



HOTEL & LEISURE ADVISORS

Indoor Waterpark Resorts Grow and Face Challenges in 2009

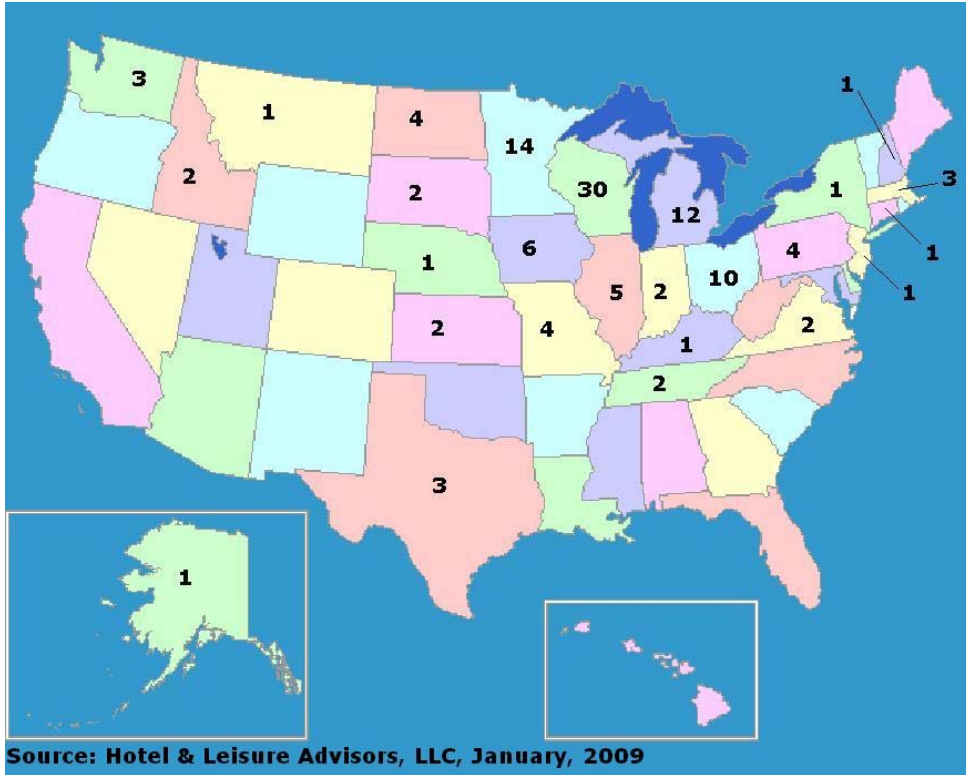
By David J. Sangree, MAI, CPA, ISHC

Summary: The latest biannual survey of indoor waterpark resorts in the U.S. and Canada by Hotel & Leisure Advisors, LLC (H&LA) indicates that the number of new indoor waterpark resort projects is expected to decline in 2009 after steady growth from 2004 through 2008. However, despite the economic recession in both the United States and Canada, a number of exciting new projects will be opening in 2009 which will create leisure opportunities for family travelers.

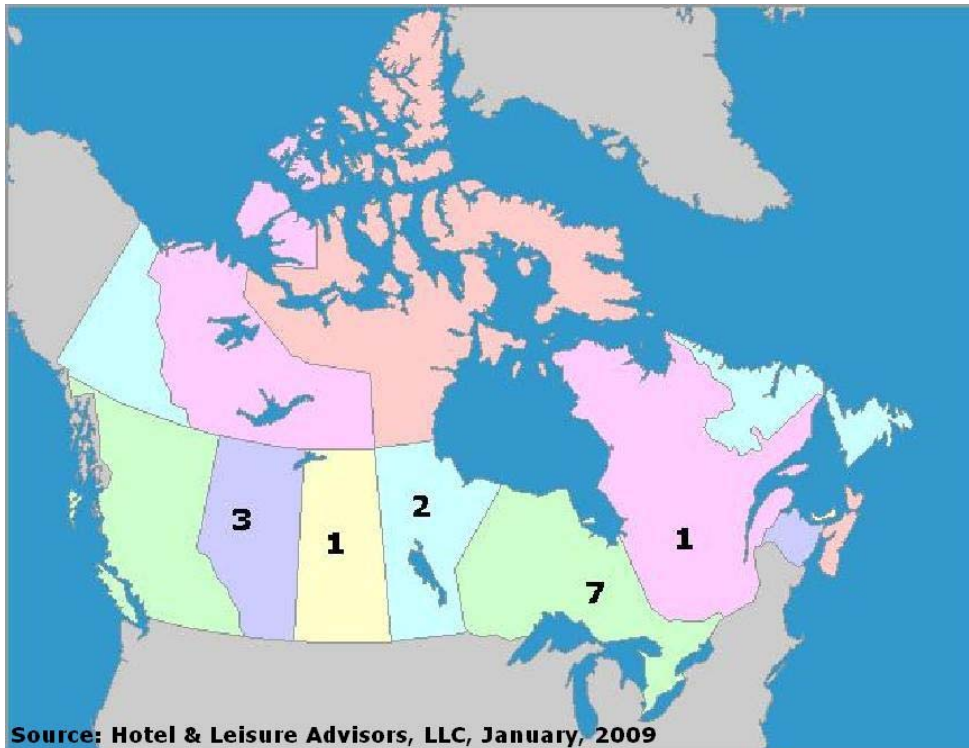
Our research indicates there are 132 open indoor waterpark resort properties in the United States and Canada. Of the total, 46 are considered "indoor waterpark destination resorts" offering more than 30,000 square feet of indoor waterpark space. Additionally, our survey found that in 2009 the growth in indoor waterparks in terms of square footage will be the smallest since 2004. There will be 13 openings of indoor waterparks and five expansions of existing indoor waterpark resorts projected for 2009. The 2009 openings include only two indoor waterpark destination resorts. There is still significant interest by developers to construct new indoor waterparks but, due to the current challenges of finding financing and investors for these entertainment-related projects, most projects are in a holding pattern.

Definition: An indoor waterpark resort is defined by 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: hotel with indoor waterpark and indoor waterpark destination resort. A hotel with indoor waterpark is a hotel with an attached indoor waterpark with 10,000 to 30,000 square feet of indoor waterpark space where the indoor waterpark serves as an amenity of the hotel versus a true destination. An indoor waterpark destination resort is a resort with more than 30,000 square feet of indoor waterpark space and is considered a true destination resort, which families visit on a year round basis primarily to visit the waterpark and secondarily to visit other attractions or events in the area. An indoor waterpark destination resort will typically have a number of slides and pools and high quality theming. A hotel with a smaller indoor waterpark may offer only a few slides and pools and little or no theming.

Existing Supply: We have conducted a survey to determine the number of indoor waterpark resorts which were open as of year-end 2008 and those which are projected to open in 2009. The following maps indicate the number of open indoor waterpark resorts in the United States and Canada by state.

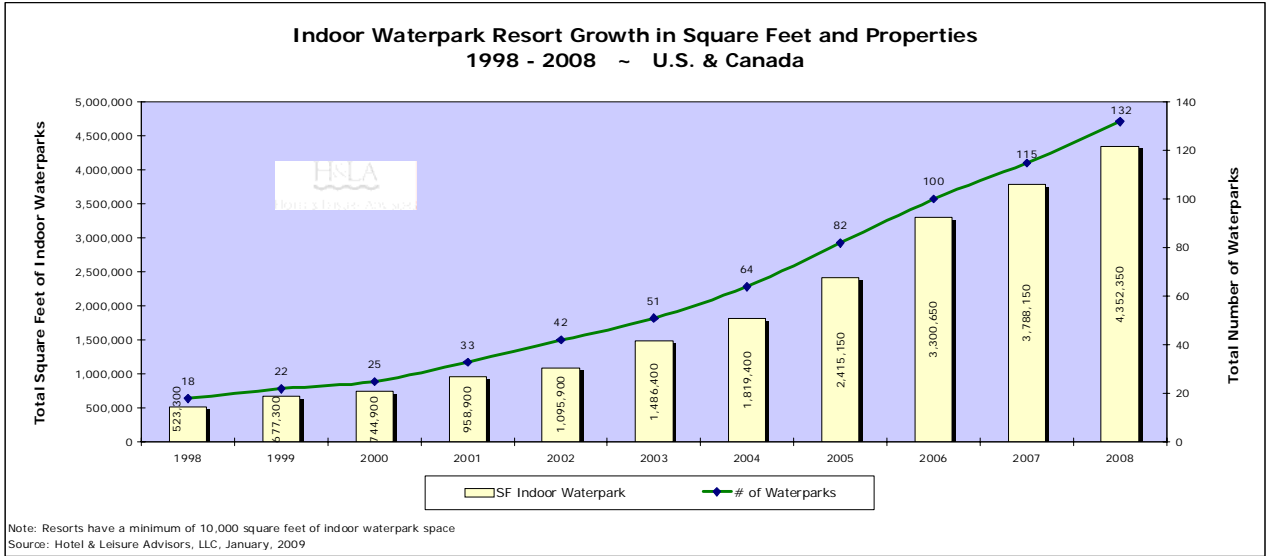


Open Indoor Waterpark Resorts in United States as of January 2009



Open Indoor Waterpark Resorts in Canada as of January 2009

We have been tracking the supply of indoor waterparks since 1998. The following table indicates the growth in supply of indoor waterpark resorts between 1998 and 2008. It should be noted that the figures used for the waterpark square footage indicate the net indoor waterpark area which excludes areas such as the arcade, gift shop, mechanical rooms, etc. For advertising purposes, some resorts indicate higher figures by including these additional spaces.

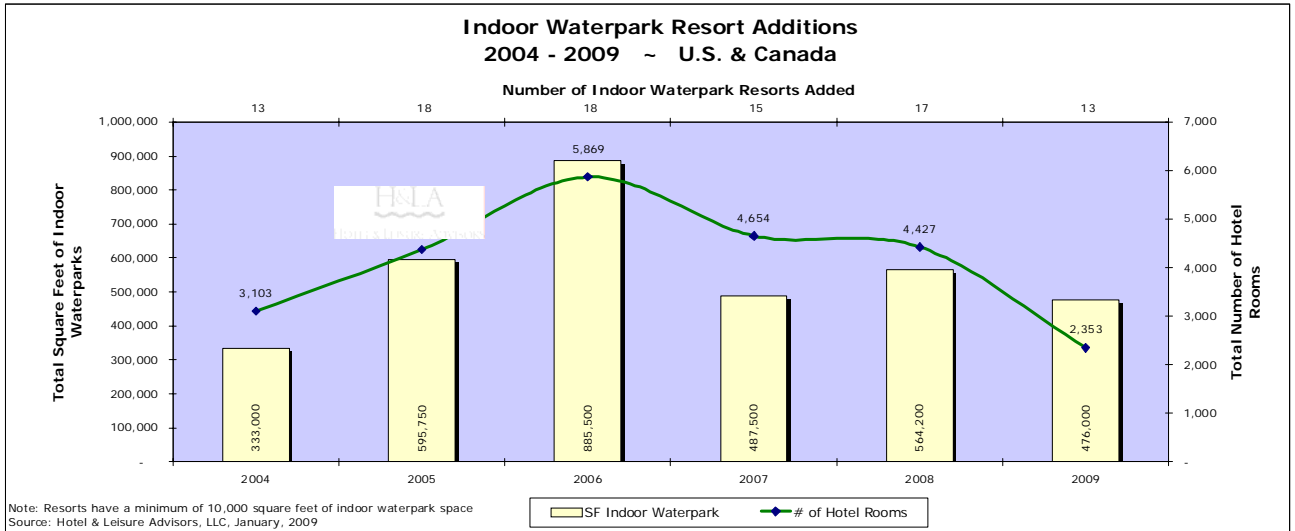


The table indicates the existing supply of indoor waterpark resorts. Of the 132 existing properties in the United States and Canada, 46 of the properties are considered indoor waterpark destination resorts, offering more than 30,000 square feet of indoor waterpark space. Of these 46 properties, 11 are Great Wolf Resorts which is the largest chain of indoor waterpark destination resorts in North America.

The second largest chain of indoor waterpark resorts are the Coco Key Resorts which have 10 properties that are connected to a variety of hotel franchise properties. Of the remaining properties, all are individual owners with one or two existing properties. Since 2006, 32 additional indoor waterpark resort properties have opened in the United States and Canada of which 14 are considered indoor waterpark destination resorts.

The vast majority of indoor waterpark resorts are independent properties not affiliated with a national hotel franchise. Of the existing properties, 59 are currently affiliated with a national hotel franchise while the remainder (including the Great Wolf Lodge brand) are independent properties.

The following table indicates trends in the growth of supply of indoor waterpark square footage, the number of indoor waterpark resort guest rooms, and the number of indoor waterpark resorts which opened between 2004 and 2008 and our projections for 2009.



The table indicates that in 2009 the growth in indoor waterparks in terms of square footage will be the smallest since 2004 and the actual number of new property openings will be equivalent to 2004. This is an indication of the fact that the number of new projects is slowing due to the current economic recession and challenges of finding financing. The decline in new development has occurred in conjunction with the national slowdown in the hospitality industry and the U.S. economy.

In spite of the economic slowdown, the performance of many indoor waterparks continues to be positive. For example, the Great Wolf Lodge chain reported higher occupancy and average daily rate through the third quarter of 2008 as compared to 2007. Through year-to-date September 2008, the chain reported an overall occupancy percentage of 68.6% with an average daily rate of \$256.37. Other properties which we have reviewed in 2008 have exhibited higher levels of performance due to the trend by travelers to vacation closer to home.

Although performance of many indoor waterpark resorts continues to be positive, a few properties have struggled or gone bankrupt in 2008. These properties include the Maui Sands Resort in Sandusky, Ohio; Double JJ Resort in Rothbury, Michigan; and Three Bears Lodge in Warrens, Wisconsin. All three properties are currently working through bankruptcy proceedings and hope to reopen in 2009. The challenges faced by these properties and others indicate the need for strong management and marketing for an indoor waterpark resort. Properties need to plan well for financing and other financial issues. These properties were unable to achieve strong enough levels of performance to pay outstanding balances on loans and other expenses.

2008 Openings: We have tracked the openings of indoor waterpark resorts in 2008. The following table indicates those properties that opened in 2008.

Indoor Waterpark Additions & Indoor Waterpark Resorts Opened in 2008				
Indoor Waterparks and Resorts	City	State / Prov	New Rooms	Waterpark Sq. Ft.
Holiday Inn/former Connecticut Grand Hotel CoCo Key IWP Addition	Waterbury	CT	0	26,000
Honey Creek Resort with Indoor Waterpark	Rathbun Lake	IA	105	10,000
Sunset Bay Condominiums at Lodge at Storm Lake & Kings Pointe Waterpark	Storm Lake	IA	70	0
Silver Mountain Resort's Silver Rapids	Kellogg	ID	268	42,000
KeyLime Cove Indoor Waterpark Resort	Gurnee	IL	414	64,500
Abe Mountain Lodge Indoor Waterpark Addition	Nashville	IN	0	12,000
Courtyard (former Best Western) with CoCo Key IWP Addition	Fitchburg	MA	0	26,000
Northpointe Inn with Indoor Waterpark Addition	Mackinaw City	MI	0	23,000
Ramada Inn with Surfari Joe's Indoor Waterpark	Watervliet	MI	95	15,000
Timberlake Lodge with Grand Splash Waterpark	Grand Rapids	MN	84	10,000
Sheraton (former Clarion) with CoCo Key Indoor Waterpark Addition	Kansas City	MO	0	32,000
Ramada Inn with Indoor Waterpark Addition	St. Joseph	MO	0	11,000
Wingate Inn with Big Horn Indoor Waterpark	Billings	MT	109	20,000
Best Western Red Jacket Inn Waterpark Addition	North Conway	NH	0	35,000
Marriott with CoCo Key Indoor Waterpark Addition	Mount Laurel	NJ	0	30,000
Maui Sands Indoor Waterpark and Rooms Addition (opened and closed)	Sandusky	OH	95	55,000
Split Rock Resort with H2Oooohh!	Lake Harmony	PA	0	53,000
Wilderness at the Smokies Events Ctr. Hotel with OWP and IWP (across street)	Sevierville	TN	234	52,000
Villages Resort Indoor Waterpark Addition	Flint	TX	0	19,000
Great Wolf Lodge	Grand Mound	WA	398	60,000
Kalahari Resort 110,000 SF FEC and 5BR cottage expansion	Wisconsin Dells	WI	12	0
Total		21	1,884	595,500
Average			171	31,342
Note: Averages represent only those properties adding rooms or waterpark SF				
Note: Resorts have a minimum of 10,000 square feet of indoor waterpark space				
Source: Hotel & Leisure Advisors, LLC, January, 2009				

The chart indicates that 21 hotel properties with indoor waterparks opened or expanded in 2008. Of the properties which opened in 2008, eight properties were entirely new construction facilities while the remaining 13 represent additions to existing hotels or additions to existing indoor waterpark resorts. The total includes eight new indoor waterparks considered as destination resorts (over 30,000 square feet).

The Great Wolf Lodge in Grand Mound, Washington, and the Key Lime Cove Resort in Gurnee, Illinois, represent the two largest properties to open in 2008. Both properties feature multiple restaurants, gift shops, spas, larger indoor waterpark areas, and themed guest rooms.

2009 Projected Openings: We have analyzed the potential openings for indoor waterpark resorts in 2009. Based upon our research, we project 18 indoor waterpark projects to open or expand in the United States and Canada as shown in the following table.

Indoor Waterpark Additions & Indoor Waterpark Resorts Projected to Open in 2009				
Indoor Waterparks and Resorts	City	State / Prov	New Rooms	Waterpark Sq. Ft.
Timber Creek Lodge with Waves of Fun (not connected)	Sandwich	IL	100	50,000
Hanford Inn & Suites Indoor Waterpark Addition	Urbana	IL	0	10,000
Valley of the Springs Resort	French Lick	IN	156	40,000
Castle Rock Indoor Waterpark Resort Addition	Branson	MO	101	25,000
Great Wolf Lodge - Charlotte	Concord	NC	402	81,000
Sahara Sam's Indoor Waterpark (no hotel)	Berlin	NJ	0	45,000
Radisson Indoor Waterpark Addition	Albuquerque	NM	0	23,000
Hope Lake Indoor Waterpark Resort at Greek Peak	Cortland	NY	150	23,000
Splash Lagoon Expansion	Erie	PA	0	20,000
The Lodge at Deadwood	Deadwood	SD	140	13,000
Wilderness at the Smokies Resort (rooms portion)	Sevierville	TN	480	0
Westgate Smoky Mountain Resort Additional Units	Gatlinburg	TN	100	0
Great Wolf Lodge Expansion	Grapevine	TX	203	0
Staybridge Suites & HI Express & Indoor Waterpark	West Valley City	UT	191	10,000
Rome, a Mount Olympus Resort Timeshare Expansion	Wisconsin Dells	WI	63	0
Metropolis Hotel Indoor Waterpark (hotel opened 2008)	Eau Claire	WI	107	30,000
Fairfield Inn, Country Inn, and Indoor Waterpark	Gillette	WY	160	10,000
Mission Recreation Park Indoor Waterpark (no hotel)	Kelowna	British Columbia	0	96,000
Total		18	2,353	476,000
Average			181	34,000
Note: Averages represent only those properties adding rooms or waterpark SF				
Note: Resorts have a minimum of 10,000 square feet of indoor waterpark space				
Source: Hotel & Leisure Advisors, LLC, January, 2009				

Our projections for 2009 include three stand-alone destination indoor waterpark properties without attached hotels in British Columbia, Illinois, and New Jersey. We have included these properties due to their larger size and inclusion of a wide range of indoor waterpark amenities including Flowriders and various other slides and attractions. Of the remaining 15 hotel projects, only two represent new construction indoor waterpark destination resorts including the Valley of the Springs Resort in French Lick, Indiana, and the Great Wolf Lodge in Concord, North Carolina.

In addition to the 18 resorts listed above, we are also tracking 300 proposals for new indoor waterpark resorts or indoor waterpark additions to existing properties. Developers have a high level of interest in constructing these entertainment related projects but due to the current challenges of finding financing and investors, most projects are currently on hold. The financing challenges of the overall United States economy have had a major limiting impact on the new development of hotels in general as well as indoor waterpark resorts.

We have highlighted recent openings of and changes to destination resorts in the bullet points below.

- The Kalahari Resort in Wisconsin Dells, Wisconsin, opened a \$15 million, 108,000 square foot indoor family entertainment center in December of 2008. The new indoor theme park addition is located between the main hotel and Damon's Restaurant. It includes: a six-story Ferris wheel, 24 bowling lanes, go-karts for kids and adults, a carousel, laser tag, three play areas including two inflatable play areas, an arcade, a ropes course, indoor mini golf, two golf simulators, a sports bar, and a dance floor. The indoor theme park offers an all-day adult admission for \$19.95 or attractions can be purchased individually.
- The Wilderness at the Smokies Resort is the second phase of an extensive development in Sevierville, Tennessee. The first phase involved the development of a 234-room hotel attached to the Sevierville Event Center which included an outdoor waterpark. The second phase is located across the street from the Event Center hotel and includes 470 condominium hotel units and a 52,000 square foot indoor waterpark. The Wilderness opened the indoor waterpark in December

2008 and all the hotel rooms will come online in 2009. The resort plans to restrict the usage of the indoor waterpark to the resort guests, the guests of the Wilderness Event Center Hotel located across the street, and the adjoining Wyndham timeshare owners when completed.

- CoCo Key Waterparks are now opened at 10 locations, with the latest opening in Fitchburg, Massachusetts. Other locations include indoor waterpark additions at: Cherry Valley Lodge, Newark, Ohio; Sheraton, Arlington Heights, Illinois; Best Western Clocktower, Rockford, Illinois; the Sheraton Ferncroft, Danvers, Massachusetts; Holiday Inn, Omaha, Nebraska; Sheraton and Fairfield Inn, Sharonville, Ohio; Holiday Inn, Waterbury, Connecticut; Marriott Hotel, Mount Laurel, New Jersey; and the Sheraton Hotel, Kansas City, Missouri.
- Great Wolf Lodge will open its newest property in Concord, North Carolina, outside of Charlotte in the spring of 2009. The property will offer 402 rooms and an 81,000 square foot indoor waterpark. The indoor waterpark will be the largest resort, by square footage of indoor waterpark area, in the Southeastern United States. This will be the 12th property managed by Great Wolf Resorts.
- The Split Rock Resort in Lake Harmony, Pennsylvania opened a 53,000 square foot indoor waterpark called H20ooohh! The resort is located in the Poconos region of Pennsylvania and offers the second-largest indoor waterpark in this region after the Great Wolf Lodge. The resort offers a mixture of timeshare and traditional hotel rooms along with 60,000 square feet of meeting and exhibit space. It offers a wide range of amenities including 27 holes of golf.

Indoor waterpark resorts continue to emerge as a leisure option for families looking for a convenient weekend getaway or vacation. Historically, the indoor waterpark resorts were located in the Wisconsin Dells region, but growth continues throughout the United States. An important trend is occurring in the indoor waterpark resort development field. Larger resorts such as the new generation Great Wolf Lodge properties are achieving stronger levels of performance than the smaller indoor waterpark additions to existing hotels or new construction properties. Because the larger properties (offering waterparks over 60,000 square feet) offer a greater number of amenities, families return to the resort more often. These properties are able to achieve higher levels of occupancy and average daily rate despite their higher room counts.

We project continued interest in development of indoor waterpark resorts in the northern United States because they offer an attractive year-round leisure opportunity for families and attractive investment returns for developers. We also project growth in outdoor waterparks at hotels in the southern United States as these represent a lower cost of construction and can boost a hotel's summertime performance.

With the current challenges in the financing market, we project a slowdown in growth in 2010 but potential for increased growth in 2011 and beyond as lending opportunities increase. The advantage to the current lack of lending is that current owners of indoor waterpark resorts are less likely to face new competition. However, in certain Midwestern states such as Michigan, Minnesota, Ohio, and Wisconsin, the competition for family travelers among the many existing indoor waterpark resorts combined with the economic recession has limited the performance levels of the existing properties. Before a new project is developed, we recommend a thorough feasibility analysis be performed to ensure that the project's return on investment is adequate for the development. For

existing projects, we recommend a creative management team be hired in order to generate a higher level of demand for the property.

Author

David J. Sangree, MAI, CPA, ISHC is President of Hotel & Leisure Advisors, a national hospitality consulting firm. He performs appraisals, feasibility studies, economic impact studies, impact studies, and other consulting reports for hotels, resorts, waterparks, golf courses, amusement parks, conference centers, ski resorts and other leisure properties. He has performed over 1,000 hotel studies and over 200 indoor waterpark resort market feasibility and/or appraisal studies across the United States and Canada. H&LA maintains the industry's largest database of financial performance figures for indoor waterpark resorts. He also provides operational reviews and acts as an asset manager to existing hotels and indoor waterpark resort properties.

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.

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