



When is it Profitable to Add a Waterslide to Your Hotel?

By Tracy Heebner - HVS Canada

Adding a waterpark to a hotel can be a lucrative investment, but the costs involved are great, and consequently there are risks involved in adding this amenity that must be carefully considered. This article first defines what constitutes a waterpark in the Canadian market and then identifies the costs, risks, and potential benefits of adding this feature as well as the market conditions necessary for the addition to be feasible.

The Canadian Hotel Waterpark

What actually constitutes a hotel waterpark is different in Canada than it is in the United States. In the US, a waterpark is classified as a facility that is over 10,000 square feet with a pool, a slide, and water toys. A different scale is in operation in Canada, where a waterpark facility is typically smaller than 5,000 square feet; here it is defined as an indoor pool that is enhanced with a slide as well as toys.¹

Potential Benefits

Adding a waterpark can make a hotel more profitable. Being a year-round

attraction, a waterpark can diminish the impact of seasonal demand, and, being indoors, it can actually draw leisure travellers to the property during bad weather. A waterpark can thus increase a hotel's occupancy, and, given favourable market conditions, it can also enable a hotel to command a higher average room rate.

According to a study conducted by U.S. Realty Consultants Inc., hotels with waterparks have a higher occupancy spread of 5% to 30% over hotels that lack such facilities. A waterpark attraction also allows hotels to charge higher rates. According to the same study, hotels with waterparks attained rates that were \$20 to \$150 higher.² These statistics reflect the performance of US hotels, which have substantially larger waterparks than hotels in Canada and include higher class hotels, not just economy; it is unlikely that the rate differential between Canadian economy hotels with and without waterparks would be nearly so great. These statistics nonetheless show a general trend that is likely in effect in the Canadian market, if only on a smaller scale.

Costs

The potential to increase occupancy and rate can be enticing, but the resulting increases in revenues must be sufficient to justify the costs incurred in constructing the waterpark. So how much does it cost to construct a waterpark?

In Canada, most hotels with waterparks are economy hotels with less than 100 guestrooms, and the waterpark is usually less than 5,000 square feet.³ Hotel Waterpark Resort Research & Consulting Collaboration surveyed Canadian economy hotels with waterparks and found that the average waterpark hotel in Canada has 69 guestrooms and $\pm 2,918$ square feet of waterpark space.⁴

For an economy hotel, the standard cost for a waterpark is \$167 per square foot.⁵ Given the average square-footage for a waterpark at a Canadian economy hotel ($\pm 2,918$ square feet), the cost of the average waterpark is \$487,306, or roundly \$500,000.



Feasibility

A waterpark can help a hotel command a higher average room rate, but the crux of the matter is that the hotel must attain a higher average room rate to cover the costs incurred in constructing the facility. The rule of thumb is that the cost per room to build a hotel divided by 1,000 equals the average rate that the hotel needs to achieve to make the hotel feasible (at a 60 to 70 percent occupancy). The cost of a waterpark is an additional financial burden that the average rate must cover.

For example, if it cost \$6.9-million to build a 69-room hotel, or \$100,000 per room, the property would need to attain an average room rate of \$100 and run between 60% and 70% occupancy to be feasible. The average waterpark would add \$7,246 per room to the cost to build the hotel ($\$500,000/69 = \$7,246$). Dividing this amount by 1,000 means that an additional \$7.25 must be added to the \$100.00 average rate for the hotel development to be feasible. To justify the cost of the waterpark, the hotel in question would need to attain an average room rate of at least \$107.25.

Risks and Market Conditions

On average, hotels with waterparks do achieve higher rates than hotels that lack such facilities, but if the market is unable to support the higher rate required, the waterpark becomes an economic burden on the hotel operation. In other words, there is a degree of risk involved in adding a waterpark to a hotel. According to David Sangree, MAI, a hotel with "an indoor waterpark is more sensitive to fluctuations in the leisure market, the economy, and the demographic composition of a market area."⁶

Several market factors must be considered carefully when contemplating the addition of a waterpark. For starters, the population of the market must be sufficient for a waterpark to be viable. Generally, a waterpark will attract people within an 80-kilometre radius. Within this radius, the best type of market is one with a strong leisure component and a blue-collar economy with young families that have children.

Highway locations are excellent choices, as vacationing families from outside the market area will favour a hotel with a waterpark over other properties of the same calibre,⁷ even if they have to pay a higher rate. Imagine for a moment driving for long hours with young children in the car and it is easy to see why a waterpark can be a competitive advantage for a hotel in a suitable highway location.

A waterpark is particularly advantageous for hotels in cold or intemperate climates, as the waterpark can draw demand to the property in the off season.

Being the hotel with the first waterpark in the market is also a way to differentiate the property from competitors. It is important to realize that this competitive advantage is temporal, as competitors will try to compete by copying the facility and being bigger and thus more attractive to the target market.⁸ For this reason, it is important that the waterpark be built as big as is feasible, to help the hotel prolong this first-mover advantage.

Summation

One must weigh the potential benefits against the costs and the risks when deciding whether or not to add a

waterpark to one's hotel. Most hotels with waterparks do achieve a higher occupancy and a higher average room rate, but the construction costs are substantial, and the market must be able to support the rate increases necessary to offset the costs. If the costs are deemed reasonable and the market and the location are appropriate, build the waterpark.



SOURCE:

- ¹ Jeff Coy and Bill Haralson. *Hotel Water Park Report 2005*, pg. 21. Taken on Oct. 5, 2007, from www.hotelonline.com.
- ² Rajesh Shah. *Indoor Waterpark Hotels and Resorts Show Impressive Growth, 2007*. Taken on Sept. 29, 2007, from www.hotelonline.com.
- ³ Jeff Coy and Bill Haralson. *Hotel Water Park Report, 2005*, pg. 22. Taken on Oct. 5, 2007, from www.hotelonline.com.
- ⁴ Jeff Coy and Bill Haralson. *What is it going to Cost to Build a Hotel with an Indoor Waterpark, 2003*, pg. 5. Taken on Sept. 29, 2007, from www.hotelonline.com.
- ⁵ Jeff Coy and Bill Haralson. *What are the Risk Factors of a Hotel Waterpark Investment*, pg. 5. Taken on Sept. 29, 2007, from www.condohotelcenter.com.
- ⁶ David Sangree. *Appraisal and Market Analysis of Indoor Waterpark Resorts, 2006*. Taken on Sept. 29, 2007, from www.hotelonline.com.
- ⁷ Daniel Heuertz. *Summary of Waterpark Research, 2004*. Taken on Oct. 5, 2007, from www.sugar-grove.il.us/Dept_CD/SDD5.pdf.
- ⁸ Daniel Heuertz. *Summary of Waterpark Research, 2004*. Taken on Oct. 5, 2007, from www.sugar-grove.il.us/Dept_CD/SDD5.pdf.

HVS - CANADIAN LODGING OUTLOOK

August 2007	Number of Rooms	Occupancy Rate (%)		Average Room Rates (in \$CAD)		RevPAR (in \$CAD)		Room Supply % chg	Room Demand % chg
		2007	2006	2007	2006	2007	2006		
Nova Scotia Area	1,305	81.9%	78.7%	\$114.91	\$109.66	\$94.11	\$86.30	-2.0%	2.1%
Halifax, NS	3,287	82.4%	83.5%	\$132.98	\$131.22	\$109.58	\$109.57	-0.2%	-1.6%
Montreal Downtown	10,194	81.5%	81.2%	\$145.33	\$149.24	\$118.44	\$121.18	2.3%	2.7%
Montreal Area	5,321	73.7%	74.0%	\$107.66	\$103.34	\$79.35	\$76.47	1.0%	0.5%
Quebec City, QC	3,912	82.9%	83.5%	\$157.65	\$154.96	\$130.69	\$129.39	0.8%	0.2%
Quebec Area	5,789	73.5%	71.5%	\$133.06	\$129.07	\$97.80	\$92.29	0.1%	2.9%
Toronto Downtown	13,824	77.4%	79.5%	\$157.16	\$181.54	\$121.64	\$144.32	2.5%	-0.2%
Toronto North/East	6,504	77.7%	79.4%	\$114.95	\$119.07	\$89.32	\$94.54	-0.7%	-2.8%
Toronto Airport/West	8,121	72.5%	72.1%	\$107.94	\$110.00	\$78.26	\$79.31	-0.8%	-0.4%
Ottawa, ON	6,563	75.1%	70.4%	\$128.62	\$124.60	\$96.59	\$87.72	-0.3%	6.4%
Ontario East	4,284	76.0%	75.3%	\$117.14	\$115.76	\$89.03	\$87.17	1.2%	2.2%
Windsor/ Ontario SW	3,084	59.9%	55.5%	\$100.60	\$97.14	\$60.26	\$53.91	0.0%	7.8%
London/ Kitchener	6,603	65.8%	67.6%	\$104.94	\$103.73	\$69.05	\$70.12	4.4%	1.6%
Ontario North/ Thunder Bay	2,202	80.7%	74.2%	\$94.96	\$92.57	\$76.63	\$68.69	0.5%	9.3%
Ontario NC/ Sudbury	4,534	73.2%	76.2%	\$123.22	\$119.92	\$90.20	\$91.38	2.5%	-1.7%
Niagara Falls, ON	9,216	87.3%	86.8%	\$176.69	\$177.02	\$154.25	\$153.65	1.5%	2.1%
Ontario Central	3,412	71.7%	73.4%	\$117.48	\$111.92	\$84.23	\$82.15	3.3%	1.0%
Mississauga, ON	5,683	71.6%	69.4%	\$105.16	\$106.13	\$75.29	\$73.65	2.0%	5.2%
Winnipeg, MB	3,693	69.3%	70.3%	\$99.07	\$93.87	\$68.66	\$65.99	-0.2%	-1.7%
Regina/Saskatoon, SK	4,423	73.2%	65.9%	\$102.62	\$95.67	\$75.12	\$63.05	0.0%	11.1%
Calgary, AB	8,706	80.4%	81.5%	\$140.83	\$126.52	\$113.23	\$103.11	2.7%	1.4%
Edmonton, AB	7,482	80.0%	78.9%	\$120.23	\$110.96	\$96.18	\$87.55	0.7%	2.1%
Alberta North Area	3,152	79.6%	82.9%	\$185.91	\$170.37	\$147.98	\$141.24	3.3%	-0.8%
Alberta South Area	8,359	78.7%	78.0%	\$175.56	\$169.75	\$138.17	\$132.41	0.7%	1.6%
Vancouver Downtown	8,011	88.5%	86.4%	\$192.91	\$187.61	\$170.73	\$162.10	-2.7%	-0.3%
Vancouver/ Burnaby Area	2,138	90.9%	89.3%	\$136.57	\$127.50	\$124.14	\$113.86	0.0%	1.9%
Richmond-Surrey/ East Area	5,890	82.7%	83.6%	\$123.58	\$116.19	\$102.20	\$97.13	0.7%	-0.3%
British Columbia Area	5,745	69.9%	67.8%	\$132.33	\$131.57	\$92.50	\$89.20	0.9%	4.1%
Kamloops/ Kelowna Area	4,781	80.5%	82.0%	\$139.18	\$126.80	\$112.04	\$103.98	1.9%	-0.1%
Vancouver Island	4,041	86.0%	83.6%	\$167.73	\$159.42	\$144.25	\$133.28	0.4%	3.3%
Provinces									
Alberta	27,699	78.0%	78.5%	\$135.83	\$126.62	\$105.95	\$99.40	1.7%	1.0%
British Columbia	29,844	80.3%	79.2%	\$135.34	\$127.43	\$108.68	\$100.92	0.5%	1.8%
Manitoba	4,525	70.9%	71.2%	\$80.84	\$78.53	\$57.32	\$55.91	-0.1%	-0.6%
New Brunswick	3,377	73.1%	73.2%	\$105.48	\$105.10	\$77.11	\$76.93	-0.3%	-0.5%
Newfoundland	1,839	88.3%	87.7%	\$119.18	\$120.24	\$105.24	\$105.45	0.0%	0.7%
Nova Scotia	4,592	74.7%	70.8%	\$118.40	\$111.65	\$88.44	\$79.05	-1.3%	4.3%
Northwest Territories	124	INS	INS	INS	INS	INS	INS	INS	INS
Ontario	74,030	74.3%	73.5%	\$119.80	\$122.48	\$89.01	\$90.02	1.6%	2.6%
Prince Edward Island	1,006	84.0%	84.2%	\$128.79	\$128.11	\$108.18	\$107.87	0.0%	-0.3%
Quebec	25,216	75.6%	73.3%	\$117.51	\$112.82	\$88.84	\$82.70	0.7%	3.9%
Saskatchewan	5,901	71.6%	66.2%	\$89.89	\$84.75	\$64.36	\$56.10	0.1%	8.4%
Yukon Territory	638	79.5%	72.6%	\$109.75	\$103.76	\$87.25	\$75.33	0.0%	9.5%
Canada	178,791	75.7%	74.4%	\$122.59	\$118.63	\$92.80	\$88.26	0.9%	2.6%

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DEFINITIONS

Occupancy:	Rooms sold divided by rooms available.
Room Revenue:	Total room revenue generated from the sale or rental of rooms.
Average Daily Rate (ADR):	Room revenue divided by rooms sold.
Room Revenue Per Available Room (RevPAR):	Room revenue divided by rooms available (occupancy times average room rate will closely approximate RevPAR).

*If you have any questions regarding this publication please send a message to bmacdonald@hvs.com
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