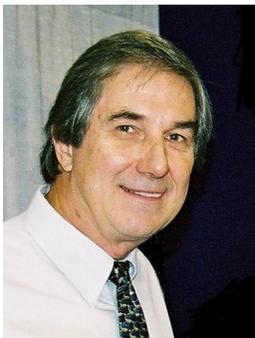


# Indoor Waterparks Add Value to Hotel & Resort Mixed Use Projects

By Jeff Coy and Bill Haralson

September 26, 2006 --- When you start with a hotel and add a convention center, you become a convention hotel. When you add a golf course, you become a golf resort conference center. But when you convert rooms to pre-sold condominiums and add indoor waterparks, indoor snow skiing, arcades, theaters, entertainment plazas, village retail, residential units and offices --- it's called a mixed-use development.

## Mix-use real estate projects are hot



Mixed-use has come of age and is exploding. It's the hottest product type in real estate. Almost every new project includes several components that create a destination for meeting, shopping, recreation and entertainment --- and in many cases, you can live there.

Remember when hotel owners wanted nothing to do with food & beverage, and we saw a decade of building limited service hotels with rooms only? Times have changed. Hotel owners are no longer content to have lodging demand generators nearby. They are designing and integrating these demand generators into destination projects that act as a strong magnet in the region.

## Mixed-use projects are like a salad

Want to build your own mixed-use destination project? Here are the ingredients and recipe for mixing them into your next real estate project:



**Lodging** --- high-tech hotel rooms for business travelers, family suites for leisure travelers and hotel units designed as condominiums that are sold to individual owners and placed in a rental pool for nightly rental. There are many different types of lodging components to consider --- timeshare, 1/12<sup>th</sup>, 1/6<sup>th</sup>, quarter-share and whole ownership. Get a feasibility study to make sure there's demand for what you want to do. Be sure to design the right kind of lodging for the type of customers you want to attract.

**Recreation** --- fitness centers, spas, golf courses, climbing walls, bike trails, outdoor waterparks, indoor waterparks, surfing parks, whitewater river courses and a host of adventure sporting activities are now being added to mixed-use developments. There's even artificial snow-skiing outside in summer and real snow-skiing indoors all year long. If well designed and integrated into the overall project, hotels now enrich and enhance

mixed-use projects more than ever. And the indoor waterpark attached to lodging has become a critical and important amenity that brings it all together and adds significant asset value to the overall project.

**Entertainment** --- arcades, amusements, family entertainment centers, urban entertainment districts with restaurants and nightclubs are all being added to mixed-use projects.

**Retail** --- recreation and entertainment are being blended with retail shopping plazas, village squares and small town centers where people can gather and socialize.

**Residential** --- once you create an attractive destination for visitors, there may be demand for people who want to live there or buy a second home or vacation home. You can add single-family homes that are wholly-owned by permanent residents or you can add villas and condos that are fractionally-owned and may be placed in the hotel rental program.

**Office** --- if you create a place where people can stay, meet, recreate, shop and find entertainment, wouldn't it be great to work there? In many recreational resort projects with retail and residential components, you will also find offices for sale or lease.

### **Why are mixed-use hotel real estate projects so popular?**

[17 Predictions On Future Resort Development](#)

[12 Predictions On the Future of Ski Resorts](#)

[18 Predictions About the Future of Hotel Waterpark Resorts](#)

Almost two years ago, we made these predictions on the future of resort development, ski resorts and hotel waterpark resorts. Increasingly, we see evidence that those predictions are coming true faster than ever --- the future is here now.

There is a long list of reasons that support the growing trend of vacationing closer to home. Fear of flying, avoiding airport hassles, terrorism threats, emergence of regional resorts, growth in Indian gaming, popularity of adventure sports and the success of hotels with indoor waterparks.

Lodging, recreation and entertainment concepts are merging. As a result, resorts will grow faster than other types of lodging.

More resorts will become part of mixed-use developments. In urban and suburban areas, we now see themed resorts and large-scale attractions being designed into regional shopping complexes (Waterpark of America at Mall of America in Bloomington MN), mixed-use waterfront developments, downtown convention centers (Milwaukee and Dubuque) and even some renovated old railroad depots (Marriott Deport Hotel & Waterpark in downtown Minneapolis). In more rural settings, resorts are being designed into casinos, medical centers, conference centers, golf courses, ski hills, residential projects as well as second home, vacation home and retirement communities.

Seasonal resorts will become year round operations. Traditionally, resorts have been highly seasonal, which meant that profits were dependent upon the weather. Ski resorts thrived when it was cold. Beach resorts did well when it was hot. Resort owners and developers will increasingly try to eliminate the seasonality and weather factors by designing resorts to capture year round revenues.

Resorts will build more and more indoor recreation facilities. Any recreation or sporting activity you normally do outdoors will have an indoor version. Yes, golfing outdoors is superior to golfing indoors. But, on rainy days during a vacation, indoor golf is great! Swimming in an outdoor pool on a hot, sunny day is ideal. But, during inclement weather while on vacation, an indoor waterpark saves the day! Future resort designs will incorporate indoor-outdoor combinations using new technology structures, domed enclosures and moveable glass walls.

Regional resort destinations with a history of attracting families will expand to include hotel waterpark resorts. Destinations, such as the White Mountains of New Hampshire, the Berkshires in western Massachusetts, the Poconos of Pennsylvania, the Smoky Mountains of Tennessee and the Finger Lakes Region of upstate New York are all target locations for hotel waterpark resort development.

Almost all future hotel waterpark resorts will be designed as indoor-outdoor combinations. Facilities will combine both indoor and outdoor spaces that open up and blend together --- using clear domed structures and moveable glass walls. Many large outdoor entertainment venues, such as amusement parks and waterparks, will be covered with dome structures that control the temperature and weather inside while letting in a maximum amount of daylight from the outside.

### **Indoor waterparks are now part of almost every new hotel mixed-use project**

Three hotel waterpark resorts in Wisconsin Dells have expanded their recreation to include bigger waterparks, golf, convention facilities and condominium sales.

- Wilderness Resort & Golf mixes golf with three indoor waterparks, an outdoor waterpark and detached villas that you can purchase or rent by the night.
- Kalahari Resort has the largest (125,000 sf) indoor waterpark in the USA. Several years ago, the resort added 167 three-bedroom condominiums that were sold to individual owners, bringing the total rentable units to 738. The resort also built a 60,000 sf outdoor waterpark and a 125,000 sf convention center on site --- creating the largest residential resort and convention destination in the state of Wisconsin. Recently, the resort purchased nearby golf course, Trapper's Turn, extending the mixed-use concept.
- Chula Vista Resort is opening its 80,000 sf indoor waterpark in August 2006, which is part of the resort's \$200 million expansion plan. "When the four-year project is completed, the 300-room Chula Vista will be about triple its current size," said owner Mike Kaminski. Much of the resort's expansion will include condominium units available

for purchase or rent. When the expansion is completed in 2009, Chula Vista will have about 1000 condos and hotel rooms, 100,000 sf of waterpark and 200,000 sf of convention space.

### **Hotel Indoor Waterparks Create Strong Magnets for Mixed-Use Projects**

- The owners of Boyne Mountain Ski Resort in northwest Michigan built a new 220-unit condo-hotel and 83,000 sf indoor waterpark to complement its ski, golf & conference business and help the resort regain its footing as the No. 1 ski resort in the Midwest. These new facilities, which opened in May 2005, are the first time a hotel indoor waterpark has been mixed with a major ski resort and vacation home community.
- Massanutten Resort in McGaheysville VA opened a 42,000 sf indoor waterpark as part of its thriving four season resort and community of over 600 single-family homes, 900 timeshare units and a multi-million dollar ski business. Massanutten is the second ski resort in the nation to build an indoor waterpark. When the waterpark project was announced, timeshare and condo sales increased dramatically.
- In May 2006, Jeff Wirth of the Wirth Companies opened his Grand Lodge & Waterpark of America near the Mall of America in Bloomington MN. With 403 rooms, 70,000 sf of indoor waterpark and a 10-story waterslide tower, the facility is an excellent example of a hotel indoor waterpark mixed with a major regional shopping mall.
- In June 2006, Schlitterbahn Galveston Island Waterpark opened Wasserfest, the world's first indoor-outdoor convertible waterpark. Wasserfest is a 70,000 sf area that is covered by a retractable roof, which allows the park to remain open year round and function as an indoor waterpark during the colder months --- and the inclement weather in warmer months. No more worries of a passing thunderstorm ruining your fun. The translucent roof keeps the rain out and lets the light in. It's not attached to a hotel, but Moody Gardens Hotel, Spa & Convention Center are right next door with 428 rooms, 100,000 sf of meeting space, 242 acre botanical gardens, an aquarium and I-MAX theater. Schlitterbahn will also construct an array of three tubing rivers that connect all sections of the 26-acre park together. This is almost the ultimate example of an indoor waterpark as part of a mixed-use recreational resort, convention center and tourist attraction.
- Holiday Inn Express in Dundee MI is scheduled to add another 100 rooms to its existing 76 rooms and open a 53,000 sf River Run indoor waterpark in September 2006. The hotel indoor waterpark is adjacent to Cabella's Outfitters, which boasts six million visitors a year. The mixed-use project blends lodging, recreation, entertainment and retail.
- Ramada DFW & Big Splash Waterpark in Irving TX is converting 150 hotel rooms into 70 condo units that will be sold to private owners. The renovation, scheduled for completion in September 2006, includes a Deseo Spa, Oceano Restaurant and Big Splash Waterpark --- mixing health, fitness, food and water fun in a residential resort environment.

- Great Wolf Lodge in Cincinnati OH expects to open its 401 suites, 40,000 sf conference center and 78,000 sf indoor waterpark in October 2006. The hotel waterpark resort is situated adjacent to Kings Island, one of the nation's busiest summertime attractions with 3.5 million visitors annually. Kings Island is expecting Great Wolf Lodge to make the theme park a year round tourist destination. This mixed-use project blends a hotel indoor waterpark with a major attraction to create a stronger recreation-entertainment magnet in the region.
- Surfparks LLC, Ron Jon Surf Shop and a shopping mall owner (Belz) broke ground on a \$8.5 million Ron Jon Indoor Surfpark at Festival Bay Mall on International Drive in Orlando. The indoor surfpark, first of its kind in the world, is expected to open in October 2006. The surfpark is being built as the world's first and finest wave riding facilities utilizing new technology to create the perfect surf in a pool. Using the pool's shape and adjustable floor system to configure a variety of waves, the surfpark will generate up to 6 waves per minute and wave heights from 5 to 8 feet and ride lengths from 60 to 100 yards for all skill levels from beginner to the experienced surfer. This facility is another example of an indoor waterpark mixed with a major retail shopping mall.
- Jellystone RV & Outdoor Waterpark in Warrens-Tomah WI is under construction with a 48,000 sf indoor waterpark scheduled to open in November 2006. Hotel rooms are planned in the future. This is the first known example of an indoor waterpark mixed with an RV Park.

### **Coming soon**

- Famous Dave Anderson, owner of the nationwide barbeque restaurant chain, announced his 611-room W Hotel, 80,000 sf indoor waterpark, 3 restaurants, spa and 12,000 sf conference center to be built near Six Flags Great America theme park in Gurnee IL --- just north of Chicago. The proximity of the two facilities will, in fact, create a stronger recreational resort destination that will compete with Wisconsin Dells.
- Grand Sierra Resort & Casino in Reno NV has started its renovation and expansion of the 1995-room former Reno Hilton. The property sits on 148 acres with a 30-acre lake. Plans include converting 824 hotel rooms to condominiums, developing 2000 residential condos and remodeling the entire hotel. New additions include a 50,000 sf outdoor waterpark and a 150,000 sf indoor waterpark, which will become one of the largest hotel waterpark resorts in the USA. The casino will be relocated and reduced in size. The Grand Sierra Resort & Casino is an excellent example of adding indoor-outdoor waterparks to a mixed-use project that includes a casino in a recreational-entertainment residential resort environment.
- In August 2006, the owners of the Alabama Adventure Outdoor Waterpark in Birmingham AL announced plans to build a 280-room hotel with 77,000 sf indoor waterpark on site. This is the first example of an outdoor waterpark owner creating a mixed-use project that includes a hotel with indoor waterpark.

- Richard Mladick and Jerry Hug of Waveyard Development LLC in Scottsdale AZ recently announced their plan to build the world's largest adventure park and resort destination to include a 320-room resort hotel, 150 resort villas, 30,000 sf conference center, spa & wellness center, a massive sand beach, numerous restaurants, a 55,000 sf indoor waterpark, 150,000 sf of sports & entertainment retail, 30,000 sf of office space, an amphitheater and numerous residential communities. Waveyard's surfing pool will be the largest, most revolutionary wave pool constructed in the USA, featuring over 150,000 sf of water surface. The pool's unique design and technology will be capable of producing waves up to 12-feet high but will provide wave configurations suitable for all riders. Another feature of the resort will be the world's largest, multi-channel whitewater river course, designed by the team that designed, engineered and manages the US Whitewater Center in Charlotte NC. The proposed whitewater river course in Arizona will offer a convenient destination for whitewater rafters and kayakers without the time and expense of traveling to the back country. Other key features of Waveyard Resort includes a skatepark, diving & snorkeling lagoon, a climbing center, a ropes course, a series of fly fishing ponds and a mountain bike course. This mixed use recreational resort destination represents the ultimate in mixed use development.

### **Hotel indoor waterparks: are they growing?**

Hotels with indoor waterparks will grow to a forecast of 144 by year end 2006, up 33% from 108 in 2005. Seventy-three (73) new hotel waterpark additions and expansion projects are under construction or will break ground during 2006. Thirteen (13) have already opened during the first half of the year. A total of 36 hotel indoor waterparks with 6,004 rooms and 1,095,440 square feet of waterpark are expected to open before year end 2006. Another 37 are under construction and scheduled to open in 2007.

### **Hotel indoor waterparks: are they a good investment?**

Hotels with indoor waterparks achieve higher occupancy, increased room rates and higher room revenues than hotels without indoor waterparks. We surveyed a group of upscale hotel waterpark resorts to compare their total project costs with the amount of cash they generated. Due to running higher occupancies, capturing the waterpark premiums and achieving higher levels of spending for food & beverage compared to properties without indoor waterparks, these properties more than offset the cost of building and operating the waterpark. This group of upscale hotel waterpark resorts generated a cash-on-cost return from 14% to 24% --- compared to returns of 10% to 12% for comparable properties without waterparks.

Based on the higher occupancies, higher room rates and higher room revenues of hotel waterpark resorts compared to traditional hotels combined with the geometric increase in new construction and development activity each year, it is clear to us that waterpark resorts generate higher returns compared to costs. But that's our opinion, based on our research.

Lodging, recreation and entertainment concepts are merging. Almost every hotel waterpark resort project includes the condo-hotel concept. And more and more hotel waterparks are

part of mixed-use developments that include lodging, recreation, entertainment, retail, residential and office components.

### **Hotel indoor waterparks: are they part of your next mixed-use project?**

Probably.

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