



HOTEL & LEISURE ADVISORS

Adding a Waterpark to a Hotel: Is it a Good Idea?

By David J. Sangree, ISHC

Numerous hotel owners are considering adding an indoor waterpark to their existing hotel as a way to boost occupancy levels and revenues at their property. How does one determine if this is a good idea? How much does it cost to add a waterpark to a property?

I have performed over 100 studies across the United States and Canada on existing and proposed hotels concerning waterpark additions. Indoor waterparks can be beneficial to certain types of properties which have a potential to attract stronger leisure demand on days when school is out including weekends, school breaks, summer, and other vacation times. However, the cost to build an indoor waterpark is also quite high. Therefore, it is necessary to perform a detailed analysis concerning the potential revenues and net income gained versus the cost to develop and potential loss of certain components of demand.

The following chart indicates the cost to construct an indoor waterpark addition for various sized projects located throughout the United States.

| Indoor Waterpark Development Costs Waterpark Component Only | | | | |
|--|-------------------------|--------------|-----------------------------------|----------------|
| Location | Year Opened/ To Open | Cost | Sq. Feet of Waterpark Space | Cost Per SF |
| Eastern USA | 2003 | \$20,000,000 | 46,000 | \$434.78 |
| Western USA | 2003 | \$8,000,000 | 30,000 | \$266.67 |
| Midwest USA | 2004 | \$18,000,000 | 38,000 | \$473.68 |
| Midwest USA | 2004 | \$8,500,000 | 30,000 | \$283.33 |
| Eastern USA | 2005 | \$14,000,000 | 42,000 | \$333.33 |
| Midwest USA | 2006 | \$9,000,000 | 23,000 | \$391.30 |
| Western USA | 2006 | \$11,000,000 | 23,000 | \$478.26 |
| Eastern USA | 2007 | \$15,400,000 | 48,000 | \$320.83 |

Source: Hotel & Leisure Advisors

The chart indicates that the cost to construct an indoor waterpark ranges from approximately \$250 per square foot to \$500 per square foot of indoor waterpark space. The cost range is rather wide and depends upon the types of waterpark features included. For example, a water coaster can cost over \$1 million while a water slide can be less than \$100,000.

In order to justify the capital cost of adding an indoor waterpark, the property needs to analyze the incremental return which the addition would achieve. My analyses of other properties which have added indoor waterparks indicate that the leisure percentage of demand will typically increase while the group and corporate demand percentages will decline when an indoor waterpark is added to an existing property. The addition of many more leisure guests may increase revenues in the food and beverage, gift shop, arcade, and spa departments of a hotel. Typically, families visiting a hotel with an indoor waterpark will spend more time in the property and utilize the outlets of the property.

When considering the addition of an indoor waterpark, one needs to analyze the following:

- During what months/seasons does the property have the lowest occupancy rates?
- What days of the week does the property achieve its highest occupancy rates? What days of the week is the property currently slowest?
- Are the guest rooms at the property large enough for a family of four or five to utilize the room when visiting the indoor waterpark?
- Does the property have the land area to build an indoor waterpark connected to the hotel and additional space for expansion at a later point?
- Is the property's management team capable of implementing an indoor waterpark addition at the property as well as managing the major change in operation?
- How many other indoor waterparks are currently in the market and how many are proposed?
- What demand segments will be negatively impacted if greater numbers of children and families are in the hotel?

There are many questions which a hotel owner needs to answer before considering the waterpark addition. Research indicates that properties in markets with no indoor waterparks achieve the maximum benefit from an indoor waterpark addition. In comparison, a property in a market with many existing indoor waterparks will achieve a lower return. In such a case, the additional net income may not be sufficient to justify the development costs of an indoor waterpark addition.

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