

Where are Indoor Waterpark Hotels and Resorts Headed?

By: Rajesh Shah – U.S. Realty Consultants, Inc., September 2008

The world of indoor waterpark hotels and resorts has evolved over the past few years. New developments are occurring in warmer regions that were atypical in the past. Mixed-use resorts are generally favored than standalone resorts, more amenities are favored over fewer amenities, and branded properties are growing in popularity. Previously fully enclosed, the trend now is toward retractable roofs.

Growth of Indoor Waterpark Hotels and Resorts

Before discussing the changing world of indoor waterpark hotels and resorts, this article analyzes their historical growth.

An increase of 703,800 square feet of indoor waterpark space and 1,720 rooms at 20 different indoor waterpark hotels and resorts occurred in 2007. Interestingly, existing hotels and resorts added more indoor waterpark space than were ever added before, indicating competitive pressure from the other existing indoor waterparks in the area that had higher market share. Of the 20 hotels and resorts, only six were newly built; the remaining 14 were existing properties that added rooms or an indoor waterpark space or both in 2007. Of 14 existing properties, 10 added indoor waterparks primarily to be more competitive in their markets.

In 2008, an additional 36 hotels and resorts with indoor waterpark space have either opened or are under construction. Upon completion, they will add an additional 1,801,000 square feet of indoor waterpark space in the United States, indicating many developers are still allured to the historically impressive profitability of these resorts.



As seen in the preceding chart, the number of rooms as well as the total square feet of indoor waterpark space have shown notable growth since 2000. While growth from 2001 to 2002 was only 13% in total square footage of indoor waterpark space, from 2003 through 2007 impressive annual growth rates ranged from 23% to 35%, averaging 29%.

Since a typical guest of an indoor waterpark resort drives from two to three hours distance, the struggling airline industry does not make as significant an impact on indoor waterpark resorts as compared to the traditional resorts. However, the economy plays a significant role in this business. Many waterpark operators have concerned regarding the current state of the economy, as well as with high gas prices.

The following table depicts indoor waterpark hotels and resorts that opened in 2007, most of which are located in the Midwest.

Indoor Waterpark Resorts Opened in 2007				
Indoor Waterparks and Resorts	City	State / Prov	New Rooms	Waterpark Sq. Ft.
Bridges Bay Resort	Okoboji	IA	144	19,800
Kings Point Waterpark	Storm Lake	IA	80	20,000
Clock Tower Waterpark Addition	Rockford	IL	0	35,000
Splash Universe Resort	Shipshewana	IN	150	25,000
Holiday Inn West Addition	Topeka	KS	0	10,000
Sheraton-Ferncroft with Indoor Waterpark Addition	Danvers	MA	0	60,000
Holiday Inn Express Splash Universe Resort Addition	Dundee	MI	86	35,000
Double JJ Ranch Indoor Waterpark Addition	Rothbury	MI	114	35,000
Northpointe Inn with Indoor Waterpark Addition	Mackinaw City	MI	0	21,000
Holiday Inn Maple Grove with Indoor Waterpark	Maple Grove	MN	150	25,000
Canad Inn & Indoor Waterpark	Grand Forks	ND	201	35,000
Holiday Inn Indoor Waterpark CoCo Key Water Resort Addition	Omaha	NE	0	45,000
Carlisle/Radisson Indoor Waterpark Addition	Albuquerque	NM	0	22,000
CoCo Key Indoor Water Park at the Sheraton Cincinnati North Addition	Cincinnati	OH	0	50,000
Holiday Inn Splash Bay Indoor Waterpark Addition	Maumee	OH	106	20,000
Kalahari Resort Addition	Sandusky	OH	288	93,000
Best Western Addition	Aberdeen	SD	0	10,000
Westgate Smoky Mountain Resort Waterpark Addition	Gatlinburg	TN	0	50,000
Great Wolf Lodge	Grapevine	TX	401	73,000
Northern Bay Golf Resort Addition	Arkdale	WI	0	20,000
Total		20	1,720	703,800
Average			86	35,190
Note: Resorts have a minimum of 10,000 square feet of indoor waterpark space				
Source: US Realty Consultants Inc., August 2008				

Ohio added more hotel rooms and indoor waterpark space than any of the other states. Ohio saw an addition of 394 rooms and 163,000 square feet of indoor waterpark space. It is noted that several indoor waterpark hotels and resorts, especially in Ohio and Wisconsin, have suffered from increasing competition.

The following table presents indoor waterpark hotels and resorts under construction or that opened in 2008. It is noted that not all properties under construction will open in 2008.

Indoor Waterpark Resorts Opened and/or Under Construction in 2008				
Grand Hotel Coco Key Indoor Waterpark Addition	Waterbury	CT	-	38,000
Honey Creek Resort State Park & IWP	Rathbun Lake	IA	105	20,000
Ramada Inn Waterpark Addition	Urbandale	IA	200	40,000
Inn at Okoboji Add IWP, CC & Condo Hotel	West Lake Okob	IA	243	20,000
Silver Mountain Resort	Kellogg	ID	268	45,000
Hawthorn Suites Midlane Waterpark Addition	Wadsworth	IL	-	15,000
Key Lime Cove Indoor Waterpark Resort	Gurnee	IL	400	65,000
Frontier Lodge Conference Center & IWP	LaSalle	IL	464	61,000
Sheraton CC & Paradise Bay Waterpark	Fishers	IN	250	80,000
Valley of Springs Resort & Big Splash Island	French Lick	IN	156	35,000
Abbe Mountain Lodge Waterpark Addition	Nasheville	IN		15,000
Lodge at Schlitterbahn Vacation Village*	Kansas City	KS	1500	800,000
Cocokey Waterpark Addition @ Courtyard	Fitchburg	MA		35,000
Timberlake Lodge & Grand Splash Waterpark	Grand Rapids	MN	84	10,000
Sheraton Coco Key at Truman Sports Complex	Kansas City	MO	0	50,000
Castle Rock Indoor Waterpark Addition	Branson	MO	100	25,000
Ramada Inn Waterpark Addition	St. Joseph	MO		14,000
Great Wolf Lodge Concord	Concord	NC	402	80,000
Great Adventure Water Resort/Days Inn (Addition)	Omaha	NE	0	30,000
Regency Waterpark Addition	Omaha	NE	0	25,000
Red Jacket Mountain View Addition	North Cornway	NH	0	38,000
Grand Cascades Lodge	Crystal Springs	NJ	400	72,000
Sahara Sands Indoor Waterpark Addition	Berlin	NJ	0	62,000
Marriott Resort Add Coco Key IWP	Mt Laurel	NJ	0	65,000
Greak Peak Resort Addition	Cortland	NY	120	25,000
Maui Sands Family Suites & Holiday Inn Express Indoor Waterpark Addn	Sandusky	OH	95	55,000
Resort at Split Rock	Lake Harmony	PA	-	48,000
Wilderness Resort	Sevierville	TN	236	52,000
Pigeon Forge Village Indoor Waterpark Resort	Sevierville	TN	336	25,000
The Village Resort at Lake Palestine Addition	Flint	TX		19,000
Great Wolf Lodge Addition	Grapevine	TX	204	
Great Wolf Lodge	GrandMound	WA	394	50,000
Kalahai Resort Addition	Wisconsin Dells	WI	10	
Lake Lawn Resort Addition	Delavan	WI	800	130,000
Eau Claire Indoor Waterpark	Eau Claire	WI	110	30,000
Grand Cambrian Resort	Wisconsin Dells	WI	350	50,000

* Schlitterbahn Vacation Village has proposed over 3 million sq ft. of wp (outdoor, indoor and convertible)
 Note: Resorts have a minimum of 10,000 square feet of indoor waterpark space
 Source: US Realty Consultants Inc., August 2008

Norms Have Been Changing

Changes in locations, types (mixed-use), sizes, orientation and features at indoor waterpark hotels and resorts have occurred in recent years, as further detailed in this analysis.

Location: Expanding

Previously, the norm was to develop indoor waterpark hotels and resorts in the Midwest or colder regions; however, more new developments are occurring in other parts of the nation as well. For example, the Great Wolf Resorts opened a 73,000 square-foot indoor waterpark space with additional outdoor waterpark features and 401 rooms in Grapevine, Texas in December 2007. Its additional 204 hotel rooms will open in December 2008. The Great Wolf Resorts is opening another 402-room property with approximately 80,000 square feet of indoor waterpark space and other amenities by summer 2009 in Concord,

North Carolina. The Village Resort in Flint Texas added 19,000 square feet of indoor waterpark in 2008.

We are currently tracking over 32 hotels and resorts totaling 1,825,000 square feet of indoor waterpark space and 7,800 rooms that are either under construction or proposed in the South Central and Atlantic regions of the United States. Similarly, we have been tracking 46 hotels and resorts totaling 2,442,000 square feet of indoor waterpark space and 13,400 rooms that are either under construction or proposed in the Western and Mountain regions of the United States.

While locational diversification is occurring, the Midwest still leads the market by far with over 95 hotels and resorts under construction or proposed with over 22,000 rooms and 3,980,000 square feet of indoor waterpark space.

Types: More Mixed-Use Developments

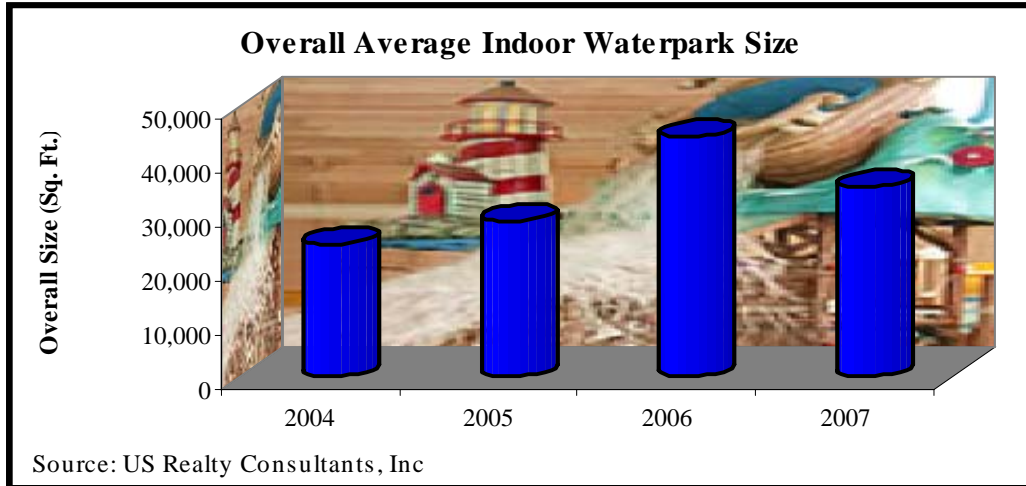
Indoor waterparks are being developed at mixed-use developments ranging from retail malls, residential developments, to other commercial developments. A \$750 million trend-setting retail entertainment destination comprised of multiple shopping, dining, lodging, and entertainment venues connected by a "Transportainment River System (transportation plus sport plus entertainment) is under development phase in Kansas City, Kansas. This 376-acre project will include one of the largest indoor/outdoor (convertible) waterparks with miles of interconnected rivers and attractions. The project will also include 1,800 accommodations including a full-service hotel, waterfront cabins, condominiums, and the unique elevated tree pods - all integrated within waterpark attractions. The resort is anticipated to be completed by fall of 2011.

Wilderness Resort in Wisconsin Dells has added numerous leisure amenities over the years. It has become one of the largest indoor waterpark resorts in the country. Amenities at this resort include indoor waterpark, outdoor waterpark, hotel, restaurants, meeting space, condominiums, cabins, villas, golf course, spa, and snow tubing.

Many indoor waterpark resorts added condominium units in the early part of this decade when the condominium market was thriving. Many of these waterpark resorts successfully sold their proposed condominium units during pre-construction. However, with the housing market bubble, condominium developments have slowed significantly. Conversely, several existing timeshare resorts have recently added indoor waterparks. Several of them have reported increases in the number of timeshare sales and prices with the addition of the indoor waterparks. A few examples of the timeshare resorts with indoor waterpark space include the Massanutten Resort in Harrisonburg, Virginia; Split Rock Resort Golf Club in Lake Harmony, Pennsylvania; Westgate Smoky Mountain Resort in Gatlinburg, Tennessee; and The Villages Resort in Flint, Texas.

Size of Waterparks: Mixed Results

As presented in the table below, the overall average size of indoor waterpark space increased from 2004 through 2006, but declined in 2007.



The decrease in the overall average size of the indoor waterpark in 2007 is primarily attributed to the addition of indoor waterpark space at existing properties. It is noted that many existing hotels and resorts add indoor waterpark as an amenity to the resort, and not as main demand generator. When the waterpark is built to compliment the overall property and not as a main demand generator, they tend to be smaller in size.

Many existing waterpark resorts, especially in the area where competition is tough, are adding more waterparks and related amenities to gain a competitive edge.

Our research also indicates that the typical waterpark guest desires to go to comparatively larger facilities with additional amenities. This has compelled many developers, especially in a competitive market, to build larger waterparks. A good example of the trend is seen in the “capital” of indoor waterparks-Wisconsin Dells, Wisconsin. The Wilderness Resort Wisconsin Dells currently boasts over 240,000 square feet of indoor waterpark space and an additional 135,000 square feet of outdoor waterpark space. The most recent addition at this property was the 65,000 square foot Wildwater Dome indoor waterpark in April 2006. Chula Vista Resort Wisconsin Dells added approximately 80,000 square feet of indoor waterpark space to its existing 30,000 square feet. Its addition also included meeting space, condominiums and other amenities.

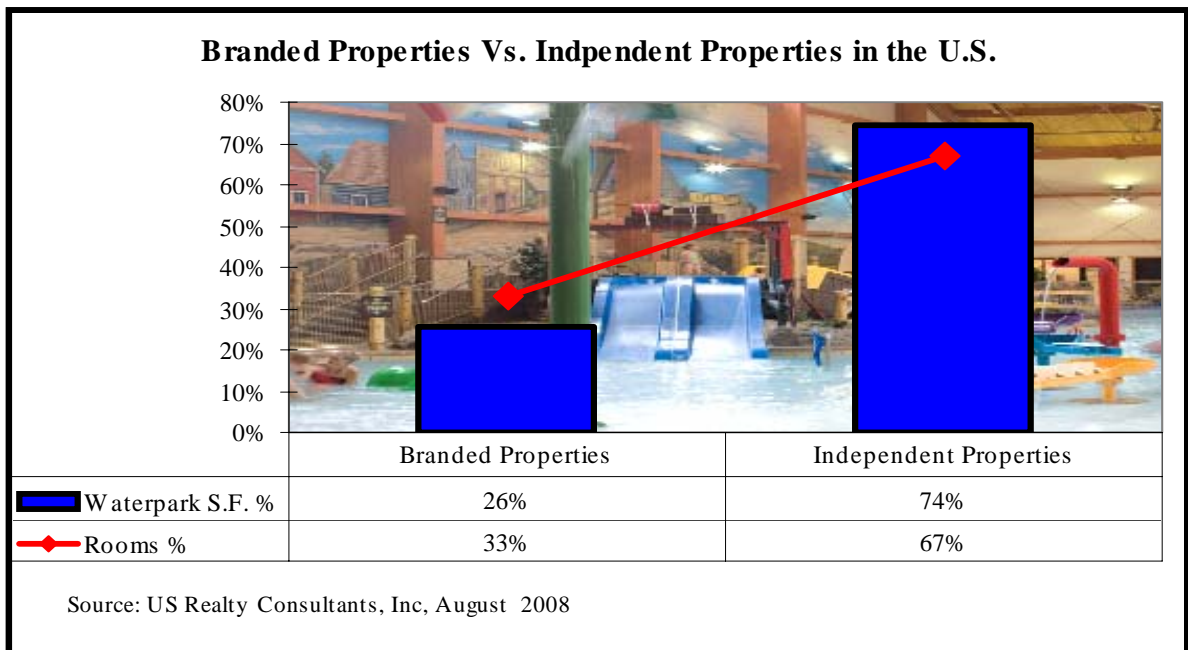
The Great Wolf Lodge Wisconsin Dells added 38,000 square feet of indoor waterpark space in 2006 to its existing 40,000 square foot indoor waterpark, to provide 78,000 square feet of indoor waterpark space. Currently, Great Wolf Lodge is the largest indoor waterpark owner/operator in the nation with 10 existing indoor waterpark resorts, nine of which are located in the U.S., and one in Canada. It currently has one indoor waterpark resort under construction in Concord, North Carolina and a couple proposed in other parts

of the country. The Great Wolf Lodge originally developed indoor waterparks ranging from 30,000 square feet to 45,000 square feet, but has since started building in a range from 50,000 square feet to 100,000 square feet.

When Kalahari Resort Wisconsin Dells opened in 2000, it included 272 rooms and 50,000 square feet of indoor waterpark space. Several subsequent expansions resulted in a facility that now boasts 752 rooms and 125,000 square feet of indoor waterpark space. Similarly, the Kalahari Resort Sandusky doubled its size to 884 rooms, 173,000 square feet of indoor waterpark space and 100,000 square feet of meeting space in 2007. It originally opened in 2005.

Orientation: Independent to Branded Properties

In the early portion of the decade, most of the indoor waterpark properties were primarily confined in the Wisconsin Dells and were independently operated. However, now many branded indoor waterpark hotels and resorts are opening throughout the country.



Our research shows national brands now comprise 33% of the rooms and 26% of the indoor waterpark space of all available indoor waterpark hotels and resorts. Branded properties have more rooms per available square foot of indoor waterpark space, while independent properties have more square feet of indoor waterpark space per available room. Typically, independent properties need larger indoor waterpark space and more amenities to justify their developments as they lack the national marketing and reservation systems, and loyalty programs offered at branded properties.

A new trend that was specifically visible in 2007 was the addition of indoor waterpark space at existing branded properties. Of the nine branded properties listed in the prior table of additions in 2007, eight were existing properties that added indoor waterpark space. Several managers indicated that the addition of the indoor waterpark diversified their amenities, helped their penetration in the leisure demand segment, and provided them with a competitive advantage over the non-indoor waterpark properties.

Some of the prominent brands include Holiday Inn, Sheraton, and Best Western. Just a few years ago, brands such as Sheraton and Marriott did not introduce indoor waterparks as it often was considered troublesome physically separating commercial guests from leisure guests. That is no longer the case. There are six Sheraton hotels with indoor waterpark space, and a full-service Marriott in Mt. Laurel, New Jersey is adding approximately 65,000 square feet of indoor waterpark space by November 2008.

Waterpark Features: Adding More Waterpark Features

Developers have continued to add more waterpark amenities at their properties. Until recently, indoor waterparks typically included features such as body slides, tube slides, kiddie rides, lazy rivers and swimming pools. In addition to these features, several newer indoor waterparks contain wave pools, hurricane & tornado rides, family raft rides, surfriders, and flow riders to name a few.

Other unique features include laser tag, miniature golf course, themed-game, convertible roof system and texlon roof system. Many newer waterparks now use texlon roof systems which are clear and allow sunlight to penetrate the waterpark area. Some waterparks are adding sports complexes that could house various leagues including soccer, volleyball, tennis, bowling alleys and other sports.

Bottom Line

Based on numerous studies that US Realty Consultants, Inc. has performed, net operating revenue for indoor waterpark resorts is typically between 15% and 35% of total revenue depending on size, location, and management. Hotels with larger indoor waterparks typically have their net operating incomes in the upper end of this range. Net operating income percentages of similar non-waterpark full-service hotels are typically in the low 20% range. The more impressive net income on indoor waterpark resorts also comes with comparatively higher investments than the similar non-indoor waterpark hotels or resorts. Typically, indoor waterpark hotels and resorts achieve considerably higher occupancies and average daily rates than other hotels without indoor waterparks. We have seen occupancy of indoor waterpark hotel and resorts ranging from 5% to 30% higher than non-waterpark hotels, and average daily rates ranging from \$20 to \$150 higher. With these spreads, indoor waterpark hotels and resorts are anticipated to continue to grow in the coming years. Mixed-use developments with the inclusions of indoor waterparks are expected to emerge at a higher rate in ensuing years.

Rajesh Shah is an associate at US Realty Consultants, Inc., (USRC). He is a 2004 graduate of Hotel Administration at Cornell University. He previously worked for various hospitality companies including Westin, Sheraton and Hyatt. He can be reached at 614-221-9494 (ext. 136) or at rshah@usrc.com



*Real Estate Consulting
and Valuation Services*

USRC is a national hospitality consulting and real estate valuation firm with offices in Columbus, Chicago, Cincinnati and West Palm Beach. We have performed more than 2,500 hotel and 100 indoor waterpark market feasibility and appraisals in the United States, Canada, Mexico and the Caribbean in the last 10 years. USRC specializes in the hospitality industry including hotels, resorts, indoor waterparks, outdoor waterparks, timeshares, condominiums, ski resorts, golf resorts, mixed-use developments, and other income producing properties