

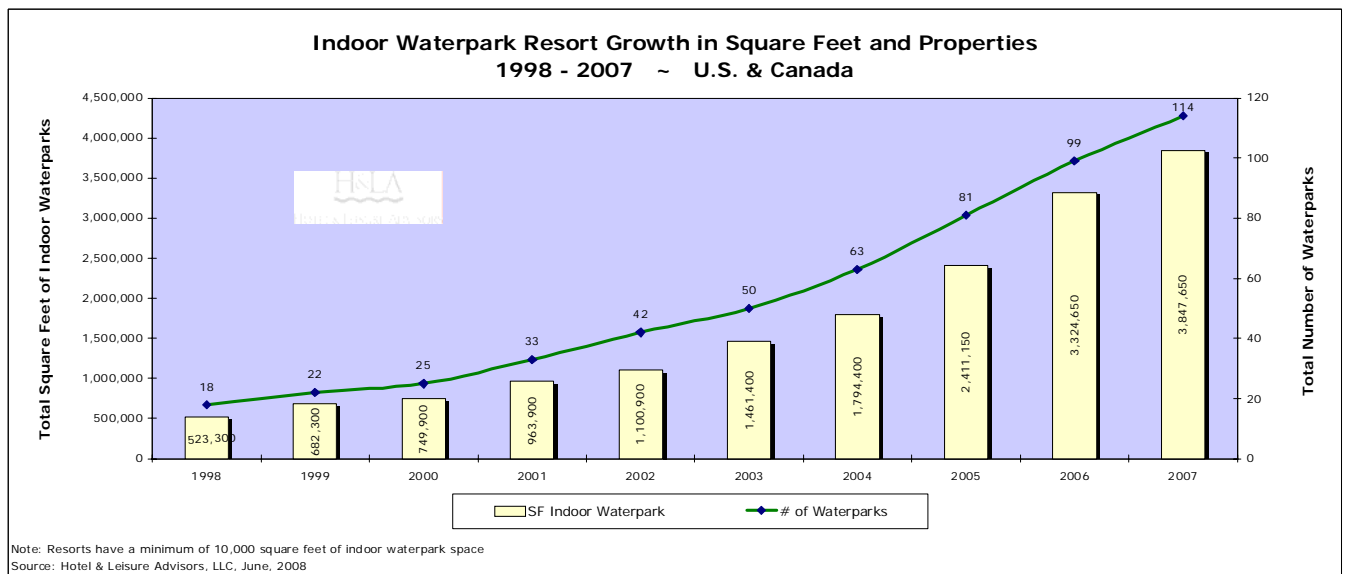


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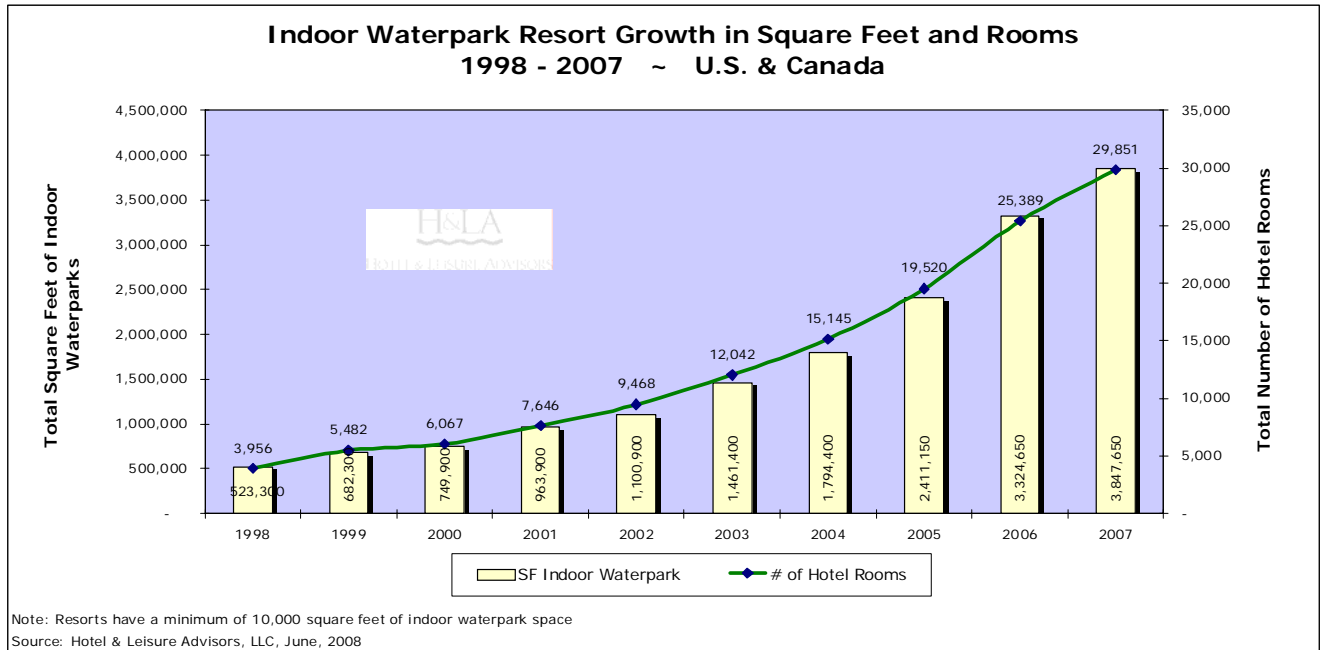
Indoor Waterparks: Surfing a Wave in North America in '08

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

Indoor waterpark resorts have continued to expand throughout North America with 107 open facilities in the United States and an additional 14 open facilities in Canada as of June, 2008. There are 4,138,150 indoor aquatic square feet and 31,865 hotel rooms associated with indoor waterparks as of June, 2008. 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 2008, 26 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, and the average number of hotel rooms attached to these waterparks has also increased substantially over the years. Between 1998 and 2007 in the United States and Canada, 96 indoor waterpark resorts opened either as new construction properties or as additions to existing hotels. The following table shows the number of waterpark resorts and square feet of indoor waterparks that opened in the U.S. and Canada from 1998 to 2007.



The following chart indicates the number of hotel rooms and the square feet of indoor waterpark space for indoor waterpark resorts during the period 1998 to 2007 for the U.S. and Canada.



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/Province	Number of Resorts	Average Room Count	Indoor Waterpark Size (SF)			Percent Franchised
			Average	High	Low	
Idaho	2	183	31,000	42,000	20,000	50%
Illinois	5	285	34,700	64,500	24,000	60%
Indiana	2	249	27,500	30,000	25,000	50%
Iowa	5	138	18,600	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	27,500	45,000	10,000	50%
Michigan	11	233	26,091	58,000	10,000	45%
Minnesota	14	178	25,929	68,000	11,000	79%
Missouri	2	617	20,000	20,000	20,000	0%
Nebraska	1	383	40,000	40,000	40,000	100%
New Hampshire	1	163	35,000	35,000	35,000	100%
New York	1	200	38,500	38,500	38,500	0%
North Dakota	4	159	19,500	35,000	10,000	75%
Ohio	10	308	51,800	173,000	10,000	30%
Pennsylvania	3	302	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	3	397	54,667	75,000	19,000	0%
Virginia	2	901	61,625	67,000	56,250	0%
Washington	3	206	26,667	60,000	10,000	67%
Wisconsin	<u>30</u>	<u>247</u>	35,070	225,000	10,000	20%
Total USA/Average	107	297	34,007			41%
Alberta	3	260	80,600	217,800	12,000	67%
Manitoba	2	148	10,000	10,000	10,000	100%
Ontario	7	371	37,143	90,000	10,000	57%
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>
Total Canada/Average	14	231	29,549			71%

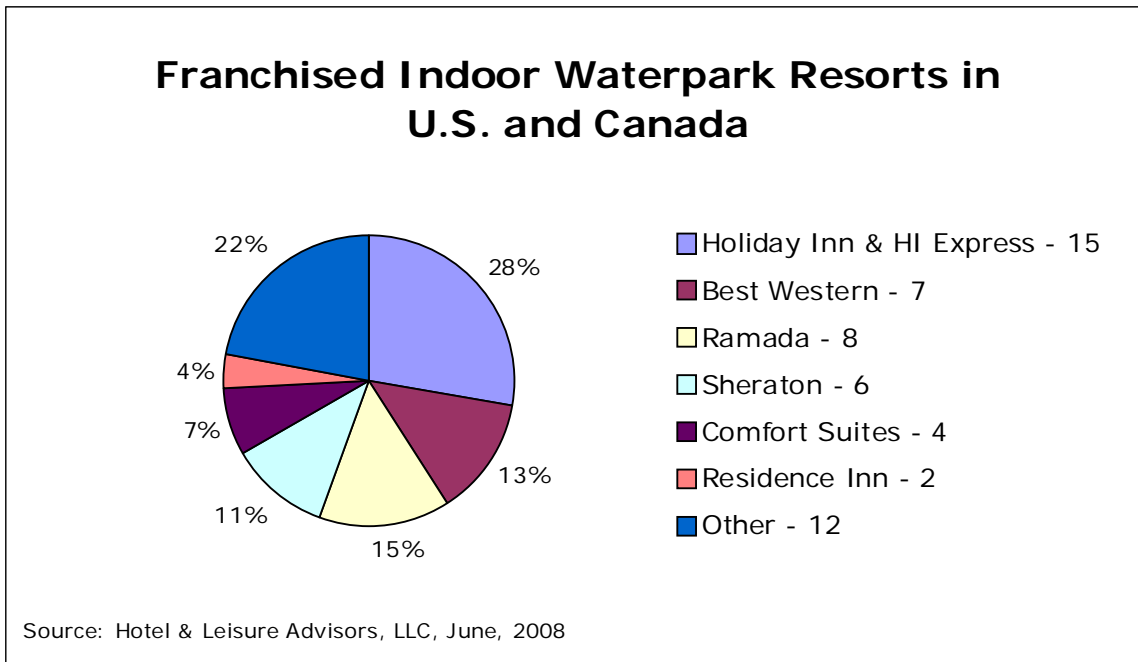
Note: Resorts have a minimum of 10,000 square feet of indoor waterpark space
Source: Hotel & Leisure Advisors, LLC, June, 2008

The table indicates that, as of June 2008, there are currently 107 indoor waterpark resorts located in the United States with 28% located in Wisconsin. In addition, there are 14 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 4,651 rooms and 738,500 square feet of indoor waterpark space. Most indoor waterpark resorts that are currently operational, under construction, and proposed are located in northern states due to a shorter summer season.

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 2007 averaged an occupancy level of 62.2% with an average daily rate of \$248.66. However, certain properties in Midwestern markets have shown a decline in performance in 2007 and 2008 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 71% 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 North America.



Holiday Inn is the only national hotel chain currently offering an indoor waterpark resort prototype. At present, there are 15 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.

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 other hotels with smaller indoor waterparks offer less than 100 square feet of waterpark space per guest room. As of June, 2008, the overall average ratio for all existing properties in North America was 130 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 2007 in the United States and Canada.

Indoor Waterpark Additions & Indoor Waterpark Resorts Opened in 2007				
Indoor Waterparks and Resorts	City	State / Prov	New Rooms	Waterpark Sq. Ft.
Lodge at Storm Lake & Kings Pointe Waterpark	Storm Lake	IA	100	17,000
Bridges Bay Indoor Waterpark Resort	Arnolds Park	IA	100	25,000
Best Western Clock Tower CoCo Key Waterpark Addition	Rockford	IL	0	25,000
Splash Universe Wana Waves Indoor Waterpark Resort	Shipshewana	IN	154	25,000
Sheraton Ferncroft Resort with CoCo Key Waterpark	Danvers	MA	0	45,000
Grand Traverse Resort and Spa Indoor Waterpark Addition	Acme	MI	0	15,000
Holiday Inn Express Splash Universe Resort	Dundee	MI	87	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
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	35,000
Splash Lagoon Holiday Inn Express Expansion	Erie	PA	27	0
Westgate Smoky Mountain Resort Timeshare WP Addition	Gatlinburg	TN	0	50,000
Great Wolf Lodge	Grapevine	TX	402	75,000
Great Wolf Lodge Expansion	Williamsburg	VA	104	0
Three Bears Lodge/Jellystone Park Expansion	Warrens	WI	72	0
Mt. Olympus Pleasant View Motel Addition	Wisconsin Dells	WI	48	0
Chula Vista Expansion	Wisconsin Dells	WI	116	0
Total		21	1,941	553,000
Average			139	34,563

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, June, 2008

The table indicates that 21 waterparks came on line within new resorts or expansions of existing resorts in 2007. A number of properties which opened in 2007 added or expanded waterpark facilities in existing hotels. The largest indoor waterpark project to open in 2007 was the Kalahari Resort in Sandusky expansion of both the indoor waterpark and the guest room count. The Sandusky property now has the largest single structure indoor waterpark in the United States. Other large projects included the opening of the Great Wolf Lodge Grapevine, Texas, and the opening of the Canad Inn Grand Forks, North Dakota. The 2007 list includes four CoCo Key indoor waterpark facility additions to existing hotels in Rockford, Illinois; Danvers, Massachusetts; Omaha, Nebraska; and Sharonville, Ohio.

Our research indicates that there are 29 new indoor waterpark resorts or expansions to resorts which are projected to open in 2008 in the United States and Canada. The following table lists these properties.

Indoor Waterpark Additions & Indoor Waterpark Resorts Projected to Open 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	35,000
Honey Creek Resort with Indoor Waterpark	Rathbun Lake	IA	105	15,000
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
Valley of the Springs Resort	French Lick	IN	156	40,000
Abe Mountain Lodge Indoor Waterpark Addition	Nashville	IN	0	12,000
Courtyard (former Best Western) with CoCoKey IWP Addition	Fitchburg	MA	0	32,000
Northpointe Inn with Indoor Waterpark Addition	Mackinaw City	MI	0	23,000
Ramada Inn with Surfari Joes 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 Additon	Kansas City	MO	0	50,000
Castle Rock Indoor Waterpark Resort Addition	Branson	MO	101	25,000
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	40,000
Radisson Indoor Waterpark Addition	Albuquerque	NM	0	23,000
Holiday Inn Express & Maui Sands Indoor Waterpark Addition	Sandusky	OH	95	55,000
Resort at Split Rock	Lake Harmony	PA	0	41,000
Wilderness Hotel at Events Center (with Outdoor WP)	Sevierville	TN	236	0
Wilderness at the Smokies Resort	Sevierville	TN	470	75,000
Lakeview Resort Texanaland Indoor Waterpark Addition	Canyon Lake	TX	50	20,000
Villages Resort Indoor Waterpark Addition	Flint	TX	0	19,000
Great Wolf Lodge Expansion	Grapevine	TX	203	0
Great Wolf Lodge	Grand Mound	WA	398	60,000
Action City Metropolis Hotel and Indoor Waterpark	Eau Claire	WI	107	30,000
Kalahari Resort 5BR cottage expansion	Wisconsin Dells	WI	12	0
Fairfield Inn, Country Inn, and Indoor Waterpark	Gillette	WY	160	10,000
Total		29	3,133	802,500
Average			174	32,100

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, June, 2008

The table indicates the properties which have opened or are due to open in 2008. Of the 29 total on the list, 17 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 similar in 2009.

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 indicates the number of 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	79	20,027	371	3,751,700	52,107
Midwestern United States	127	25,965	252	4,593,000	39,939
Southern United States	41	8,998	346	2,056,000	57,111
Western United States	52	16,065	383	2,540,240	55,223
USA Total/Average	299	71,055	338	12,940,940	51,095
Canada Total/Average	14	2,635	220	610,000	46,923
N. America Total/Average	313	73,690	314	13,550,940	50,261

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, June, 2008

The table indicates that there are 313 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 two years from 190 properties as of June, 2006 to 313 properties in June, 2008, indicating substantial interest in developing indoor waterpark projects in North America.

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 which exist in 2008.

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 Wisconsin Dells is constructing an 110,000 square foot family entertainment center complex which will connect to the existing 752-room Kalahari Resort which includes a 125,000 square foot indoor waterpark. The indoor dry complex will include a six-story Ferris wheel, laser tag, ropes course, a zip line, go karts, bowling, and a variety of other features. This will be the largest dry indoor entertainment complex attached to any indoor waterpark resort in North America. Kalahari Resorts has also announced plans to develop a 715-room indoor waterpark resort in Fredericksburg, Virginia, as part of the Celebrate Virginia complex. This resort will include a 200,000 square foot indoor waterpark which will become the nation's largest indoor waterpark in one building, potentially being larger than the recently expanded Kalahari Resort in Sandusky, Ohio. This resort project has received a significant tax incentive package from the City of Fredericksburg.
- Great Wolf Resorts opened the Great Wolf Lodge in Grapevine, Texas, in December, 2007 with 402 guest rooms. This facility is currently being expanded by 203 additional guest rooms and a conference center which are projected to open by year-end 2008. Earlier in 2008, Great Wolf Lodge opened a 398-room resort property in Grand Mound, Washington. The chain now offers 10 locations in the United States and Canada. They have announced plans to construct new resorts in Charlotte, North Carolina and Foxwoods, Connecticut.
- The Maui Sands Resort in Sandusky, Ohio, opened in June, 2008. This conversion and expansion of a former Holiday Inn now includes 304 guest rooms and a 55,000 square foot indoor waterpark with the only Surf rider in the United States. The Surf rider allows guests to utilize real surfboards as well as body boards in riding the waves. Waveloch, the developer of the Flowrider, developed the Surf rider and sells it in coordination with Aquatic Development Group. Additional installations of both the Flowrider and Surf rider are projected at indoor waterpark resorts.
- CoCo Key Waterparks have opened at six locations as of June, 2008. These include indoor waterpark additions at the Cherry Valley Lodge in Newark, Ohio; Sheraton in Arlington Heights, Illinois; Best Western Clock Tower in Rockford, Illinois; Sheraton Ferncroft in Danvers, Massachusetts; Holiday Inn in Omaha, Nebraska; and the Sheraton in Sharonville, Ohio. Additional indoor waterparks projected to open later in 2008 include the Marriott in Mount Laurel, New Jersey and the Courtyard (former Best Western) in Fitchburg, Massachusetts. These projects are being developed by Sage Hospitality, Wave Development, and their partners.

- The Valley of the Springs Resort is under construction in French Lick, Indiana, and will offer a 156-room hotel with a 40,000 square foot indoor waterpark. The project aims to open by year-end 2008. The resort will pursue certification to obtain a LEED designation, and will be one of the first indoor waterpark resorts to obtain the green building rating designation. The resort will utilize specialized water filtration technology to use less chlorine and less water. The indoor waterpark will offer the largest retractable roof structure ever constructed by the manufacturer, Openaire.

Conclusion

Indoor waterpark resorts are expanding their reach 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 today 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 2008 *Water Leisure & Lodging* publication which is available prior to their annual convention held in October, 2008.

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

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