

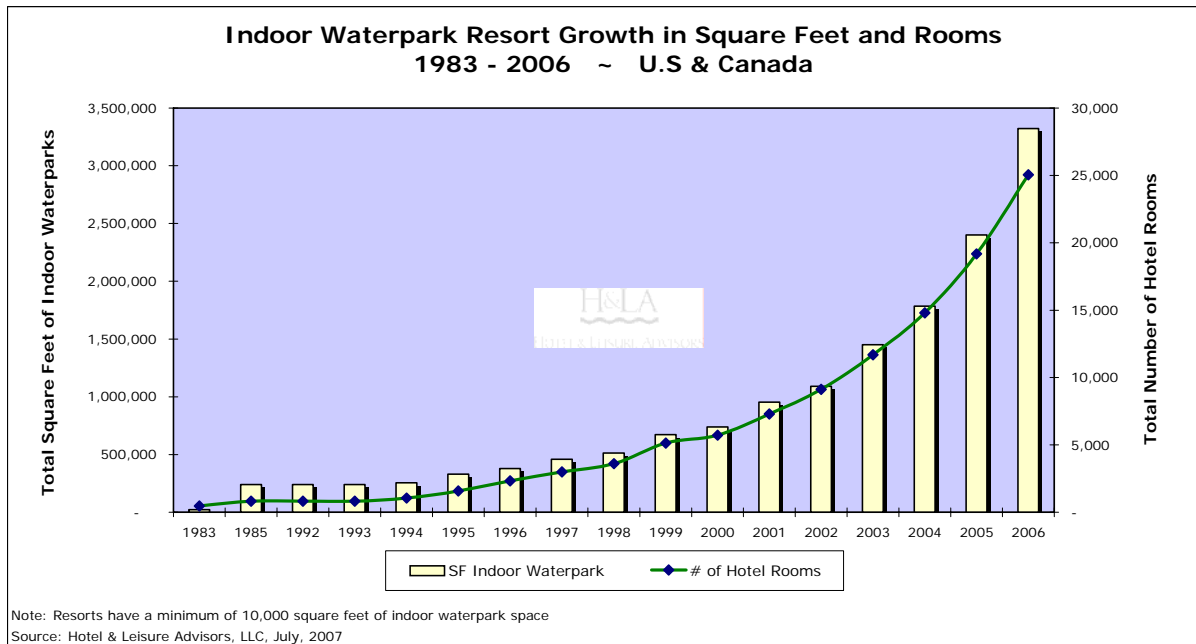


HOTEL & LEISURE ADVISORS

## Indoor Waterparks: Making a Bigger Splash in North America in '07

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

Indoor waterpark resorts have continued to expand throughout North America with 95 open facilities in the United States and an additional 13 open facilities in Canada as of July, 2007. There are 3,643,100 aquatic square feet and 27,230 hotel rooms associated with indoor waterparks as of July, 2007. This family-oriented resort segment has established itself as a viable segment of the travel industry and has expanded well beyond its original Wisconsin base. By the end of 2007, 24 states and five provinces will have at least one indoor waterpark resort. The number of indoor waterparks has grown significantly since their inception in the early 1980s, while the average number of hotel rooms attached to these waterparks has also increased substantially over the years. Between 1994 and 2006 in the United States and Canada, 97 indoor waterpark resorts opened either as new construction properties or as additions to existing hotels. The following table shows the number of hotel rooms and square feet of indoor waterparks that opened in the U.S. and Canada from 1983 to 2006.



Hotel & Leisure Advisors (H&LA) defines an indoor waterpark resort 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 of aquatic area should be categorized as hotels with water features rather than as waterparks. H&LA divides indoor waterpark resorts into two categories:

- Indoor waterpark destination resort
- Hotel with indoor waterpark

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 to the hotel versus a true destination. An indoor waterpark destination resort is a resort with 30,000 square feet or more of indoor waterpark space and is considered a true destination resort that families visit on a year round basis primarily to visit the waterpark and secondarily because of other attractions or events in the area. The following table summarizes our supply analysis of indoor waterpark resorts.

Indoor Waterpark Resort Supply Analysis						
State	Number of Resorts	Average Room Count	Indoor Waterpark Size (SF)			Percent Franchised
			Average	High	Low	
Idaho	1	98	20,000	20,000	20,000	100%
Illinois	4	253	39,000	63,000	24,000	75%
Indiana	2	249	27,500	30,000	25,000	50%
Iowa	5	134	19,200	25,000	11,000	40%
Kansas	2	250	33,000	38,000	28,000	0%
Kentucky	1	81	10,000	10,000	10,000	0%
Massachusetts	2	314	36,500	63,000	10,000	50%
Michigan	9	206	28,556	58,000	10,000	44%
Minnesota	14	178	25,929	68,000	11,000	71%
Missouri	2	617	20,000	20,000	20,000	0%
New York	1	200	38,500	38,500	38,500	0%
North Dakota	4	159	19,500	35,000	10,000	75%
Ohio	7	304	47,493	80,000	10,000	29%
Pennsylvania	3	293	51,000	78,000	10,000	67%
South Dakota	2	204	30,000	30,000	30,000	100%
Tennessee	1	526	50,000	50,000	50,000	0%
Texas	1	428	70,000	70,000	70,000	0%
Virginia	2	849	55,625	56,250	55,000	0%
Washington	2	111	10,000	10,000	10,000	100%
Wisconsin	30	245	35,403	225,000	10,000	20%
<b>Total USA/Average</b>	<b>95</b>	<b>285</b>	<b>33,360</b>			<b>41%</b>
Alberta	3	260	80,600	217,800	12,000	67%
Manitoba	2	148	10,000	10,000	10,000	100%
Ontario	6	374	41,667	90,000	15,000	67%
Quebec	1	222	10,000	10,000	10,000	100%
<u>Saskatchewan</u>	<u>1</u>	<u>157</u>	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>	<u>100%</u>
<b>Total Canada/Average</b>	<b>13</b>	<b>232</b>	<b>30,453</b>			<b>77%</b>

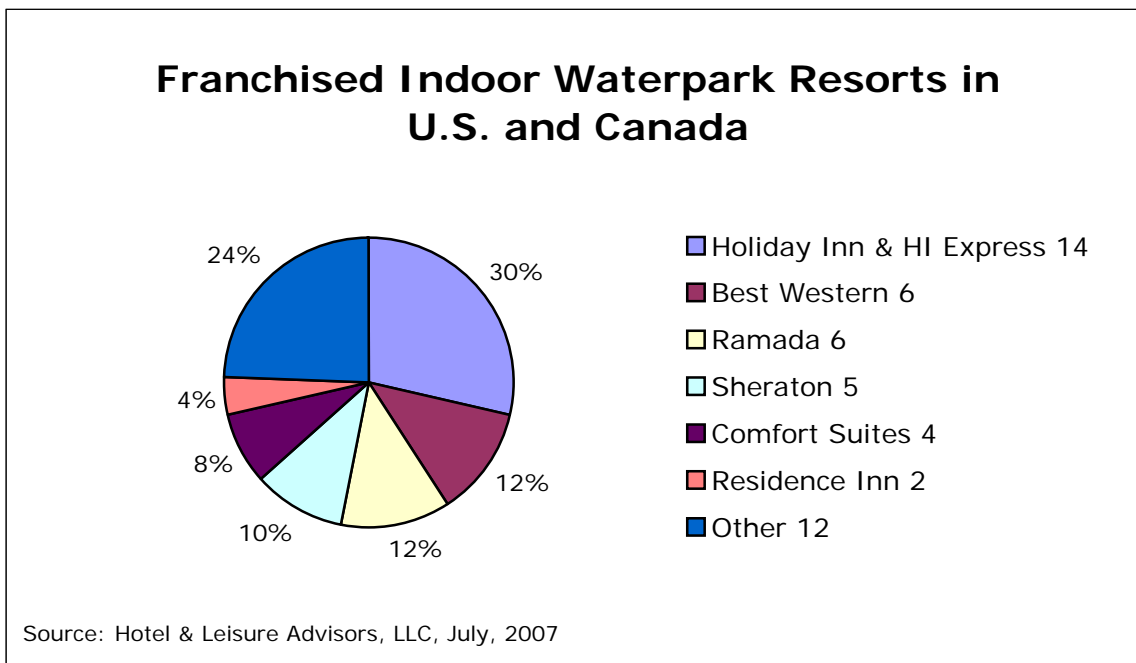
Note: Resorts have a minimum of 10,000 square feet of indoor waterpark space  
Source: Hotel & Leisure Advisors, LLC, July, 2007

The table indicates that there are currently 95 indoor waterpark resorts located in the United States with 32% located in Wisconsin. In addition, there are 13 indoor waterpark resorts operating in Canada, although many other hotels in Canada offer smaller indoor water features with less than 10,000 square feet. Currently, 16 hotels located in Wisconsin Dells, which is known as the "Waterpark Capital of the World," have indoor waterparks with a total of 4,641 rooms and 748,500 square feet of indoor waterpark space.

The six largest indoor waterpark resorts located in Wisconsin Dells outperformed the franchise Wisconsin Dells non-resort hotels' overall average occupancy by 17 occupancy points and the average daily rate of the non-resort hotels by \$112 in 2006. The average

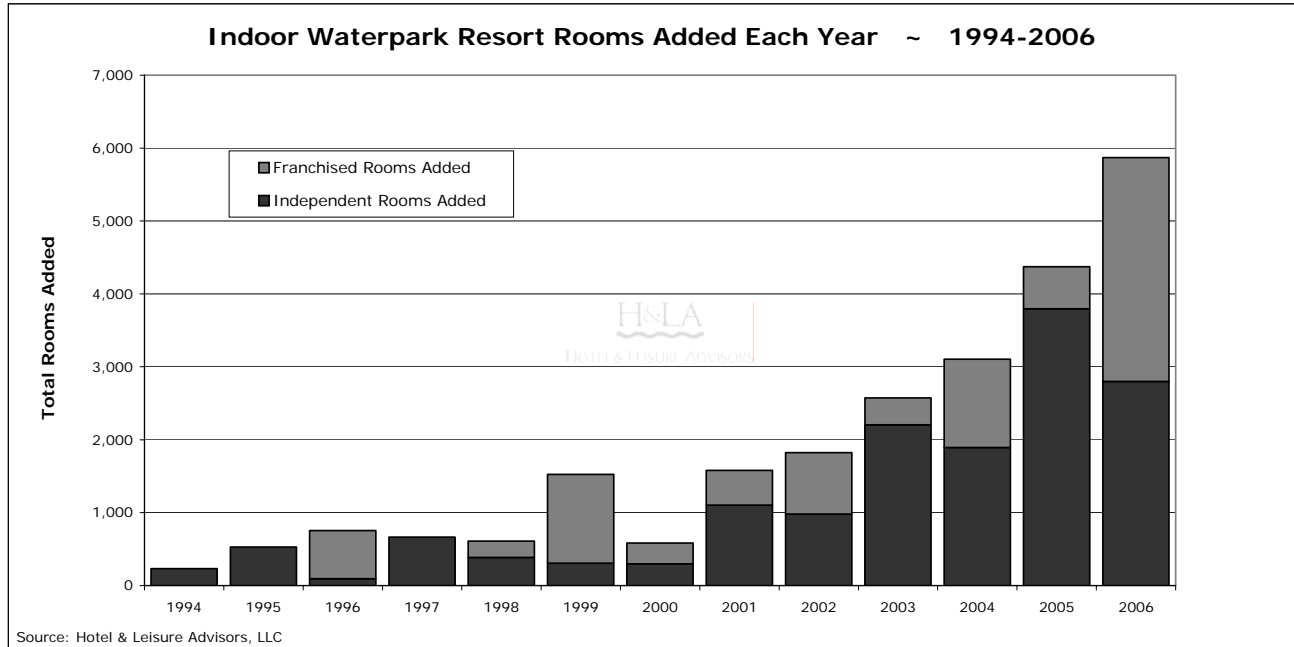
daily rate for these properties includes usage of the indoor waterpark. According to their recent SEC filings, the Great Wolf Lodge properties open in 2006 averaged an occupancy level of 63.5% with an average daily rate of \$240.04. However, certain properties in Midwestern markets have shown a decline in performance in 2006 due to expanded competition from additional indoor waterpark resorts.

Hotel companies, investors, and developers in the U.S. continue to explore the potential benefit of affiliating indoor waterpark resorts with a national hotel franchise. Franchised indoor waterpark resorts are more common in Canada. The previous table shows that only 41% of U.S. indoor waterpark resort rooms are affiliated with a national hotel chain, while 77% of indoor waterpark resort rooms in Canada are franchised. Though the non-franchised resorts can benefit from not paying franchise fees, they lack the benefits of a central reservation system and franchise recognition. The following chart shows the affiliation of the franchised indoor waterpark resorts in the U.S.



Holiday Inn is the only national hotel chain currently offering an indoor waterpark resort prototype to their offering of hotel types. At present, there are 14 Holiday Inn and Holiday Inn Express properties attached to indoor waterparks, as Holiday Inn has been very open to the idea of allowing franchisees to add indoor waterparks to their existing properties. As of July 2007, there are 17 additional Holiday Inn and Holiday Inn Express indoor waterpark resorts or expansions to existing Holiday Inn and Holiday Inn Express properties planned for development in the United States.

The ratio of franchise to independent indoor waterpark hotels has fluctuated since 1994. The following table shows the number of indoor waterpark rooms that have been added per year by franchised and independent hotels.



Between 2001 and 2005, the number of indoor waterpark rooms added by independent hotels exceeded the number of rooms added by franchised hotels, while in 2006 the figure was nearly evenly split.

The overall average ratio of waterpark square footage to guest rooms in indoor waterpark resorts varies widely with some larger destination resorts offering as much as 200 square feet of indoor waterpark space per guest room while some hotels with indoor waterparks may offer less than 100 square feet of waterpark space per guest room. In 2006, the overall average ratio for all existing properties in North America was 133 square feet per guest room.

The increase in the number of guest rooms constructed has kept pace with increases in demand for indoor waterparks in most markets, although in Wisconsin, Minnesota, and Ohio oversupply issues are beginning to surface. In these states, some properties with indoor waterparks are recording lower rates of occupancy and average daily rate than they recorded in previous years due to increased competition.

### New Construction

The following table indicates indoor waterpark resorts which opened in 2006 in the United States and Canada.

Indoor Waterpark Additions & Indoor Waterpark Resorts Opened in 2006				
Indoor Waterparks and Resorts	City	State / Prov	New Rooms	Waterpark Sq. Ft.
Best Western Pzazz Fun City with Indoor Waterpark	Burlington	IA	0	15,000
Holiday Inn with Indoor Waterpark	Elmhurst	IL	0	24,000
Sheraton Chicago NW Coco Key Indoor Waterpark Addition	Arlington Heights	IL	0	63,000
Double JJ Ranch Indoor Waterpark Addition	Rothbury	MI	114	34,000
Waterpark of America and Grand Hotel at Mall of America	Bloomington	MN	400	68,000
Best Western Edgewater	Duluth	MN	17	30,000
Holiday Inn with Indoor Waterpark	Lakeville	MN	0	12,000
Six Flags Great Escape Waterpark Resort	Queensbury	NY	200	38,500
Holiday Inn Fort Rapids with Indoor Waterpark	Columbus	OH	60	45,000
Great Wolf Lodge	Mason/Kings Island	OH	401	79,000
Cherry Valley Lodge with CoCo Key Waterpark Addition	Newark	OH	0	47,450
Great Wolf Lodge	Niagara Falls	ON	406	85,000
Sheraton Brock Indoor Waterpark Addition	Niagara Falls	ON	0	90,000
Howard Johnson with Indoor Waterpark	Lancaster	PA	0	10,000
LaQuinta and Fairfield Inn with Indoor Waterpark	Rapid City	SD	256	30,000
Schlitterbahn Indoor/Outdoor Waterpark Resort	Galveston	TX	0	70,000
Great Wolf Lodge Expansion	Williamsburg	VA	0	15,000
Deer Valley Lodge	Barneveld	WI	62	12,000
Best Western Grand Seasons Hotel	Waupaca	WI	90	10,000
Three Bears Lodge/Jellystone Park expansion	Warrens	WI	151	0
Chula Vista expansion	Wisconsin Dells	WI	190	55,000
Great Wolf Lodge Expansion	Wisconsin Dells	WI	0	38,000
Wilderness Glacier Canyon Lodge	Wisconsin Dells	WI	461	65,000
<b>Total</b>		<b>23</b>	<b>2,808</b>	<b>935,950</b>
<b>Average</b>			<b>216</b>	<b>42,543</b>
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, July, 2007				

The table indicates that 23 waterparks came on line within new resorts or expansions of existing resorts in 2006. A number of properties which opened in 2006 added or expanded waterpark facilities in existing hotels. The largest projects to open in 2006 included the Waterpark of America and Grand Hotel in Bloomington, and two Great Wolf Lodge properties in Mason/Kings Island and Niagara Falls. The Grand Hotel at the Waterpark of America recently announced that it will affiliate with Radisson Hotels in order to boost weekday corporate business. The single largest guest room expansion was the Wilderness Resort's addition of the Glacier Canyon Lodge, a condominium resort hotel with 461 keys, which was built at the same time as the addition of a third indoor waterpark and a new outdoor waterpark area.

Our research indicates that there are 25 new indoor waterpark resorts or expansions to resorts which are projected to open in 2007 in the United States and Canada. The following table lists these properties.

Indoor Waterpark Additions & Indoor Waterpark Resorts Projected to Open in 2007				
Indoor Waterparks and Resorts	City	State / Prov	New Rooms	Waterpark Sq. Ft.
Lodge at Storm Lake & Kings Pointe Waterpark	Storm Lake	IA	80	20,000
Bridges Bay Indoor Waterpark Resort	Arnolds Park	IA	100	25,000
Silver Mountain Resort's Silver Rapids	Kellogg	ID	268	45,000
Best Western Clock Tower CoCo Key Waterpark Addition	Rockford	IL	0	45,000
Splash Universe Wana Waves Indoor Waterpark Resort	Shipshewana	IN	154	25,000
Sheraton Ferncroft Resort with CoCo Key Waterpark	Danvers	MA	0	63,000
Holiday Inn Express Splash Universe Resort	Dundee	MI	86	25,000
Ramada Inn with Surfari Joes Indoor Waterpark	Watervliet	MI	95	11,000
Northpointe Inn with Indoor Waterpark Addition	Mackinaw City	MI	0	23,000
Holiday Inn Maple Grove with Indoor Waterpark	Maple Grove	MN	136	25,000
Canad Inn with Splasher of the South Seas	Grand Forks	ND	201	35,000
Holiday Inn with CoCo Key Indoor Waterpark Addition	Omaha	NE	0	40,000
Great Adventure Water Resort/Days Inn	Bellevue	NE	0	30,000
Red Jacket Inn Waterpark Addition	North Conway	NH	0	30,000
Carlisle/Radisson Indoor Waterpark Addition	Albuquerque	NM	0	23,000
Holiday Inn with Indoor Waterpark	Maumee	OH	106	15,000
Quality Inn and Suites with Rain Indoor Waterpark	Sandusky	OH	0	10,000
Kalahari Indoor Waterpark Resort Expansion	Sandusky	OH	288	93,000
Sheraton Sharonville CoCo Key Indoor Waterpark Addition	Sharonville	OH	0	50,000
Westgate Smoky Mountain Resort Timeshare WP Addition	Gatlinburg	TN	0	50,000
Lakeview Texanaland Indoor Waterpark Addition	Canyon Lake	TX	50	20,000
Great Wolf Lodge Expansion	Williamsburg	VA	100	0
Three Bears Lodge/Jellystone Park Expansion	Warrens	WI	65	0
Mt. Olympus Pleasant View Motel Addition	Wisconsin Dells	WI	48	0
Chula Vista Expansion	Wisconsin Dells	WI	116	0
<b>Total</b>		<b>25</b>	<b>1,893</b>	<b>703,000</b>
<b>Average</b>			<b>126</b>	<b>33,476</b>
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, July, 2007				

The table indicates the properties which have opened or are due to open in 2007. Of the 25 total on the list, 18 are new waterpark additions to existing hotels or room additions to existing indoor waterpark resorts. Based on the number of projects that have recently been financed or have begun construction, we project that the number of new construction indoor waterpark resorts will be higher in 2008.

Because of the strong performance of indoor waterpark resorts in Wisconsin Dells and other locations, there are many properties considering the development of an indoor waterpark resort. The following table summarizes the indoor waterpark resorts which are under construction or are in planning or development stages.

Indoor Waterparks Currently Proposed or In Progress United States and Canada					
Region	Number of Resort Properties	Number of New Resort Rooms	Average Room Count	Indoor Waterpark SF Total	Indoor Waterpark SF Average
Northeastern United States	64	13,300	317	2,669,700	46,837
Midwestern United States	117	25,504	263	4,682,500	41,808
Southern United States	35	7,270	316	1,585,000	46,618
Western United States	46	11,913	314	2,463,240	55,983
<b>USA Total/Average</b>	<b>262</b>	<b>57,987</b>	<b>302</b>	<b>11,400,440</b>	<b>47,811</b>
<b>Canada Total/Average</b>	<b>11</b>	<b>2,415</b>	<b>220</b>	<b>490,000</b>	<b>44,545</b>
<b>N. America Total/Average</b>	<b>273</b>	<b>60,402</b>	<b>286</b>	<b>11,890,440</b>	<b>47,158</b>
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, July, 2007					

The table indicates that there are 273 properties in the United States and Canada which are proposing to add indoor waterpark facilities or are developing new construction indoor waterpark resorts. The list has grown substantially over the past year from 190 properties as of June, 2006 to 273 properties in June, 2007, indicating substantial interest in developing an indoor waterpark project in North America.

Most indoor waterpark resorts that are currently operational, under construction, and proposed are located in northern states due to a shorter summer season. The previous list includes indoor waterpark resorts known to be in the planning stages or under construction. Of this list, only those with proper planning and financing will be developed. We project a number of these projects will not be developed due to the challenging financing issues.

### **Unique Features and Properties**

A number of trendsetting developers are creating exciting concepts in indoor waterpark resort properties. The following bullets describe a few of these projects.

- Kalahari Resort in Sandusky, Ohio, is slated to open its 93,000 square foot indoor waterpark expansion in December, 2007 with the addition of 288 condominium hotel keys to open shortly thereafter. The \$50 million expansion will include an African-themed restaurant and bar and a transparent roofing system that will stream in sunlight. The property will add a 13,000 square foot indoor wave pool. Once finished, the Kalahari Resort in Sandusky will be the largest single structure waterpark in the U.S. totaling 173,000 square feet. It will surpass the Kalahari in Wisconsin Dells, which was the largest with 125,000 square feet. The Kalahari in Sandusky will be the second-largest waterpark in North America behind West Edmonton Mall in Canada.
- In June, 2007, Marriott Hotels announced plans to partner with Nickelodeon to create a new chain called Nickelodeon Resorts by Marriott. By 2020, Marriott plans to open 20 such resorts worldwide, which will feature state-of-the-art pools and water slides as well as interactive attractions featuring Nickelodeon's cartoon characters such as Dora the Explorer and SpongeBob SquarePants. The first project is expected to open in San Diego, California, but details have not yet been released.
- A number of ski resorts are adding indoor waterparks, following the lead of Boyne Mountain's Avalanche Bay project. These include the Silver Mountain resort in Kellogg, Idaho, which will open a 268-key hotel and a 45,000 square foot indoor waterpark in 2007. In 2008, Greek Peak ski resort in Virgil, New York, will be opening the 150-key Hope Lake Lodge indoor waterpark resort with a 23,000 square foot indoor waterpark.
- CoCo Key Waterparks have opened at four locations as of July, 2007. These include indoor waterpark additions at the Cherry Valley Lodge in Newark, Ohio; Sheraton in Arlington Heights, Illinois; Best Western Clocktower in Rockford, Illinois; and Sheraton Ferncroft in Danvers, Massachusetts. Additional indoor waterparks projected to open later in 2007 include the Holiday Inn in Omaha, Nebraska, and the Sheraton in Sharonville, Ohio. These projects are being developed by Sage Hospitality, Wave Development and their partners.

## Conclusion

Indoor waterpark resorts have emerged as leisure destinations for families looking for a convenient weekend getaway or vacation. In the 1990s, the indoor waterpark resorts were located in the Wisconsin Dells region, but growth continues throughout the United States. 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." We project that the average size of indoor waterparks constructed will continue to increase as customer expectations increase. We project continued development of indoor waterpark resorts in the northern United States as they offer an attractive year-round leisure opportunity for families and attractive investment returns for developers. However, with the substantial growth in supply in the segment, we recommend thorough feasibility analysis be performed for projects to ensure that the project's return on investment is adequate for the development.

This article will also appear in the World Waterpark Association's 2007 *Water Leisure & Lodging* publication which is available prior to their annual convention held in October, 2007.

## Author

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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 on *Good Morning America*. He has written numerous articles for, and is frequently quoted in, magazines, television, and newspapers covering the hospitality field.

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