

What's the Market Feasibility Process for Hotel Waterpark Resorts?

A Guide for Owners & Developers

By **Bill Haralson & Jeff Coy**

Within the past five years, a new concept has developed --- the waterpark resort, a pairing of lodging facilities with an indoor waterpark.

The concept was conceived in the Wisconsin Dells, when the Polynesian Resort added indoor water features in an attempt to improve that property's occupancy rates. The project was an immediate success and other properties quickly followed suit with indoor water features of their own. At last count, there were 18 properties in Wisconsin Dells with some type of indoor water features. In addition, some 30 waterpark resorts have been developed throughout the Midwest.

The increasing popularity of the waterpark is illustrated by the concept's success in the Wisconsin Dells. A study of the Dells lodging industry revealed that 18 hotels with indoor waterparks accounted for 85 percent of the market room revenue, while 44 properties without indoor water features accounted for the remaining 15 percent. As a group, the waterpark resorts in the Dells had a combined occupancy rate that was 26.9 points higher than the other 44 properties. And average room rates were \$69 higher for the haves compared to the have-nots. Given the astounding performance of hotel waterparks in Wisconsin Dells, it is little wonder that the concept is proliferating at an increasing rate.

Despite the success of the waterpark resort, as with any venture, there are challenges and pitfalls. Since this is a new industry, data is generally limited regarding waterpark resort planning. Questions abound regarding such issues as sizing of the hotel, the guest rooms and the waterpark "box" or "footprint". Lacking solid information, many would-be waterpark developers are making the trek to the Dells to "see how it is done". Herein lies the problem: What is best for the Dells may not be best for the next market.

Although we have learned that the success of the Dells is transferable and repeatable in other markets, there are significant differences in new markets that must be understood --- population, households, families with kids up to age 14, incomes and certainly the mix of visitors to each market --- business travelers, meetings, social groups and leisure travelers. Each market needs to be analyzed in depth to measure the demand for a hotel waterpark resort. A market study helps the developer avoid these pitfalls.

Over the past few years, we have made a concerted effort to become better educated regarding waterpark resorts, seeking to learn what works and what doesn't work so well.

We have developed a database of more than 50 waterpark resorts in the U. S., and approximately 80 in Canada. We are now working on Mexico, Europe and the rest of the world. We have made numerous contacts among waterpark owner/operators as well as designers, architects, engineers and builders. Many of these people serve on the World Waterpark Association's resort task force and participate in the annual waterpark resort workshop held in conjunction with the WWA convention.

Surely but slowly, the hotel waterpark resort industry is beginning to jell and develop a set of standards that has been a hallmark of the outdoor waterpark industry for over 20 years. More and more, it is becoming apparent that for the waterpark resort industry to achieve its full potential, individual projects must be designed and built with the help of professionals that understand the waterpark resort concept and that possess the expertise to analyze each market and site for conversions and new construction.

Generally, the planning process for any income property should begin with a market and financial feasibility study. Until fairly recently, few such studies had been conducted, and the body of knowledge required for such studies was limited. That situation has changed rapidly as more waterpark resorts are built and their operating experience is shared with others in the industry. Every project and every market is different. The developer that proceeds without a feasibility study or simply copies another project in a new market does so at his peril.

We have found that there are three questions that need to be thoroughly evaluated in the feasibility study for any given market. These are:

1. How will adding an indoor waterpark impact a hotel's occupancy, room rates and revenues?
2. What should be the scale of the hotel waterpark resort?
3. What are the economics of hotel waterpark resorts?

In our opinion, making a tour of Wisconsin Dells may be interesting but it won't adequately answer these questions. And here is why.

What's the Impact of Adding an Indoor Waterpark?

Over the past three years, Bill Haralson and Jeff Coy have conducted a number of feasibility studies for waterpark resorts. We concluded that not a single

proposed project could achieve occupancy rates comparable to the Dells' resorts, based solely on waterpark room sales. For the hotel to succeed, it must have a balanced mix of customers: business, leisure and groups. If you just sell rooms during the summer and every weekend all year, your hotel may run 50 to 55 percent occupancy annually. You need other types of customers --- in addition to waterpark families --- to reach occupancies in the 70s and 80s. We have yet to work on a hotel waterpark project that did not need support from all types of customers. To illustrate the point:

In December, we were on a field trip in the Upper Midwest. At 6:00pm on a Monday night, we pulled into the parking lot of a hotel waterpark resort containing some 300 rooms. We observed that there were about 10 cars in the parking lot. After a brief walk-around of the resort, we inquired about renting two rooms. The front desk clerk pushed the rack rate brochure in front of us and quoted each of us \$175 for a family suite. We said no, we were just commercial travelers, without our families, and we wouldn't be using the waterpark. We were willing to pay \$100 each for two rooms, but the front desk did not know to accommodate us. We wondered if the hotel owner would have handled the situation in the same way. We walked out and went down the street where we rented two rooms for \$69 each.

Point of the story is, if you are going to own and operate a hotel waterpark resort, you need to fill rooms during weekdays during fall, winter and spring. Waterparks do a great job of filling rooms during summer and on weekends all year long, but you need business travelers and groups during the weekdays for your hotel to perform at a high level. For this reason, the first step in the feasibility process is to get a handle on occupancy, room rate and revenue trends in market area using data from Smith Travel Research.

For those assignments involving existing lodging facilities, an additional task is included in our analysis --- a hotel audit. The obvious reasons for conducting a hotel audit is to understand the hotel facility, its performance, its marketing effort and the market potential. We need to ascertain the hotel's current level of occupancy and the potential for increasing occupancy with the addition of an indoor waterpark. Also we need to determine the property's current guest mix. Why?

Our research has revealed that the impact of adding an indoor waterpark will vary greatly depending on the hotel's guest mix. For example, adding an indoor waterpark to a hotel with high weekday occupancy from business travelers will have a bigger impact than adding an indoor waterpark to a hotel that is doing low weekday occupancy.

Indoor waterparks are great for building summer and weekend occupancy all year long, but they won't solve the problem of low weekday business during fall, winter and spring. For example, after we audited one hotel, we discovered they

penetrated the leisure market well by filling room during summer and weekends in the fall. However, the hotel failed to sell out on weekends in the winter and spring and they were losing their weekday business travelers to the competition. So, converting their indoor pool into a waterpark had modest positive impact on their room revenues, but it did not solve their problem of losing weekday business travelers.

The challenge in evaluating the impact of adding an indoor waterpark to any existing property, then, is determining how the demand by waterpark users fits into the property's current guest mix.

How Big Should It Be?

How many rooms should you build and what size waterpark? The developer may already know the number of rooms he wants to build, but we reserve the right to recommend a different number of rooms based on our lodging demand analysis for the market area. Since the waterpark resort concept is still relatively new and unproven in many markets, we tend to take a conservative approach. Most hotel projects can be phased with more rooms being added later --- if the site is master-planned for expansion. Many of the successful hotel waterpark resorts in Wisconsin Dells have been built in phases and continue to be expanded in phases.

In addition to recommending the number of rooms to be built, we also provide recommendations for support facilities, including food and beverage, meeting space and other facilities consistent with the type of property being proposed by the client.

An issue of critical concern in a waterpark resort feasibility study is the size and cost of the waterpark. More often than not, our clients want waterparks that are too large for their markets. They've been to Wisconsin Dells and they've seen the biggest, and they think that is what is needed in their community. They hear the mantra, "Bigger is better." But, this is not necessarily so. The size of the waterpark must be related to the number of hotel rooms and the size of the market. Bigger is not always better. Building a bigger indoor waterpark does not necessarily increase its entertainment value. In other words, doubling the size of an indoor waterpark will not double your revenues, but it will double your costs of building and operating it. Indoor waterparks must be sized appropriately to be successful.

We believe that the size of the waterpark should be determined by capacity requirements. Our research has revealed that there is a correlation between the size of the waterpark and the number of rooms in the lodging facility. Actually, the correlation is between the size of the waterpark and the number of pillows in the lodging facility. At the lower end of the spectrum - under 100 rooms – the ratio of waterpark space to rooms is approximately 100 square feet per room.

Larger hotels with 200 to 300 rooms tend to have indoor waterparks that are 200 square feet per room. Based on these ratios, a 100-room property would need 10,000 square feet of space in its waterpark, while a 300-room property would need 60,000 square feet in its waterpark.

The above statistics notwithstanding, we believe extreme care should be given in determining the size of the waterpark. We make this assertion for two reasons.

First, the waterpark square feet per room ratio is simply a reflection of what has been built in the industry during its first few years of existence. We doubt that much research was conducted to determine the right ratio of waterpark space per room. It is an average size rather than an ideal size.

Secondly, a feasibility consultant must use the waterpark to rooms ratio method, the guest mix method and other methods to adequately determine the size of a waterpark for a hotel property.

To derive a more meaningful recommendation for the sizing of the waterpark, we project attendance at the park based on guest mix. Market segments usually include some business travelers and groups, as well as waterpark users. Other segments might include skiers, golfers, casino gamers and other leisure guests.

For each segment, we estimate room sales, persons per room and waterpark participation. Attendance from all customer segments is combined to derive total waterpark attendance. Next, total annual attendance is reduced to the so-called design period attendance. This is accomplished by estimating monthly, weekly and daily attendance for peak periods, and then estimating the percent of peak daily attendance that can be expected to be in-park at any one time.

Having established peak in-park attendance, we apply a standard of square feet of space per attendee to derive total square feet required. This figure is a net figure and does not include mechanical space or any other support space.

While most waterpark resorts restrict attendance at their waterparks to hotel guests, some allow non-guests using a day pass.

In Wisconsin Dells, two resorts admit non-hotel guest; however, they limit outside attendees to 250 persons per day at one resort and 300 at the other. The two resorts have overbuilt their waterpark capacity in order to accommodate day visitors without creating lines for waterpark family that have purchased the room & waterpark packages. We assist our clients in determining their policy in this regard. The advantage to allowing day visitors into the hotel waterpark is the added revenue that can be generated. However, potential disadvantages include park overcrowding and objections by hotel guests having to share the park with outsiders.

There is no one policy that fits every situation. We believe each hotel waterpark owner or manager must consider their own pros and cons.

What are the Economics of a Hotel Waterpark Resort?

The third question to be resolved regards waterpark resort economics. The advantage to developing and operating a waterpark resort is that higher revenue is generated as a result of higher occupancy and room rates. The disadvantages are higher development costs and operating expenses.

Most hotel waterpark resorts restrict access to their parks to hotel guests. These guests are charged a waterpark premium at the time of check in, which may or may not be rolled into the room charge. Some resorts make a point of issuing bracelets for a separate charge to avoid paying franchise fees. The amount of the waterpark premium is primarily a function of the size of the waterpark and the level of entertainment value offered.

Small resorts tend to average around \$5.00 per person per day, while larger resorts command premiums of as much as \$25.00 per day. Further, to maximize revenue, we encourage our clients to achieve a high average of persons per room by designing larger rooms that can accommodate two queen beds and a queen sofa sleeper.

Some properties also have “kids suites” complete with bunk beds that permit higher occupancy. Resorts that sell admission to outsiders are generally charged more than the premium charged to hotel guests.

One resort in the Dells is currently charging \$34.95 to day visitors.

Operating expenses per square foot for indoor waterparks are relatively high, compared to outdoor waterparks. Not only do indoor parks incur the same expenses as outdoor parks, indoor parks also have the added expense of heating and cooling their indoor space.

Further, indoor waterparks are open year-round, compared to a 90 to 100 season for outdoor parks. Currently, operating expenses for hotels with a waterpark department are averaging around \$50 per square foot of waterpark --- including waterpark labor, supplies, energy, maintenance and insurance. We believe this figure to be fairly constant with parks of different size, although there might be some cost savings in labor at larger parks.

Development costs per square foot are also much higher for indoor waterpark than for outdoor parks. Although indoor parks have a much smaller footprint than outdoor parks, indoor parks incur the cost of a building that is 30 to 40 feet high. Waterpark professionals differ in their estimates of development costs for indoor parks; however, the range of estimates runs from \$200 to \$400 per square foot.

In May 2003, hotel developers had 320,000 guest rooms in the development pipeline --- either under construction or in the final planning stages. Some of these developers will be the first in their markets with a hotel indoor waterpark. This new industry is on a roll and doesn't need any failures. Best advice to developers: Get a market analysis and economic feasibility report.

Hotel Waterpark Resort Research & Consulting is a collaboration of Bill Haralson and Jeff Coy. Haralson is a Hall of Fame member of World Waterpark Association. Coy is certified by the International Society of Hospitality Consultants. For more info, contact Bill at 972-231-7444 or email wharalson@aol.com. Reach Jeff at 507-289-7404 or email jeffcoy@aol.com. Website is www.jeffcoy.com.