

# Condominium Hotels: The Latest Strategy for Hotel Waterpark Resorts

By Bill Haralson & Jeff Coy

Over the past three years, we have written extensively about a significant evolution in the waterpark industry: the waterpark resort. As we have described the concept in previous articles, the waterpark resort involves the pairing of some type of lodging with an indoor waterpark. Other components may also be present, but it is the synergism created by the hotel and the indoor waterpark that has made the waterpark resort concept so successful.

The good news about waterpark resorts is that they generate substantially higher income than ordinary lodging facilities. However, the bad news is that they are expensive to build and operate. The success of a waterpark resort requires a substantial investment – not only in the hotel, but also in the indoor water park, which can cost \$300 to \$400 per square foot. As a consequence, a 300-room hotel with support facilities and an indoor waterpark could cost as much as \$30 to \$40 million – not including the cost of land. Many developers are not inclined to spend that much on an income property, even with favorable financial terms.

For many, an alternative to having full ownership of a waterpark resort, with the financial burden involved, is the condominium hotel. This concept involves the sale of the hotel's guest rooms as condominium apartments to individual owners. Typically, these individual owners are motivated to buy their condominiums for investment purposes. Although the Securities and Exchange Commission has strict rules regarding the representation of condominiums as security investments, the sale of hotel condominium units is becoming increasingly common, especially in the current investment climate in which alternative investment opportunities are scarce.

## ***Advantages to Condo Developer***

The advantages to the developer are two-fold. First, the developer benefits from the real estate angle. The developer's profit margin will depend on the marketability of the condominiums in the local area; however, a mark-up of 100 percent over development costs is typical.

Once the condominium hotel is up and operating, the developer benefits from the income of the hotel. Typically, the developer will split room revenue with the condominium owner on a 50-50 basis or using some other formula, depending on local market conditions. If a third-party management company is hired, they will typically take 10 percent of room revenue off the top before the developer and condominium owner split the balance. In any event, the developer receives some percentage of



room rental revenue, while having zero investment in the guest rooms. In addition to a split of room revenue, the developer will benefit from other revenue streams, including food and beverage, waterpark admissions and revenue from any other resort amenities, such as golf, skiing, etc.

The owners' agreement will also specify the responsibility for paying operating expenses. Typically, the developer will pay some expenses, including most non-room expenses. On the other hand, the condominium owner will be required to pay most unit expenses as well as project-wide expenses, such as snow removal, lawn and garden maintenance, bus shuttle services, common area maintenance, repairs and supplies and management fees.

## ***Advantages to Condo Buyer***

The advantages to the condominium buyer are also two-fold. First, while the condominium buyer is usually only buying a guest unit, he is also gaining access to the amenities of a traditional hotel, including food and beverage service and other amenities typically associated with a resort hotel. In addition, the condominium owner is buying an investment, which in the present economic climate, is favorable compared to the alternatives. In the short run, the buyer benefits from cash from room rental, which will generally offset the condominium's operating expenses and, perhaps make a contribution to the unit's principal and interest expenses. In the long run, the condominium will (hopefully) appreciate in value.

In recent years, a number of condominium hotels have been developed as waterpark hotels. In the Wisconsin Dells, the cradle of the waterpark resort industry, most of the major properties have either developed condominium hotel units or are in the process of doing so.

- Kalahari Resort has constructed some 84 units to complement their traditional hotel rooms. All of these were sold before their completion.
- The Wilderness Resort has constructed some 240 units to complement their traditional hotel rooms. All of these have been sold.
- Great Wolf Lodge, which has 309 rooms, has announced plans to build 64 condominium units.
- Chula Vista Resort has purchased an adjacent golf course and plans to build condominium units on both the golf course and along the Wisconsin River.



In addition to the Dells projects, we are aware of number other waterpark resorts that have sold guest rooms as condominiums. These include Boyne Mountain USA in Michigan, Timber Ridge, in Lake Geneva, Wisconsin and Silver Mountain Resort in Kellogg, Idaho.

We are also working on similar projects in the Wisconsin Dells, Harvard, Illinois, Reno, Nevada and Wasaga Beach, Ontario.

For anyone considering the condominium hotel route, there are a few caveats to consider.

- Bring in a management company with a national reputation. Someone with the stature of Marriott, Wyndham or Hyatt. They will want 10 percent of room revenue, but they are worth it.
- Design the units for the rental tenants – not the owner. As noted, the condominium owners are looking at their units as an investment – not a second home. The owner might not see the need for more than one keyed entry; however, to maximize the number of rental nights, the condominium units should have multiple keyed entries to allow for maximum flexibility in renting the unit. Some large groups of tenants may desire sleeping accommodations for six or eight persons and will be request a unit with two or three bedrooms. Other smaller parties may request a single sleeping room. By providing keyed entries into the bedrooms as well as the living/dining area allows a two-bed room unit to be rented as one, two or three units.
- Maintain tight control over unit furnishings. Not all condominiums need to have the same furnishings; however, the developer should provide buyers with a list of approve choices of furniture, floor and wall coverings and counter tops.
- All units should be designed for extended stay. They should include at least a small dining area, with a full array of appliances, including a range top, sink refrigerator and micro-wave oven.
- Although condominiums that function as primary residences may have only limited amenities and services, condominium hotels that function as waterpark resorts should have a full array of support facilities and amenities. To do otherwise would detract from their appeal as rental units, thus, negating the incentive to buy such units for investment purposes.

---

*Hotel Waterpark Resort Research & Consulting is a collaboration of Bill Haralson & Jeff Coy. Haralson heads William L. Haralson & Associates and is a Hall of Fame member of the World Waterpark Association. Coy heads JLC Hospitality Consulting and is certified by the International Society of Hospitality Consultants. For more info, contact Bill at 972-231-7444 or email [wharalson@aol.com](mailto:wharalson@aol.com). Website is [www.wlha-inc.com](http://www.wlha-inc.com). Reach Jeff at 507-289-7404 or email [jeffcoy@aol.com](mailto:jeffcoy@aol.com). Website is [www.jeffcoy.com](http://www.jeffcoy.com).*