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# Citigroup Center to go back to lender

## Broadway Partners to cede tower to Prudential Real Estate

BY J.K. DINEEN  
San Francisco Business Times

Broadway Partners is preparing to hand One Sansome St. back to Prudential Real Estate Investors, the latest in a series of highly leveraged downtown San Francisco owners who are voluntarily giving distressed properties back to the lender.

In late March, Prudential will take title to the 550,000-square-foot tower, called the Citigroup Center, and has brought on the Barker Pacific Group to manage the property, according to multiple sources familiar with the transaction.

The deal comes on the heels of Morgan Stanley's decision to transfer five office buildings to AREA Property Partners and Hines' calculated move to default

on 333 Bush St., which paved the way for Brookfield Real Estate Finance to take ownership. In recent months, nine downtown San Francisco office properties, totaling more than 2.5 million square feet, have either been foreclosed on by lenders or, in most of the cases, handed over to lenders in lieu of foreclosure in a

SEE CITIGROUP CENTER, 34



SFBT FILE

# Tom Proulx quickens pulse

## Intuit co-founder's Netpulse warms up

BY PATRICK HOGE  
San Francisco Business Times

Tom Proulx remembers when he co-founded financial software giant Intuit in 1983. Times were tight: For nine months, staff worked with no paychecks. Now the company's worth \$10 billion.

For the last 13 years, Proulx has been nursing along a venture called Netpulse with the conviction that eventually it would hit the big time, too, with its digital entertainment network for people working out at fitness clubs.

"With Intuit, we just had faith that if we could just keep this thing going, it's gotta work. We had the same feeling about Netpulse," said Proulx, who gained fame in the tech world as the author of the best-selling Quicken software.

"A lot of people for a long time thought we were crazy. We couldn't figure out where we could be wrong. Every time we looked at this, we thought, it has to hap-

SEE NETPULSE, 34



"We will be the Microsoft of this industry," says CEO Proulx.

# International travelers fly toward SFO

## Fee cut helps land more air business

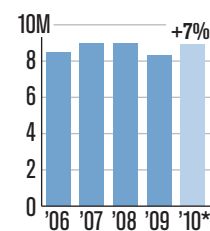
BY ERIC YOUNG  
San Francisco Business Times

Following a drop-off in international travel last year, San Francisco airport officials are anticipating more passengers — and planes — from overseas this year.

San Francisco International Airport expects international arrivals to increase as much as 7 percent this year to approximately 8.9 million passengers. That compares with a 7 percent decline in 2009 after international travel held steady during 2007 and 2008.

The Great Recession reduced business and vacation travel for many visitors from Europe, Asia and elsewhere. But SFO officials said a number of international carriers are now boosting flights to keep pace with

### INTERNATIONAL TRAFFIC TO SFO



\* Projected. SOURCE: SFO.

SEE SFO, 35



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# CITIGROUP CENTER: One Sansome joins list of surrendered properties in S.F.

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consensual transaction.

Like most of the surrendered properties, One Sansome was purchased near the pinnacle of the building-buying boom. In December, 2006, Broadway Partners, a private real estate investment and management firm headquartered in New York, paid \$3.3 billion for a 10-building national portfolio that included four San Francisco properties. While values were never broken out for individuals properties, One Sansome St. was likely valued at more than \$600 a square foot, about \$350 million, when Broadway bought it. In June of 2008, South Korea-based Mirae Asset MAPS Investment Co. had the property in contract for \$365 million, but backed out when the financial crisis worsened that fall.

Since then commercial property values have plummeted 30 to 50 percent, depending on the income the building generates. In the current environment, the building would likely be valued between \$175 million and \$225 million.

Broadway seemed to have found a way to hold on to the portfolio as recently as June. At the time, Broadway and equity partner Lehman Brothers Holding announced that it had restructured and resolved near-term debt obligations on

## THE HAND-OFF

Several S.F. office buildings are being handed back to the lender voluntarily or otherwise.

Property	Old owner	New Owner
One Sansome St.	Broadway Partners	Prudential Real Estate Investors
333 Bush St.	Hines	Brookfield Real Estate Finance
188 Spear St. <sup>1</sup>	Broadway Partners	Shorenstein
201 California	Morgan Stanley Real Estate	AREA Property Partners
60 Spear St.	Morgan Stanley Real Estate	AREA Property Partners
188 Embarcadero	Morgan Stanley Real Estate	AREA Property Partners
One Post St.	Morgan Stanley Real Estate	AREA Property Partners
Foundry Square 1	Morgan Stanley Real Estate	AREA Property Partners
250 Montgomery St. <sup>2</sup>	Lincoln Properties	Argonaut Private Equity Group

<sup>1</sup> Shorenstein bought from lender Prudential Real Estate Investors

<sup>2</sup> Argonaut bought from lender Finance Realty Corp.

SOURCE: S.F. Business Times research.

the 10-property portfolio. Under the agreement, Broadway agreed to contribute capital and retain an ownership interest in a majority of the portfolio, which includes 1000 Wilshire Blvd. in Los Angeles, 116 Huntington St. in Boston and two properties in Virginia. As part of that deal, one of the Broadway properties, 188 Spear St., was deeded to mezzanine lender Prudential Real Estate Investors. Prudential then sold the property to Shorenstein Properties for \$25 million, or \$173 a square foot.

At the time, Broadway said the capital

investment would allow it to "maintain the Class A nature of the properties" and will ensure a "stable and positive experience for current and future tenants," according to a statement from the two companies.

For now Broadway appears to be holding on to 100 California St., as well as to 50 Beale St., which is leased to the Bechtel Group and Blue Shield of California.

One Sansome St. has about 30 percent vacancy with 10 full floors and four partial floors available, according to the CAC Group, which leases the property

for the owners. The biggest tenants are Citigroup, the law firm Lewis Brisbois Bisgaard & Smith LLP, and Lumetra Healthcare Solutions.

Diane Olmstead, a managing partner with W3 Partners, said she expects more downtown building owners who have seen their equity evaporate to hand properties over.

"The value of properties is down and that is working terribly against property owners because at the same time net operating income is down and you have few options, if any, for refinancing your loan," said Olmstead.

For well-capitalized lenders like Prudential, it makes sense to hang onto the building until the market recovers, she said.

"Rather than choosing to sell the property at a significant discount to future values they have the flexibility to earn their way out of a loan, and they will do that by bringing in an outside partner with new equity to operate the property for them," she said. "The return they will eventually get will be superior than if they brought it to market now."

Broadway Partners and Prudential declined to comment.

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# NETPULSE: After 13 years, tech entrepreneur is getting fitness centers wired

CONTINUED FROM PAGE 1

pen, and when it does, we will be the Microsoft of this industry," he said.

Now, Proulx is at long last seeing his dream becoming reality. With the costs for manufacturing touch-enabled screens falling and broadband widely available, San Francisco-based Netpulse has finally won a big customer commitment, the largest owner and operator of fitness clubs in the Northeast. Netpulse will install 8,000 of its terminals in health clubs owned by Town Sports International Holdings Inc. over the next two years.

For an industry that constantly fights customer attrition, the Netpulse system offers a way to engage users with live high definition television, on demand video and music, and the ability to maintain personal accounts with workout data from different machines and clubs, indeed any Internet connection. Proulx believes Netpulse has the jump on any competitors. For one thing, the company got a patent issued covering the delivery of custom content to a networked piece of exercise equipment.

## Targeting affluent customers

Netpulse, which got \$3.1 million in Series A funding in October and today has about 20 employees, is hiring, particularly in engineering. The company makes money by licensing software to manufacturers, subscription fees and by selling advertising on its network, which has the ability to collect information on users, a relatively affluent demographic that is captive for an average of 30 minutes a session and is seeking distraction. Netpulse has its own advertising sales force, but also partners with Reach Media Group and the Health Club Media Network.

In addition to Town Sports, Intel Corp. is putting Netpulse screens into its corporate fitness centers and the company has licensing deals with several large exercise equipment manufacturers.

Ed Trainor, vice president of fitness services and product at Town Sports, said his company just now completed its third installation, in its flagship Wall Street gym, and it is getting ready to pull the trigger on another 40 clubs. "Customers have been wowed by the content," he said.

By end of summer, Town Sports will have a private-label version of Netpulse on 5,000 screens in all of its 109 New York City locations. The company has 158 clubs under different brand names in the New York, Boston, Philadelphia and Washington, D.C. markets.



**Pumped:** Tom Proulx's NetPulse has landed a big contract for its exercise screens.

SPENCER BROWN

Trainor said he is hugely excited about the potential for extending relationships with customers outside the confines of club walls. He envisions such data enabling fitness clubs to play a greater role in insurance programs aimed at promoting healthy lifestyles.

"We've been looking at this for years, but we've never had the tracking to make it work," Trainor said. "It's a big deal."

## Terminal breakthrough

Proulx knows better than to declare victory yet, but Netpulse is finally in the kind of position he hoped it would be soon after he joined the board of directors in 1997.

Back then, the company was called Transcape, and it was selling compact discs with workout content such as virtual landscapes that were synchronized with cardio machines so as to adjust fictional topography according to a user's level of exertion. Creating high quality content was expensive, however, and the company changed its name to Netpulse and instead developed Internet-connected touch screens for aerobic exercise machines that cost about \$4,000 each.

The product had only niche appeal, with high-end clubs taking just a few screens each. Looking to expand, Netpulse merged with two Canadian companies, but then advertising dried up with the bursting of the Internet bubble and in 2001 the combined entity filed for Chapter 7 bankruptcy.

Proulx bought the company's assets for \$25,000, rehired a couple of staffers and relaunched Netpulse with co-founder Bryan Arp as CEO and himself as chairman. The four-person company installed a few screens each in "several hundred" high end clubs, including Western Athletic Clubs, the Pacific Athletic Club in Redwood Shores and some Crunch outlets, but total revenue remains in "the single digit millions," Arp said.

Last summer, Proulx said he knew the pieces for the big play had come together when Netpulse was able to produce a prototype touch screen terminal for roughly the same as the cost as a regular stand-alone television set. Screens sell for about \$700.

"If you imagine an exponential curve, it's flat for a while," Proulx said. "We are now at the knee of the curve."

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