

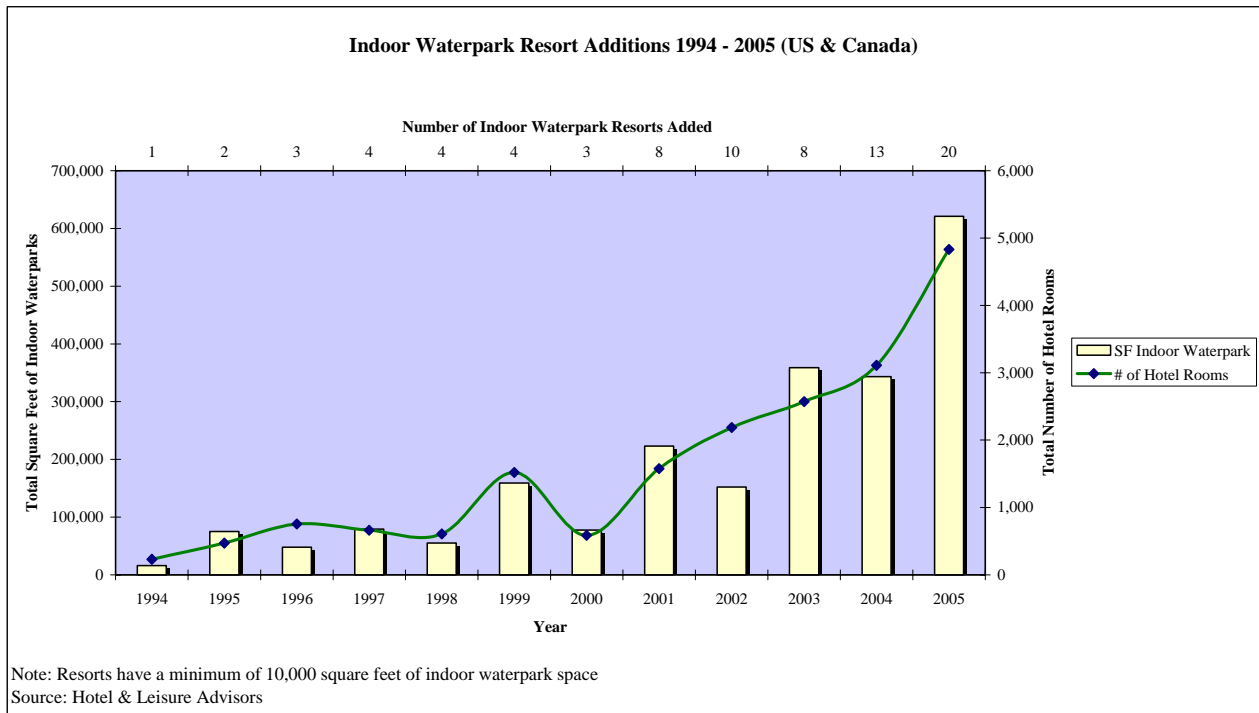


HOTEL & LEISURE ADVISORS

Indoor Waterpark Resort Numbers Increase in '06

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

Indoor waterpark resorts have established themselves as a viable segment of the travel industry and expanded well beyond their Wisconsin base. During the period from 1994 to 2005, 80 indoor waterpark resorts opened or expanded their properties in the U.S. and Canada totaling approximately 2,208,000 square feet and offering over 19,000 hotel rooms. 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. The following table shows the number of hotel rooms and square feet of indoor waterparks that have opened annually in the U.S. and Canada from 1994 to 2005.



For example, in 1994 there was one indoor waterpark resort which opened in the U.S. and Canada with a total of 232 guest rooms and 16,000 square feet of indoor waterpark space. This equaled one guest room per every 69 square feet of indoor waterpark space offered. In 2005, 20 indoor waterpark resorts opened with a total of 4,831 guest rooms and 621,000 square feet of indoor waterpark space. This represented approximately one guest room per every 129 square feet of indoor waterpark space for the 2005 openings.

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 and Minnesota oversupply issues are beginning to surface. In Minnesota and Wisconsin, properties with indoor waterparks are recording lower rates of occupancy and average daily rate than they recorded in previous years due to increased competition.

The following table summarizes the results of our supply analysis of indoor waterpark resorts. Although numerous hotels bill their indoor pools as "waterparks," our definition restricts the use of the term waterpark resort to those hotels which are connected to an indoor waterpark containing 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.

Indoor Waterpark Resort Supply Analysis as of June, 2006						
State	Number of Resorts	Average Room Count	Indoor Waterpark Size (SF)			Percent Franchised
			Average	High	Low	
Idaho	1	98	25,000	25,000	25,000	100%
Indiana	1	344	30,000	30,000	30,000	100%
Iowa	3	164	18,667	25,000	11,000	67%
Illinois	2	169	24,500	25,000	24,000	50%
Kansas	2	250	33,000	38,000	28,000	0%
Kentucky	1	81	10,000	10,000	10,000	100%
Massachusetts	1	260	10,000	10,000	10,000	0%
Michigan	7	198	29,714	58,000	10,000	43%
Minnesota	12	183	28,917	68,000	11,000	58%
Missouri	2	617	20,000	20,000	20,000	0%
New York	1	200	38,500	38,500	38,500	0%
North Dakota	4	186	13,250	21,000	10,000	100%
Ohio	4	361	47,250	80,000	33,000	25%
Pennsylvania	2	385	67,500	78,000	57,000	50%
South Dakota	1	150	30,000	30,000	30,000	100%
Texas	1	428	70,000	70,000	70,000	0%
Virginia	2	951	48,500	55,000	42,000	0%
Washington	2	111	10,000	10,000	10,000	100%
<u>Wisconsin</u>	<u>30</u>	<u>217</u>	<u>33,670</u>	<u>225,000</u>	<u>10,000</u>	<u>20%</u>
Total USA/Average	79	282	30,972			39%
Alberta	3	260	80,600	217,800	12,000	67%
Manitoba	2	148	10,000	10,000	10,000	100%
Ontario	6	375	44,167	100,000	15,000	50%
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	13	232	30,953			69%

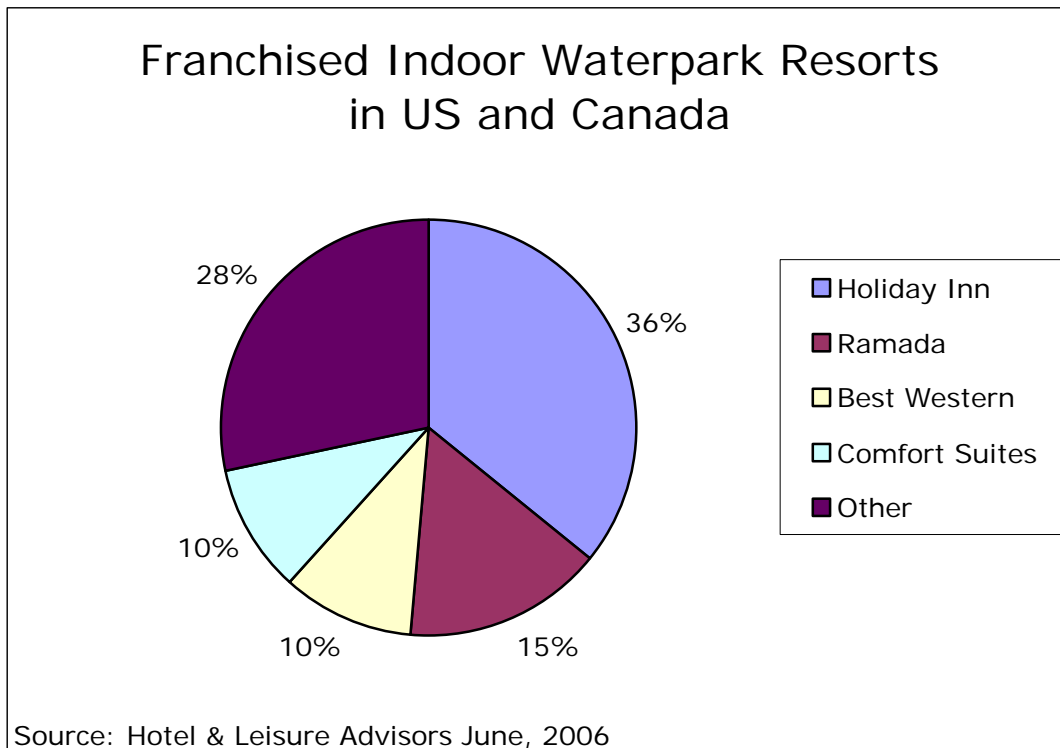
Note: Resorts have a minimum of 10,000 square feet of indoor waterpark space
Source: Hotel & Leisure Advisors June, 2006

The table indicates that there are currently 79 indoor waterpark resorts located in the United States with nearly 40% 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. Of the Wisconsin total, 16 are located in Wisconsin Dells, which is a resort city in central Wisconsin that has achieved national recognition for its indoor waterparks and year-round activities.

The six largest indoor waterpark resorts located in the Wisconsin Dells outperformed the general Wisconsin Dells non-resort overall average hotel occupancy by 19 occupancy points and the average daily rate of the non-resort hotels by \$110 in 2004. 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 2005 averaged an occupancy level in the low-60s% with an average daily rate slightly above \$200. Properties in the Wisconsin area are achieving a slight decline in performance due to the rapid increase in supply in the Wisconsin and Minnesota markets.

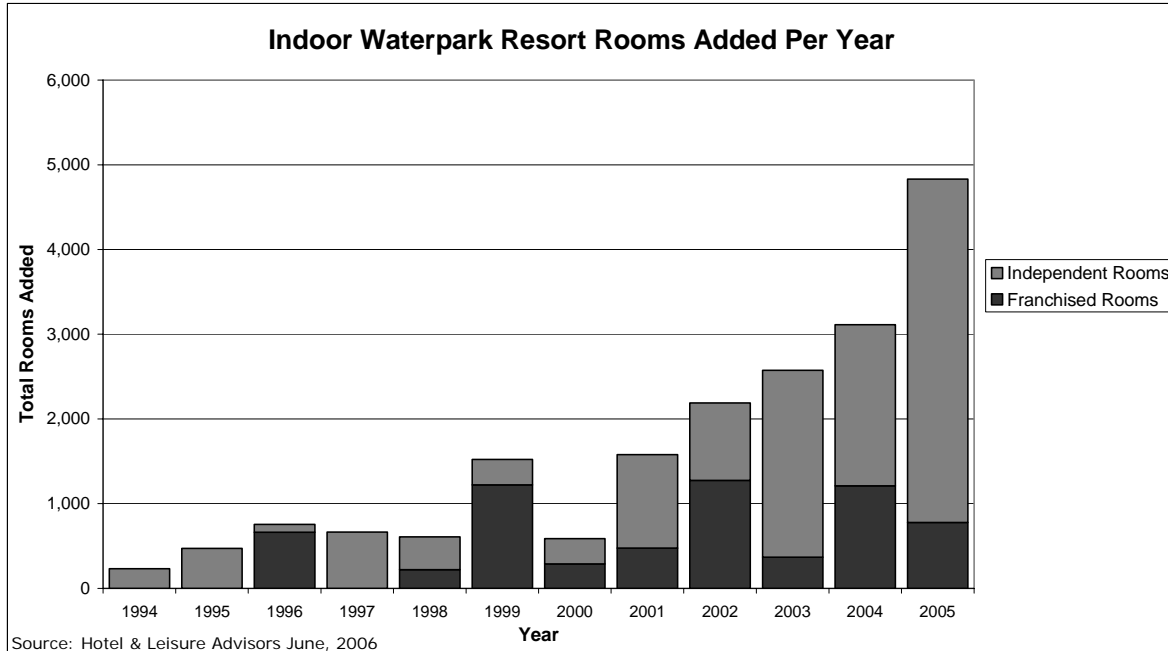
Hotel companies, investors and developers in the U.S. continue to explore the potential and benefit of affiliating indoor waterpark resorts with a national hotel franchise. Franchised indoor waterpark resorts are more common in Canada. The previous table shows that only 39% of U.S. indoor waterpark resort rooms are affiliated with a national hotel chain, while 69% of indoor waterpark resort rooms in Canada are franchised. Though the non-franchised resorts can benefit from offering a wider variety of indoor waterpark amenities, 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 properties in operation 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 June 2006,

there are 18 additional Holiday Inn indoor waterpark resorts or expansions to existing Holiday Inn 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.



Since 2003, the number of indoor waterpark rooms added by independent hotels has exceeded the number of rooms added by franchised hotels.

New Construction

The following table indicates indoor waterpark resorts which opened in 2005 in the United States and Canada.

Indoor Waterpark Additions & Indoor Waterpark Resorts Opened in 2005				
Indoor Waterparks and Resorts	City	State / Prov	New Rooms	Waterpark Sq. Ft.
Holiday Inn Express and Raptor Reef	Hayden	ID	98	25,000
Grizzly Jack's Grand Bear Lodge at Starved Rock	Utica	IL	100	24,000
Baymont Inn Waterpark Addition	Shepherdsville	KY	0	10,000
Mountain Grand Lodge and Avalanche Bay	Boyne Falls	MI	220	58,000
Zehnder's Splash Village	Frankenmuth	MI	63	30,000
Comfort Suites	Mackinaw City	MI	50	10,000
Best Western Waterpark Expansion	Sterling Heights	MI	0	9,000
Holiday Inn Express and Three Bear Lodge	Baxter	MN	99	25,000
Lodge at Brainerd Lakes	Baxter	MN	102	28,000
Holiday Inn and Wildwoods	Otsego	MN	125	30,000
Kalahari Indoor Waterpark Resort- Route 250	Sandusky	OH	596	80,000
Great Wolf Lodge	Poconos	PA	401	78,000
Massanutten Resort Indoor Waterpark Addition	Harrisonburg	VA	0	42,000
Great Wolf Lodge	Williamsburg	VA	301	55,000
Ramada Inn and Big Splash Indoor Waterpark	Ocean Shores	WA	54	10,000
Comfort Suites with Indoor Waterpark	Johnson Creek	WI	77	10,000
Holiday Inn Express and Waterpark	Milwaukee	WI	115	10,000
Holiday Inn Hotel with Splash Point	Stevens Point	WI	132	15,000
Jellystone Park- Three Bears Lodge	Warren	WI	120	38,000
Country Springs Hotel Waterpark Addition	Waukesha	WI	0	25,000
Great Wolf Lodge Condominium Expansion	Wisconsin Dells	WI	128	0
Total		21	2,781	612,000
Average			164	30,600

Note: Resorts have a minimum of 10,000 square feet of indoor waterpark space
Source: Hotel & Leisure Advisors, June, 2006

The table indicates that 21 waterparks came on line within new resorts or expansions of existing resorts in 2005. A number of properties which opened in 2005 added or expanded waterpark facilities in existing hotels. Great Wolf Lodge in Wisconsin Dells expanded its rooms through the development of condominiums. The Kalahari Resort in Sandusky, Ohio, which opened in phases, was the largest waterpark to open in 2005 with 596 rooms and 80,000 square feet of waterpark space.

Our research indicates that there are 24 new indoor waterpark resorts or expansions to resorts that have opened or are projected to open in the United States and Canada in 2006. The following table identifies these properties.

Indoor Waterpark Additions & Indoor Waterpark Resorts Projected to Open in 2006					
Indoor Waterparks and Resorts	City	State / Prov	New Rooms	Waterpark Sq. Ft.	Opening Date
Best Western Pzazz Fun City with Indoor Waterpark	Burlington	IA	0	20,000	Open
Holiday Inn with Indoor Waterpark	Elmhurst	IL	0	25,000	Open
Wana Waves Indoor Waterpark Resort	Shipshewana	IN	154	25,000	2006
Holiday Inn Express Splash Universe Resort	Dundee	MI	86	30,000	2006
Double JJ Ranch Indoor Waterpark Addition	Rothbury	MI	114	34,000	2006
Waterpark of America at Mall of America	Bloomington	MN	400	70,000	Open
Best Western Edgewater	Duluth	MN	17	30,000	Open
Great Adventure Water Resort/Days Inn	Bellevue	NE	0	30,000	2006
Regency Waterpark Addition	Omaha	NE	0	25,000	2006
Six Flags Great Escape Waterpark Resort	Queensbury	NY	200	38,500	Open
Holiday Inn Fort Rapids with Indoor Waterpark	Columbus	OH	60	38,000	Open
Great Wolf Lodge	Mason/Kings Island	OH	401	79,000	2006
Cherry Valley Lodge Indoor Waterpark Addition	Newark	OH	0	30,000	2006
Great Wolf Lodge	Niagara Falls	ON	406	85,000	Open
Sheraton Brock Indoor Waterpark Addition	Niagara Falls	ON	0	90,000	Open
Schlitterbahn Indoor/Outdoor Waterpark Resort	Galveston	TX	0	70,000	Open
Great Wolf Lodge Expansion	Williamsburg	VA	100	15,000	2006
Deer Valley Lodge	Barneveld	WI	62	12,000	Open
Chula Vista Expansion	Wisconsin Dells	WI	264	80,000	Open
Great Wolf Lodge Expansion	Wisconsin Dells	WI	0	38,000	Open
Wilderness Glacier Canyon Lodge	Wisconsin Dells	WI	224	65,000	WP Open
Total		24	2,743	1,014,500	
Average			196	42,271	

Note: Resorts have a minimum of 10,000 square feet of indoor waterpark space
Source: Hotel & Leisure Advisors, June, 2006

In addition, there are a number of indoor waterpark resorts known to be in the planning or development stages in a variety of locations throughout the U.S. and Canada. The following table identifies projects which have been announced.

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	46	9,435	270	1,973,000	45,884
Midwestern United States	90	17,278	250	3,559,240	40,446
Southern United States	17	3,992	307	755,000	47,188
Western United States	34	8,192	304	1,453,000	44,353
USA Total/Average	187	38,897	283	7,740,240	44,468
Canada	3	510	170	120,000	40,000
N. America Total/Average	190	39,407	260	7,860,240	43,574

Note: Resorts have a minimum of 10,000 square feet of indoor waterpark space
Source: Hotel & Leisure Advisors, June, 2006

The table indicates that we are currently tracking 190 projects with an average of 43,574 square feet of indoor waterpark space. These include expansions of existing hotels and development of new resorts. If all of these facilities are constructed, this would result in over 7,860,240 square feet of new indoor waterpark space. The largest number of new projects comes from new development projects and from Holiday Inn indoor waterpark expansions. The majority of planned indoor waterpark resorts are located in northern states.

Continued growth in "Splash Factors"

Indoor waterpark resorts have grown in size as well as popularity since their inception in the 1980s. The average size of the indoor waterpark component has grown to accommodate more amenities such as wave pools, additional activity pools, "toddler friendly" play areas, dry activity components, and more intricate tubes and slides. For example, Great Wolf Resorts have increased the size of their indoor waterparks' design as demand for more intricate water play features has increased due to the concept's popularity. The company's Great Wolf Lodge property in Sandusky, Ohio (which opened in 2001) was constructed with a 33,000 square foot indoor waterpark area. Great Wolf Lodges in Kansas City, Kansas, and Traverse City, Michigan, both opened in 2003 with 38,000 square foot indoor waterpark areas. In 2006, Great Wolf Resorts opened their new resort in Niagara Falls, Ontario with 100,000 square feet of indoor waterpark area.

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. Resorts will add attractions which are larger in scope such as wave pools, areas specially designed for younger resort guests, and faster, taller, steeper, more intricate waterslides and tubes. As more and more indoor waterpark resorts are constructed throughout the United States and Canada, developers will need to focus on individualizing the offerings of their resorts, maintaining customer service levels as attendance increases, and adding new components whenever possible.

Conclusion

Indoor waterpark resorts have emerged as a leisure destination 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. 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.

Author

David J. Sangree, MAI, CPA, ISHC is President of Hotel & Leisure Advisors, a national hospitality consulting firm. He performs appraisals, feasibility studies, impact studies, and other consulting reports for hotels, resorts, waterparks, golf courses, amusement parks, conference centers, and other leisure properties. He has performed over 1,000 hotel studies and over 100 indoor waterpark resort market feasibility and/or appraisal studies across the United States and Canada.

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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