \$164.87 |
| | Total RevPOR | | \$316.04 | \$324.28 |
| | Total RevPAR | | \$200.09 | \$234.59 |
| Traverse City: | | | | |
| | Occupancy | | 74.6% | 72.5% |
| | ADR | | \$215.01 | \$222.38 |
| | RevPAR | | \$160.34 | \$161.26 |
| | Total RevPOR | | \$313.17 | \$321.43 |
| | Total RevPAR | | \$233.54 | \$233.09 |
| Kansas City: | | | | |
| | Occupancy | | 67.0% | 63.6% |
| | ADR | | \$207.44 | \$185.92 |
| | RevPAR | | \$138.98 | \$118.20 |
| | Total RevPOR | | \$296.79 | \$279.39 |
| | Total RevPAR | | \$198.84 | \$177.62 |
| Sheboygan: | | | | |
| | Occupancy | | 56.8% | — |
| | ADR | | \$156.19 | — |
| | RevPAR | | \$88.75 | — |
| | Total RevPOR | | \$323.01 | — |
| | Total RevPAR | | \$183.54 | — |
| Williamsburg: | | | | |
| | Occupancy | | 55.6% | — |
| | ADR | | \$232.60 | — |
| | RevPAR | | \$129.27 | — |
| | Total RevPOR | | \$350.88 | — |
| | Total RevPAR | | \$195.00 | — |
| Source: Great Wolf Resorts SEC Filings | | | | |

Other New Indoor Waterpark Destination Resorts

Castaway Bay in Sandusky, Ohio operated as a Radisson hotel until November of 2004 when Cedar Fair (owners of Cedar Point) added a 38,000 square foot indoor waterpark, renovated the property, and dropped the franchise.

In 2005 the Kalahari Resort opened in Sandusky which contains 300 guest rooms and suites in addition to 96 three-key condominium units for a total of 596 keys. The resort offers an

80,000 square foot indoor waterpark and an additional 8,000 square foot outdoor pool. They plan to construct an 80,000 square foot conference center which will open in September 2006. Additionally, they plan to develop 96 three-key condominium units with an additional 100,000 square feet of indoor and outdoor waterpark space to open in 2008.

In addition, there are a number of indoor waterpark destination resorts known to be in the planning or development stages in a variety of locations throughout the U.S. and Canada. The author is tracking over 80 indoor waterpark destination resorts which are proposed or under development. The majority of the planned indoor waterpark resorts are located in northern states which have cold weather in winter months. Approximately 25% of these proposed projects are additions of indoor waterparks to existing resort or hotel facilities with the remainder being new construction developments. A number of existing northern resorts are considering adding an indoor waterpark to their facility to allow the facility to increase its occupancy level during the winter months. An example of this is the Arrowwood Resort in Alexandria, Minnesota. This 200-room resort is located on an attractive lake and offers a wide range of resort amenities including golf, kids club, marina, tennis, food and beverage facilities, and meeting space. However, the resort achieved low occupancy levels in the winter months. In October 2003 the property added a 40,000 square foot indoor waterpark called Big Splash. Since adding this amenity, the property has achieved stronger levels of occupancy and average daily rate particularly in the cold-weather months.

In Southern states such as Florida, hotels are beginning to add outdoor waterpark areas. For example, the Holiday Inn Nickelodeon resort opened in 2005 with a large outdoor waterpark area to create one of the first outdoor waterpark destination resorts. We predict outdoor waterparks will be added to existing hotels and resorts in warm weather states in future years.

Reasons for Indoor Waterpark Destination Resort Success

The reason for the strong growth in indoor waterparks at destination resorts is the customer's willingness to pay higher room rates for the waterpark amenity. In addition, the indoor waterpark substantially increases demand during weekends and school vacations such as spring break, winter break, and summer break. By increasing the number of potential days which a hotel can achieve higher occupancy levels, the overall hotel's occupancy will increase. Indoor waterpark resorts are outperforming non-waterpark hotels in all markets in terms of their occupancy and average daily rate. Typically, the average daily rate includes usage of the indoor waterpark.

The financial impact of an indoor waterpark on a hotel property generally is that the property should achieve a higher occupancy and average daily rate level while also recording higher expenses. Indoor waterpark destination resort properties which the author has reviewed show levels of performance between five occupancy points and thirty occupancy points above the levels of hotels without indoor waterparks within the same market. Additionally, indoor waterpark destination resorts can achieve an average daily rate from \$50 to \$150 per room higher than another hotel within the same market without an indoor waterpark.

Research done by the author indicates that the overall market average of the larger indoor waterpark destination resorts located in the Wisconsin Dells outperformed the franchise chain affiliated Wisconsin Dells non-resort properties without indoor waterparks' overall average hotel occupancy by 19 occupancy points and the average daily rate of the non-resort franchise limited-service hotels by \$110 in 2004. The large difference is due to the

many amenities including the waterpark at the indoor waterpark destination resort as compared to the limited-service properties which offer no resort amenities.

The Future

The future for the indoor waterpark destination resort appears very bright as families and children will continue to enjoy water activities in these facilities. The addition of an indoor waterpark to an existing resort provides a year-round amenity which can complement its existing resort amenity base. New indoor waterpark destination resorts offer entertainment options for overnight guests which typical hotels otherwise would not have. There currently are many markets which do not have indoor waterpark facilities for families to utilize when traveling.

The concern for the future is the potential oversupply of indoor waterparks within certain markets as an indoor waterpark may become as common as the Holidome became twenty years ago. At the time of writing this article, only Wisconsin is facing this issue of having too many indoor waterparks. In Wisconsin, hotels with smaller indoor waterparks are finding more limited benefits from the waterpark due to extreme competition from the larger destination resort facilities. The indoor waterpark will become a necessary amenity for resorts wanting to attract year-round leisure demand as well as for resorts to continue to attract their existing demand base which will be tempted to try out newer indoor waterpark resort properties in their regions. In the author's opinion, many families will choose to stay at hotels with indoor waterpark components when they are traveling with their children. However, when people are traveling alone for business, the waterpark will be an unnecessary amenity.

As with the amusement park industry, owners and operators of indoor waterpark resorts have discovered that in order to attract new families to their facilities and keep their repeat guests coming back for more, they need to continually work to add new components and keep the concept "fresh." The author projects that the average size of indoor waterparks constructed will continue to increase as resorts add attractions which are larger in scope such as wave pools, areas specially designed for younger resort guests, and faster, taller, steeper, more intricate waterslides and tubes. As more and more indoor waterpark resorts are constructed throughout the United States and Canada, developers will need to focus on individualizing the offerings of their resorts, maintaining customer service levels as attendance increases, and adding new components whenever possible.

The author advises anyone considering adding an indoor waterpark to carefully analyze the existing demand patterns within their marketplace including the occupancy and average daily rate levels of the existing resort and hotel supplies. In addition, a developer should consider existing hotels and resorts with indoor waterparks within driving distance as well as the number of other proposed indoor waterpark properties in the market. The addition of an indoor waterpark is not a panacea for any property. The addition of an indoor waterpark to an existing destination resort will change the focus and type of guest who may visit the resort. The addition of an indoor waterpark certainly can help the performance of a property; however, the costs associated with this development may range from \$10,000,000 to \$30,000,000 and these costs need to be analyzed in relation to the value created through the addition.

Author

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