

## Block E

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Minneapolis, Minnesota

Project Type:  
Mixed-Use/Multi-Use

Case No:  
C034006

Year:  
2004



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### SUMMARY

Block E is a large-scale, urban mixed-use project that combines retail, entertainment, hospitality, and parking uses. Located in downtown Minneapolis, it derives its name from the city block upon which it is built. The urban entertainment complex has little competition in the downtown and is rapidly becoming a key destination there. It contains a mix of stores, nightclubs, restaurants, and entertainment venues intended to appeal to people of all ages. Restaurants, bars, and stores fill the project's first and second stories, while a 15-screen, 4,000-seat multiplex cinema is found on the third floor. A 255-room hotel occupies the fourth through 21st floors.

### FEATURES

- Redevelopment of an infill site as a mixed-use urban entertainment complex
  - Public/private partnership
  - Pedestrian oriented; draws in pedestrians from both the street and skyway levels
  - Hotel built above three-story entertainment retail podium
  - Extensive exterior signage
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### SPECIAL FEATURES

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- Public/private partnership
- Pedestrian oriented; draws in pedestrians from both the street and skyway levels
- Hotel built above three-story entertainment retail podium
- Extensive exterior signage

### OWNER/DEVELOPER (RETAIL, ENTERTAINMENT, PARKING)

McCaffery Interests, Inc.  
737 North Michigan Avenue, Suite 2050  
Chicago, Illinois 60611  
312-944-3777  
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[www.mccafferyinterests.com](http://www.mccafferyinterests.com)

### OWNER/DEVELOPER (HOTEL)

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[www.graveshospitality.com](http://www.graveshospitality.com)

### ARCHITECT/PLANNER

Antunovich Associates  
224 West Huron, Suite 7E  
Chicago, Illinois 60610  
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### LANDSCAPE ARCHITECT

Jacobs/Ryan Associates  
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## GENERAL CONTRACTORS

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## GENERAL DESCRIPTION

The urban mixed-use project known as Block E combines retail, entertainment, hospitality, and parking uses. Located in downtown Minneapolis, it derives its name from the city block upon which it sits. The project encompasses 703,896 gross buildable square feet (65,392 square meters), including parking, on a 2.57-acre (1.04-hectare) site. The overall floor/area ratio (FAR) is 6.3 to 1.

Block E provides a retail entertainment complex that has little competition in downtown Minneapolis. It contains a mix of stores, nightclubs, restaurants, and entertainment venues designed to appeal to people of all ages. The retail uses, including the Hard Rock Café and Bellanotte restaurants, Borders Books and Music, and GameWorks—billed as a high-tech, interactive entertainment, restaurant, and bar experience—fill space on the first and second stories of Block E, with the 15-screen Crown Theatres multiplex occupying the third floor. The 255-room, 195,000-square-foot (18,116-square-meter) Le Meridien Minneapolis hotel, built atop the three-story retail podium, features a main hotel lobby and restaurant/bar on the fourth floor, conference rooms and ballrooms on the fifth floor, and guest rooms on the sixth through 21st floors.

McCaffery Interests, Inc., is the master developer and owner of Block E's entertainment, retail, and parking elements, while Graves Hospitality Corporation developed, owns, and operates the hotel. McCaffery Interests was founded in 1991 to develop high-quality, pedestrian-friendly urban infill projects. The firm has 17 employees in three offices located in Chicago, Minneapolis, and Arlington, Virginia. A number of its projects—including Niketown in Chicago; the Hotel Burnham, an adaptive use of Daniel Burnham's historic Chicago skyscraper; and the Market Common, Clarendon, a mixed-use urban village in Arlington, Virginia—have gained national acclaim. Graves Hospitality is a Minneapolis-based firm established in 1979 that has developed, constructed, and provided management services to more than 85 properties over the past 20 years. The two companies were not formal partners in the project; McCaffery sold the land below the hotel to Graves, and the two parts of the project were developed relatively independently.

Block E is the result of a public/private partnership between the city of Minneapolis and McCaffery Interests. The city contributed the land and issued bonds in support of the funding for public improvements necessary for the project. Bond payments are being fully paid through the tax increment created by the project and by an allocation of a portion of the entertainment tax levied by the city.

## SITE DESCRIPTION

Located between Sixth and Seventh streets on Hennepin Avenue, Block E serves as the critical link between Minneapolis's office core and its entertainment district. Directly across Hennepin Avenue from Block E is City Center, a 1980s mixed-use project with more than 300,000 square feet (27,870 square meters) of retail space, a 52-story office tower, and a 600-room Marriott hotel. Across Seventh Street to the south is the Stimson Building, a 16,000-square-foot (1,486-square-meter) structure that wraps around the recently restored historic Pantages Theater. Located across First Avenue to the west of Block E is the Target Center, the home of the Minnesota Timberwolves NBA basketball team, and the Warehouse District, a cluster of late-19th-century multistory warehouses, many of which have been converted to offices with ground-floor restaurant and bar space.

The Block E site was essentially level, with no notable topography, soils, drainage, or existing vegetation issues. During the preceding 15 years, the city had acquired and demolished nearly all of the buildings on the block. By 1998, only one building remained. The Classic-revival-style Shubert Theater, a historic edifice that had sat vacant on Block E for years, was moved in early 1999 to a location fronting Hennepin Avenue, one block to the north on Block D.

## DEVELOPMENT AND FINANCING

McCaffery Interests understood that downtown Minneapolis was in desperate need of a mixed-use complex containing a bookstore, movie theaters and other entertainment venues, and restaurants. The firm successfully attracted such tenants, as well as a strong supporting cast of smaller restaurants and shops.

The impetus for Block E stemmed from the city's desire to reduce nuisance crime and clean up the portion of Hennepin Avenue between Sixth and Seventh streets. The site had been vacant (except for the Shubert Theater) since 1988. Although it occasionally was used for outdoor entertainment events, the site had been largely underused for some time. The city considered various uses for site, including a park, but eventually decided on and approved a program that called for the development of a retail/entertainment complex.

In 1997, the city selected Brookfield Properties and asked the firm to respond to a request for proposals (RFP). In 1999, as Brookfield was about to lose its rights to develop the property, McCaffery Interests took over the Block E development program and received an extension on the RFP. The original development program called for 200,000 square feet (18,580 square meters) of retail space and a "family-style hotel," as well as a plaza at the corner of Seventh Street and Hennepin Avenue and a street-level passageway through the project. McCaffery insisted on a

higher-end hotel and a tenant program that was more focused on entertainment retail. The developer also insisted that the corner plaza at Seventh and Hennepin and the interior passageway be dropped, so that a major tenant could be located at the corner, thus encouraging pedestrian flow around the block. These changes were approved in March 2000.

McCaffery Interests and Graves Hospitality—which purchased the land below the hotel from McCaffery for about \$12,000 per room (roughly \$3 million), following agreement on the conceptual plan—then were able to sign leases with Renaissance Hotels by Marriott, Crown Theatres, and GameWorks, allowing construction to begin in October 2000. In February 2002, Le Meridien replaced Renaissance Hotels as the hotel flag, although Graves Hospitality remained as the hotel developer. The first tenants, Hard Rock Café and Borders, opened in late 2002, and the project was completed in 2003. All tenants will be open by summer 2004.

The total development cost for Block E was approximately \$150 million. The city of Minneapolis, through the use of tax increment financing (TIF), provided \$39 million toward the project, \$13 million of which was allocated to land cost with the balance used to fund public improvements and infrastructure. Financing for the remainder was provided by Union Labor Life Insurance Company (ULLICO) of Washington, D.C.; McCaffery Interests; Graves Hospitality; and a consortium of banks.

## PLANNING AND DESIGN

The basic land use plan consists of a three-story retail and entertainment podium above which sits the 21-story hotel tower. The entire site accommodates a two-story, 550-stall underground parking garage that is open to the public.

The main planning objective was to create a lively and inviting pedestrian experience on all sides of the project. This was no easy task, given the city's history and the affection it holds for its second-level skyway system. The architect and planner, Chicago-based Antunovich Associates, accordingly placed an exceptional amount of emphasis on the presence, amount, and quality of street-oriented embellishments, including outdoor plazas and landscaping, storefronts and windows, trees, exterior lighting, and even a surround-sound music system at the pedestrian level.

Early plans advanced by the city proposed a diagonal interior, street-level walkway through the development from Hennepin to First Avenue. The design and development team believed this proposed walkway would create an opportunity for pedestrians to “short cut” through the block and avoid the exterior sidewalks, which would have seriously diminished both the streetfront experience and the streetfront retailers' ability to attract customers. The team therefore opposed this design, choosing to focus instead on enlivening the streetfront and providing ample street-level access to Block E. With the hotel, the project now offers ten street-level entrances.

Block E was designed and built from the outside in, meaning that the architect took great care to ensure that the street experience at each of the four corners was geared toward the pedestrian experience. A major tenant was induced to occupy each corner, and was asked to ensure that its entrances and signage were strong indicators of its products and appeal. Interior common area space was minimized so that it does not diminish the power and attractiveness of what the street has to offer.

The Minneapolis skyway system—an interconnected system of second-story “sidewalks” that evolved in response to the harsh Minnesota climate—presented a major design challenge. The presence of alternative pedestrian routes such as skyways and tunnels greatly diminishes the sense of street life and vibrancy in cities that have fallen into their grasp. As a result, despite the developer's preference for street entrances only, the city of Minneapolis required the project to provide two skyway connections, one to the west, to the Target Center, and a second to the east, to City Center. While these are valuable additions to the project, they greatly diminish the power of the street and the attractiveness of the street level to tenants. Thus, the developer and architect sought to strike a balance between the necessity of the skyway and the desired appeal of the street. Designers had little choice but to celebrate the skyway bridges by making them icons for the project itself. The skyway that crosses First Avenue, connecting Block E to the Target Center, is the most dramatic in the city, with bold red coloring and soaring cables that resemble those of a suspension bridge. The skyway across Hennepin is only slightly less dramatic; it is brightly colored and lighted to create a theatrical effect within the heart of the theater district.

The skyway system put great pressure on the developer's ability to achieve its street-focused objectives. McCaffery found it a tremendous challenge to maximize the project's exterior appeal in a community that places such an emphasis on interior spaces and skyways. The developer and architect accordingly collaborated to emphasize the project's exterior appeal and power, and thus the sidewalk experience, by creating the impression along each streetfront of a collection of individual buildings.

With the central business district (CBD) office core located just to the east, Block E's designers fought to ensure that the then-primary retail corners, Hennepin Avenue/Sixth Street and Hennepin/Seventh Street, were counterbalanced at the street level on First Avenue. They believed that enticing CBD workers through and around the project would be essential to its ultimate success. The tenants at Sixth and Seventh and Hennepin—GameWorks and Borders Books and Music—therefore occupy large, two-story spaces with strong signage. A large public plaza, a water fountain, and two small pocket parks at the project's other two corners make those corners equally powerful and attractive. They are now home to the Hard Rock Café and Bellanotte, a 10,275-square-foot (955-square-meter) local restaurant.

These four corner tenants alone create a powerful streetfront presence that is further strengthened by the Le Meridien Minneapolis hotel, which anchors the street-level power of the project through its streetfront entrance on First Avenue, between the Hard Rock Café and Bellanotte. Finally, the placement of Crown Theatres—the only stadium-seating venue within the city of Minneapolis—atop the project's retail base ensured the vertical traffic pattern desired by the design and development team. While the multiplex has a presence on both the street and skyway levels, it is in fact a third-floor tenant. Other equally important but smaller tenants are located on the street and skyway levels, ensuring an attractive and appealing tenant mix.

The team identified signage as an additional means of emphasizing the exterior of the project and thus the liveliness of the street experience. During the approval process, the city granted Block E's developers the right to include extensive exterior signage and advertising. In addition to the tenant signage, the city preapproved more than 26,000 square feet (2,415 square meters) of billboards, signs, and other advertising. The city and the developers agreed to standards for the construction and general content of the signage at the outset. Generally located above the second floor, these signs and billboards lend a festive atmosphere to this once-dingy part of downtown. They also provide substantial income, which was instrumental in creating the workable financial model that made the project feasible.

The Le Meridien Minneapolis is the most distinctive hotel in the city's downtown; the hotel chain bills it as Minneapolis's first world-class luxury hotel. The first U.S. location for the chain's "Art + Tech" product offers cutting-edge design features in all of its public spaces and luxurious guest rooms, where one can find such unusual standard features as 42-inch plasma televisions, high-speed wireless Internet access, etched-glass headboards, backlit photographs, and multiple-jet shower heads. The hotel also includes 15,000 square feet (1,394 square meters) of meeting space, a restaurant, a street-level bar, and a fitness center.

Viewed in the context of its surrounding neighborhood, Block E stands out among less exciting architecture and streetscapes. Directly across the street from the hotel entrance stands the Target Center, which presents a large and relatively blank facade. Nearby, along First Avenue to the north, older, restored warehouse buildings are significantly more attractive and provide more street-level retail space, primarily restaurants.

The desire to limit the number of openings that could interfere with the pedestrian experience drove the team to combine the entrance to the truck docks with the entrance to the parking facility. The docks were placed underground and their size minimized through the use of a truck turntable in the lower level. The turntable can accommodate a 65-foot (20-meter) truck and trailer, and is one of only two turntables in downtown Minneapolis. The truck docks are located in the third level below ground, while the parking is located above them on the first and second levels below ground.

Customers of all tenants and uses on the block share the project's 550 parking stalls, which are open to the public. The number of stalls provided in Block E was a function of the size of the site and the high costs associated with going any deeper than three levels below grade. Two city-owned parking facilities that can accommodate nearly 10,000 cars are located only one-and-a-half blocks west of the project. These garages are used by patrons of both Target Center and Block E. Crown Theatres moviegoers pay discounted parking fees when they present a validated ticket stub. The amount of parking available in the vicinity of Block E is sufficient except on game days, when parking in the area is at a premium.

The need to acoustically separate tenants presented an additional development challenge. Because the project includes movie theaters, hotel rooms, meeting rooms, nightclubs, a comedy club, and restaurants, this acoustical challenge was enormous. The full extent of the challenge was not recognized upfront, and significant monies had to be expended to add soundproofing later in the development process.

## MARKETING, MANAGEMENT, TENANTS, AND PERFORMANCE

As of February 2004, Block E was 98 percent leased. When it is fully leased, a total of 17 tenants will occupy the project. One tenant, Snyders Drug Store, closed in February as a result of its parent company's bankruptcy and reorganization. The tenant mix is dominated by entertainment venues, with the 15-screen Crown Theatres taking top billing, complemented by restaurants such as Hard Rock Café, Bellanotte, and Applebee's Neighborhood Bar & Grill; and more casual eateries such as Cold Stone Creamery, Panchero's Mexican Grill, and Jimmy John's Sandwich Shop.

The management of Block E is a collaborative effort among the landlord and the tenants. McCaffery's management team holds formal marketing-focused meetings on a regular basis and leads the project's participation in the Downtown Council, the Hennepin Avenue Association, and other downtown marketing efforts. Tenants also are encouraged to advertise on their own. The project's focus on individual tenants expressing their own messages—both in advertising and in storefront design—stems in part from the developer's belief that Block E's tenants should be seen as a part of the greater downtown urban fabric, not just part of the Block E complex. While tenants can thus bear a disproportionate burden of advertising dollars, common area fees, taxes, and other assessments generally are passed on, based on pro rata allocations.

McCaffery Interests forecast an 11 percent return on total cost for its portion of the Block E project. The first-year return will be slightly lower (around 10.4 percent) but is expected to grow through percentage rent, retail rent step-ups, and parking revenues. Block E and Le Meridien Minneapolis have quickly become a local and regional draw

for the downtown area, providing a link between the office core and the Target Center. The project's presence has made the downtown area more welcoming to tourists, conventioners, and residents, thus reducing crime in a previously troubled stretch of Hennepin Avenue.

Block E provides a retail/entertainment complex in a downtown that previously had little to offer other than stage productions, NBA basketball games, and other events that often are economically out of reach of many working people. It also created nearly 800 new jobs at a time when the nation as a whole was suffering through a shrinking job market. Furthermore, it complements existing surrounding land uses such as the Minnesota Timberwolves basketball arena, the downtown office core, and the Hennepin Avenue Theater District. Block E's pedestrian-oriented environment raises the bar for the whole of downtown Minneapolis.

### EXPERIENCE GAINED

Construction of Block E began in September 2001. Subsequent events and the decline in the retail economy proved to be a challenge for the leasing team. Letters of intent that had been relied upon, some leases, and many negotiations were either cancelled or delayed. Nonetheless, demand for space picked up as the economy slowly recovered, and the project was 98 percent leased by February 2004.

The fractious political climate during the Minneapolis mayoral election of 2001 posed another challenge to the project. Block E had been approved, though not unanimously, by the outgoing mayor and city council, and was under construction at the time of the 2001 election. Yet it became a lightning rod for the debate over public financing for downtown improvements and, as a result, suffered negative press even before it opened. More than anything else, the passing of time, combined with the project's lease-up, has helped Block E weather this temporary public relations setback.

Finally, members of the press and the public criticized the developer's intent to include national chains such as Hard Rock, Applebee's, and Borders at the expense of local merchants and entrepreneurs. Such criticism is commonplace and expected, particularly in public-assisted projects. The reality is that national chains with good credit often are the only ones that can afford to pay the substantial rents and tenant improvements at projects like Block E. Since several of the nationally flagged properties at Block E, including Le Meridien Minneapolis and Mrs. Fields, are owned and operated by local entrepreneurs, the project is well represented by local merchants.

McCaffery was very candid in its assessment of what it would do differently if it were building the project today. First, the developer would consider adding a residential tower, in concert with the hotel tower. While this would have increased significantly the parking challenge and costs, it also likely would have helped the project to "pencil out" and provided additional street traffic at all hours, thus contributing to the street life around the project. Second, the developer would insist that the city share in the cost of providing security during the project's early years. It is one matter to redevelop in former "tough" spots, but it is too much for the development and its tenants to carry that burden in the early years. Finally, if the developer were "king for a day" it would seek to remove all of the skyways in Minneapolis, thus quickly returning prominence and power to the street level, where the quality of cities is truly judged. As an extension to that thought, the developer also would call for a reassessment of the need for—and extent of—one-way streets, which seem designed only to speed people away from the center of the city and the quality of life it could offer.

**PROJECT DATA****LAND USE INFORMATION**

Site area (acres/hectares): 2.57/1.04

**LAND USE PLAN**

Use	Area (Acres/Hectares)	Percentage of Site
Buildings	2.1/0.85	81
Streets/surface parking	0.08/0.03	3
Landscaping/open space	0.4/0.16	16
Total	2.57/1.04	100

**GROSS BUILDING AREA (GBA)**

Use	Gross Square Feet/Square Meters
Retail	268,259/24,921
Hotel	205,000/19,045
Parking	230,637/21,426
Total GBA	703,896/65,392

Floor/area ratio: 6.3 with hotel; 4.45 without hotel

**RETAIL INFORMATION**

Tenant Classification	Number of Stores	Gross Leasable Area (Square Feet/Square Meters)
Food service	8	34,100/3,168
Gift/specialty	3	29,217/2,714
Drugs	1	12,063/1,121
Personal services	1	1,966/183
Recreation/community	4	139,163/12,928
Financial	1	40/4
Total	18	216,549/20,118

Percentage of GLA occupied: 98.5

Annual rents (per square foot/per square meter): approximately \$18–\$40/\$194–\$431

Average annual sales, 2003 (per square foot/per square meter): approximately \$121.75/\$1,310.55 (Note: Data represent only ten stores, since not all tenants were open in 2003.)

Typical length of lease: 10–15 years

**MAJOR TENANTS**

Tenant Name	Space Occupied (Square Feet/Square Meters)	Date Opened
Hard Rock Café	8,817/819	September 2002
Borders Books and Music	24,412/2,268	September 2002
Crown Theatres Block E 15	83,961/7,800	October 2002
Cold Stone Creamery	1,007/94	October 2002
GameWorks, the Hopscotch Grill, Block E Bowl and Bowling Bar	34,012/3,160	November 2002
Starbucks	1,615/150	December 2002
Applebee's Neighborhood Bar & Grill	6,108/567	April 2003
Le Meridien Minneapolis	195,000/18,116	April 2003
Jimmy John's Gourmet Sandwich Shop	2,498/232	June 2003
Escape Ultra Lounge	11,747/1,091	July 2003
Snyders Drug Store	12,063/1,121	August 2003
Jewel Spa & Salon	1,966/183	December 2003
Pancho's Mexican Grill	3,012/280	January 2004
Mrs. Fields/Pretzel Maker	800/74	February 2004
Bellanotte	10,275/955	February 2004
EB Games	1,500/139	March 2004
The Shout House	6,463/600	May 2004



## DEVELOPMENT COST INFORMATION

Site Acquisition Cost: \$16,240,000

Hard Costs: \$64,120,000  
Construction: \$53,650,000  
Other construction: \$700,000  
Landlord work for tenants: \$1,830,000  
Tenant improvements: \$7,440,000  
Hard cost contingency: \$500,000

Soft Costs: \$14,200,000  
Architecture/engineering: \$2,920,000  
Legal/title/recording: \$1,470,000  
Project management: \$3,800,000  
Marketing: \$650,000  
Real estate taxes: \$325,000  
Financing fee: \$1,500,000  
Soft cost contingency: \$105,000  
Other (testing/survey/permits/consultants): \$1,700,000

Cost of Funds: \$3,200,000

Total Development Costs (without Hotel): \$97,760,000

Hotel Development Costs: \$52,000,000

## DEVELOPMENT SCHEDULE

Site purchased: 1999  
Planning started: 1999  
Construction started: 2000  
Sales/leasing started: 2000  
Project completed: 2002/2003

## DIRECTIONS

*From Minneapolis–St. Paul International Airport:* Go southwest on Glumack Drive for one mile. Merge onto MN-5 east toward MN-55/St. Paul/Minneapolis. At approximately 0.7 mile, merge onto MN-55 west toward MN-62/Minneapolis. At approximately 8.2 miles, turn left onto North First Avenue. At approximately 0.1 mile, turn left onto North Eighth Street. At approximately 0.1 mile, turn left onto Hennepin Avenue. Block E is at South Seventh and Hennepin.

*Driving time:* 22 minutes in nonpeak traffic.

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This Development Case Study is intended as a resource for subscribers in improving the quality of future projects. Data contained herein were made available by the project's development team and constitute a report on, not an endorsement of, the project by ULI—the Urban Land Institute.

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The Block E retail, entertainment, and hotel complex derives its name from the Minneapolis city block on which it sits.



Block E's extensive signage, bright lights, colorful skyways, and the 21-story Le Meridien Minneapolis hotel make it a major presence in downtown Minneapolis.



Because Minneapolis holds a great deal of affection for its second-level skyway system, Block E's designers had little choice but to celebrate the project's skyway bridges. The skyway across Hennepin Avenue it is brightly colored and lighted to create a theatrical effect within the heart of the theater district.



The skyway that connects Block E to the Target Center across First Avenue is the most dramatic in the city, with bold red coloring and soaring cables that resemble those of a suspension bridge.



To lure visitors down from the skyways to the street, Block E's designers placed an exceptional amount of emphasis on the presence, amount, and quality of street-oriented embellishments, including outdoor plazas and landscaping, storefronts and windows, and trees at the pedestrian level.



Block E's designers used exterior signage to emphasize the project's exterior and thus the liveliness of the street experience.



Bellanotte, a popular local restaurant, is Block E's largest dining venue.





EB Games, a specialty retailer of video game hardware and software, pC entertainment software, and accessories, is one of Block E's newest tenants.



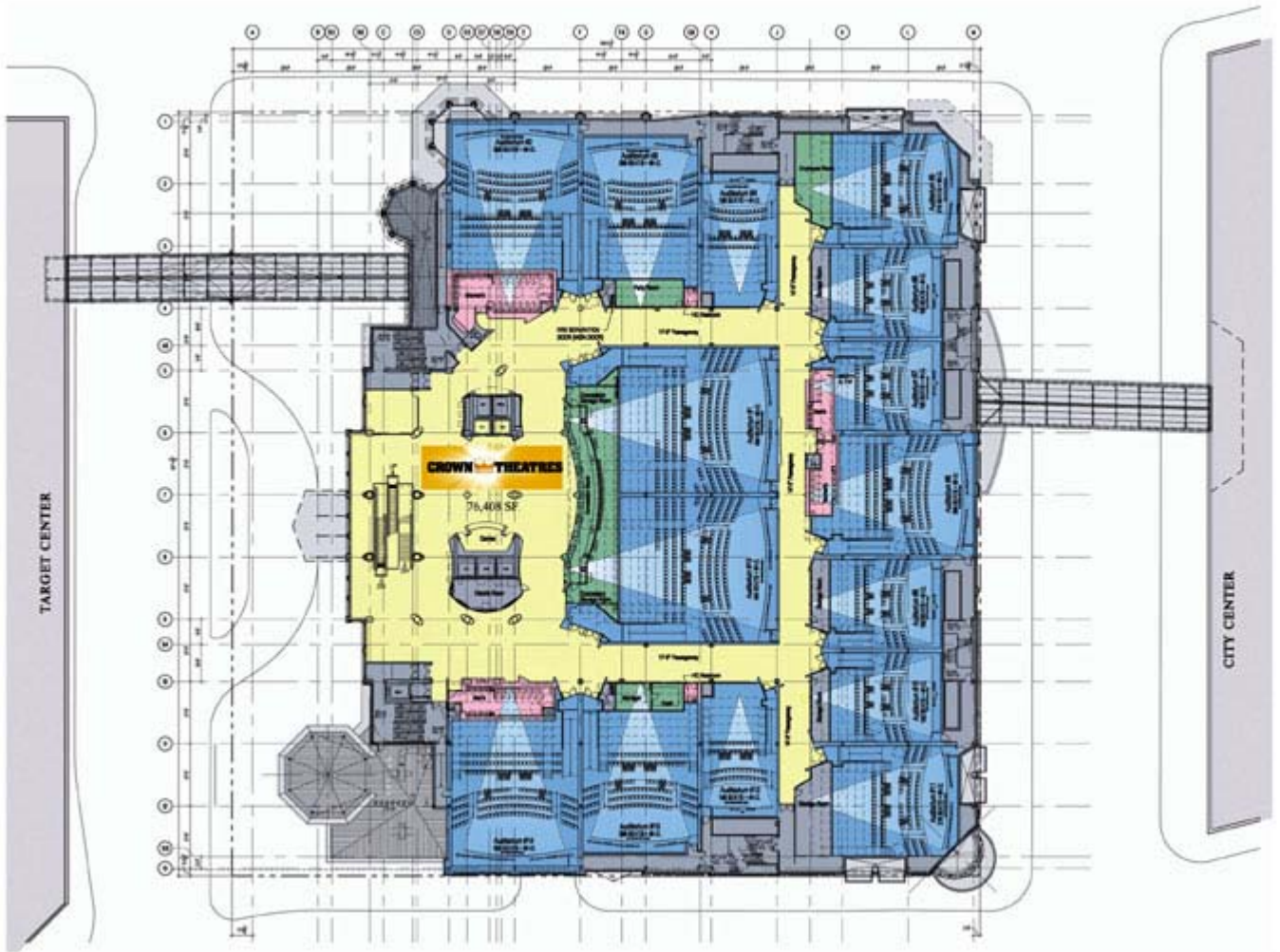
All of the guest rooms at Le Meridien Minneapolis contain cutting-edge design features as well as 42-inch plasma televisions and high-speed wireless Internet access.



Site plan, skyway level.



Site plan, street level.



Site plan, level three (movie theaters).