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# WeWork Plots Rapid Comeback With Bankruptcy Law in Its Favor

DEEP DIVE

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Reporter

- WeWork to see significant leverage in restructuring process
- Company's plan relies on shrinking, renegotiating leases

WeWork Inc. has arranged a path to reorganize with speed and aggression that, despite the company's extraordinary fall from grace, will be boosted by favorable bankruptcy laws and continuing demand for office flex space.

If WeWork has a comeback story to tell, it's going to start in New Jersey bankruptcy court, where the company filed for Chapter 11 this week to shrink its physical presence and reduce about $3 billion of funded debt. The startup, once valued at $47 billion, joins the ranks of large corporate debtors that enter bankruptcy with a restructuring plan hashed out with lenders in advance.

The approach, supported by creditors holding 92% of the company's secured notes, involves terminating dozens of unprofitable office space leases and renegotiating the terms for hundreds of others within four months—with the ultimate goal of getting a plan approved by early March.

The timeline is tight for a large company to reorganize its finances and operations in bankruptcy, but "it's completely doable" in light of the fact that WeWork has already reached a restructuring deal with lenders and moved to terminate 69 commercial leases, said corporate bankruptcy attorney Mark Indelicato of Thompson Coburn LLP.

“They’re coming out pretty aggressive to get this into shape so that it can reorganize,” Indelicato said. “They’ve already started on the right side with the restructuring support agreement and the lease rejection motion.”

Although WeWork this year cited “substantial doubt” about its ability to stay in business following years of failing to turn a profit, its Chapter 11 case presents a new opportunity to fix its well-documented problems of over-expansion. The company also has a tactical advantage when it comes to negotiating lower rent agreements with many landlords due to market conditions and changing demands for corporate office space.

“When it comes to leverage, WeWork has all of it,” Wharton Property Advisors CEO Ruth Colp-Haber said in an email. “Everyone knows that the office leasing industry is already reeling due to remote work and high interest rates. Accordingly, finding a replacement tenant for large blocks of space will be extremely difficult and will severely compromise the cash flow of many landlords, and consequently the ability to service their debt.”

The bankruptcy may leave hundreds of commercial landlords in a tough position, but “in all likelihood the endgame is that WeWork lives,” Colp-Haber said.

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## Advantages in Bankruptcy

WeWork’s bankruptcy, filed after the company reached a tentative deal with longtime supporter SoftBank Group Corp. and other major lenders, advances efforts initiated in September to renegotiate nearly all of its leases and exit underperforming locations.

Bankruptcy provides an opportunity for WeWork to examine and reshape its lease profile based on profitability, said Harold Bordwin, principal at real estate advisory firm Keen-Summit Capital Partners LLC. Locations that are causing a major cash burn can be quickly rejected, while others “on the bubble” can be subject to renegotiation, he said.

“With a significant rent reduction, it could be meaningfully cash-flow positive,” said Bordwin.

At the end of 2022, WeWork said it had 779 locations spread across the globe. The company currently lists 660 locations open and coming soon on its website, including over 200 in the US and Canada, where WeWork has initiated formal restructuring proceedings and moved to terminate leases.

Regarding the rest of its portfolio, WeWork is negotiating with over 400 landlords to obtain lease concessions and modifications to reach long-term profitability, the company said in court papers.

Commercial landlords with high-end office space that can quickly be rented out to other tenants may not need to negotiate with the company. But owners of less desirable buildings may be more inclined to grant concessions. That scenario gives WeWork considerable leeway in negotiations. Data from real estate services firm Avison Young shows WeWork maintains a large presence in less prime real estate in New York.

“The commercial owners of these buildings are looking down a double-barreled gun,” said Candice Nonas, principal at banking and financial services advisory firm Nonas Consulting. If you don’t have other options, “you’ll sit down and renegotiate to the best of your ability.”

## ‘Musical Chairs’

WeWork is far from the only company facing distress in the office space market due to broad changes from the pandemic-fueled shift to hybrid and remote working. Rising interest rates have also complicated property owners’ efforts to refinance. But flexible office arrangements remain popular, providing hope that WeWork’s debt and real estate issues won’t force it into a high-profile bankruptcy liquidation along the lines of Toys R Us Inc.

Other co-working space providers like Knotel Inc. and subsidiaries of IWG Plc managed to sell or reorganize their businesses after filing for bankruptcy at the height of the pandemic. And other WeWork competitors say they’re equipped for the future.

“WeWork occupies less than 1% of U.S. office inventory and, therefore, the company’s performance does not pose a material or systemic threat to the market,” a spokesperson for Jones Lang LaSalle, operator of Flex by JLL, said in an email. “From an investor standpoint, any further impact has mostly already been priced into the market over the past several quarters.”

Real estate services firm CBRE Group Inc. said in an August report that while WeWork’s troubles have raised concerns about the overall co-working market, survey results show WeWork’s problems may be specific to the company itself.

“Tenant use of flexible office space is increasing,” CBRE reported. “Over the next two years, 50% of respondents anticipate that flexible space will make up more than 10% of their office portfolios.”

David Goldstein, tri-state region president for real estate consultancy Savills Inc., said flex office providers will continue to serve a growing need for businesses, and will see more inquiries if WeWork continues to falter.

The company’s travails might force tenants to move to other arrangements, Goldstein said. “Most are making contingency plans to avoid being left standing in the musical chairs game.”

For WeWork to make its business model more viable, it will have to take a careful approach to its lease holdings.

“This will be a building-to-building, case-to-case examination,” said Goldstein. “It won’t be settled overnight.”