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# Resort Backers Surfing on Success of Indoor Water Park Near Southern California Coast

Great Wolf Water Park Says Refinancing of Debt Protects Resort for Next Decade or More



The Great Wolf Lodge and water park has become an economic boost to Garden Grove, California. Photo: Great Wolf Resorts

Great Wolf Resorts Inc. landed a \$170 million refinancing of its debt on its flagship property in Garden Grove, California, on favorable terms, a reflection of the unlikely success of an indoor water park and hotel resort just a couple miles from Disneyland Resort and the sun-drenched Orange County beaches.

The deal coupled with the hefty \$6 million to \$8 million in hotel taxes raised for the city by Great Wolf Lodge at [12681 Harbor Blvd](#), which includes a 603-room hotel and 105,000-square-foot indoor-outdoor water park, should help cool the concerns of city taxpayers who

are on the hook for over \$100 million in city tax financing and other subsidies used to open the 12-acre park in 2016 as a way to compete for visitors with neighboring Anaheim, home of Disneyland.

The shoring up of the resort's financing could help set the stage for more tax-fueled hotel and resort investment as Garden Grove struggles to capture more tourism dollars with neighboring Anaheim, home of Disneyland.

Great Wolf Lodge's opening catapulted the Garden Grove resort, the Denver-based company's largest property, into the city's top 10 tax generators, but that didn't stop some residents and anti-tax groups from worrying that the city's deal could become a drag on its coffers in the event Great Wolf's financing falls apart if the company runs into financial trouble.

That's not likely to happen for at least the next 10 years, thanks to the recent refinancing of the construction loan with Bank of the Ozarks and other debt by Denver-based real estate developer McWhinney, which built the park with Great Wolf parent and private equity company Centerbridge Partners.

The Garden Grove resort is the first Great Wolf property to receive a 10-year fixed-rate loan, which is "about the most attractive financing as you can get in the hospitality space today," said Andrew Coleman, senior managing director of the hotels and hospitality group at Berkadia, a Washington, D.C. based commercial mortgage company that arranged the transaction.

"The financing on this asset is going to protect the city of Garden Grove, our owner and the [Great Wolf] brand for the long haul," Coleman told CoStar News.

Great Wolf Resorts is the largest operator of indoor water park resorts in North America, with various subsidiaries and affiliates owning family resorts in 16 U.S. states and one in Niagara Falls in Ontario, Canada, with another resort scheduled to open in Scottsdale, Arizona, later this year followed by a park in the Central Valley city of Manteca, California in mid-2020.

While the refinancing wasn't tied to the city's subsidies, the loan preserves tax benefits tied to the original construction loans that would have been lost quickly if the resort "takes on water" financially, Coleman added.

"The chances of that happening now are diminished greatly because the asset is protected for next 10 years with what is really attractive debt capital," he said. "This is now set up to be a home run for the next decade and beyond."

### **Mickey Mouse's Shadow**

The city's effort to bring in Great Wolf Lodge as the city's answer to Disneyland started nearly a decade ago, when the resort company unveiled its plan [first reported by CoStar News in June 2010](#). The \$280 million project, delayed by a change in Great Wolf's ownership, the slow economic recovery and issues with construction financing, finally broke ground in 2014 with the help of than than \$100 million in tax-allocated bonds and other subsidies backed by former city redevelopment funds.

Garden Grove aspires to use more tax subsidies as a means of attracting hotel development and bolstering its stature as a resort and tourist destination - and siphoning business from Anaheim, its neighboring city, home of Disneyland Resort, the Anaheim Convention Center, baseball's Anaheim Angels and other destinations and attractions.

The 12-acre park quickly became one of the city's largest employers as well as its largest single source of transit occupancy taxes, also known as the hotel taxes, according to Garden Grove Mayor Steven Jones. The city is working with Great Wolf to explore the northern portion of the resort next to Harbor Boulevard, including the addition of 200 more rooms and a large restaurant.

"This hotel has done really, really well," Coleman said. "When you talk to lenders initially, sometimes it's hard for them to get out of their own way. Their initial thought was, why would somebody go to SoCal and spend the whole day in an indoor water park?"

"It seems somewhat counter-intuitive. Well, I've been there three times with my kids and I can tell you it's a great and fun experience," Coleman said.

Hotel tax proceeds surpassed sales tax revenue for the first time in the city's history in 2017, according to city documents.

Stabilizing Great Wolf's debt could also facilitate more tax financing for mixed-use hotel projects in Garden Grove, which has struggled over the past 10 to 15 years to shed its stubborn nickname of "Garbage Grove," largely based on the previously blighted stretch of the city's section of Harbor Boulevard, a major east-west traffic artery.

Chinese developer Shanghai Construction Group has been working for five years on an even larger resort, a 769-room, three-hotel complex on five acres along Harbor Boulevard.

Hoping the resort will benefit from being down the road from Disneyland and other Anaheim attractions, Garden Grove last year approved more than \$17.5 million in hotel bed tax subsidies for Shanghai Construction, which also bought the Hyatt Regency, the city's largest hotel, in 2015 for \$137 million, according to CoStar.

In another proposed project, children's media group Nickelodeon and developer Kam Sang Company have plans for a \$300 million flagship Nickelodeon-themed hotel in Garden Grove, including a pool, outdoor theater and other themed attractions.

Also, investor BN Group is planning a 150-room, Home2 Hilton Suites extended stay hotel on Harbor Boulevard. The city last year also approved a request to develop a 124-room five-story hotel on two vacant parcels along Harbor Boulevard.