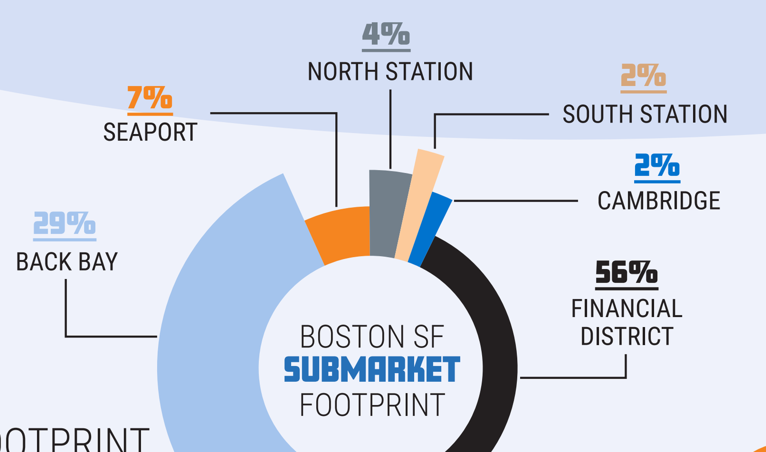
IS wework TOO BIG TO FAIL IN BOSTON?

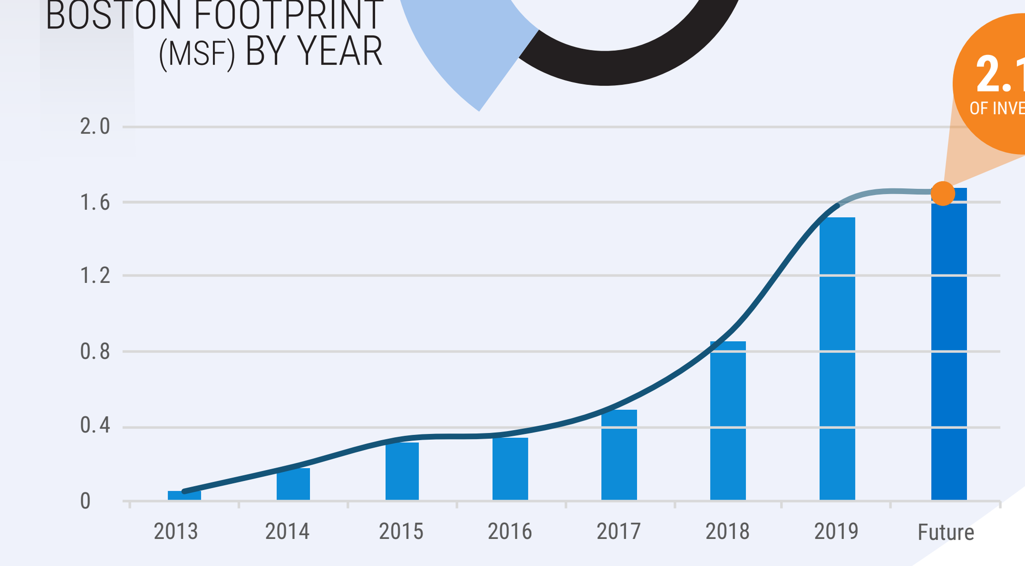
The meteoric rise of shared office space, driven in large part by coworking giant WeWork, has upended traditional commercial real estate fundamentals. The premise is rather simple: lease space to create a shared work environment for entrepreneurs, remote workers and the like. While the model has morphed and transformed over the years, users gravitating toward shared offices are looking for flexibility, a collaborative atmosphere, space efficiencies and an avenue to recruit/retain talent. Due to shifting workplace strategies and the ever-changing needs of technology companies, demand for this type of office space has been robust.

However, the majority of these operators are not cycle-tested. And exponential growth in key markets, like Boston, has led many industry veterans to ponder potential pitfalls a company like WeWork could face during an economic slowdown or a correction in the office market. As the biggest player in the game, WeWork dominates headlines and makes an interesting case study. Will growth slow? Will one or more locations go dark? Will WeWork's collective bargaining power adversely effect landlords?

Before we can address these questions, let's first look at the current WeWork landscape. Since launching in 2010, their U.S. footprint has grown to 23 million square feet across 291 locations. Locally, WeWork boasts 20 locations totaling 1.5 million square feet with the Financial District and Back Bay accounting for the lion's share of space. Since launching here in 2013 WeWork has added an average of 216,000 square feet per year in Boston – the majority of which occurred within the last year or two.



BOSTON FOOTPRINT (MSF) BY YEAR



93K SF ACTIVE LOIs | **1.5M** SF | **2.0%** URBAN OFFICE INVENTORY | **20** LOCATIONS

wework 2013–2019

2013 wework Launches 51 Melcher St

2014 wework Expands to South Station

2015 Opens Back Bay Location. Signs Leases with Solaria Labs & GE Current

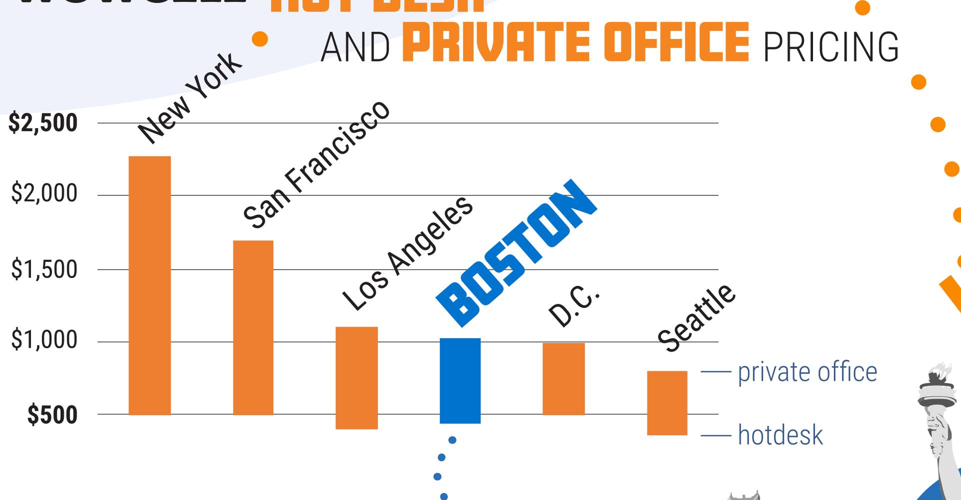
2016 wework Expands to Cambridge

2017 Opens 200 Portland St & One Beacon. Signs Leases with the Air Force, Blackbaud & Amazon

2018 wework Reaches 11 Locations. Signs Leases with Puma & ezCater

2019 9 New Locations: 24 Farnsworth, 1 Lincoln, 100 Summer, 99 Chauncey, 1 Milk, 99 High, 75 Arlington, 200 Berkeley, 545 Boylston. Signs Leases with Toast, Amazon & Google at Various Locations

wework AVERAGE HOT DESK AND PRIVATE OFFICE PRICING



wework PRICING

Pricing for WeWork space can be somewhat ambiguous. Quoted rates for some of their offerings, including private offices and hot desks are available on their website. However, the coworking giant can and will structure custom deals.

Looking at the available monthly per person rates across different markets paints an interesting picture. The cost to rent a hot desk doesn't appear to vary much in these major markets, but the cost of private office space varies wildly. In Boston, private offices average more than $1,000 per month. This is a steal compared to New York and San Francisco, where private offices are averaging $2,300 and $1,700 a month, respectively.

The rise in enterprise clients and the introduction of the HQ model have also changed WeWork's pricing structure. Many of these spaces are now being quoted on a per-square-foot basis, and in Boston select space has surpassed $100/SF as an all-in price. While tenants may end up paying more per square foot to call WeWork home, many actually reduce their overall rent obligation due to extreme efficiencies and denser work environments.

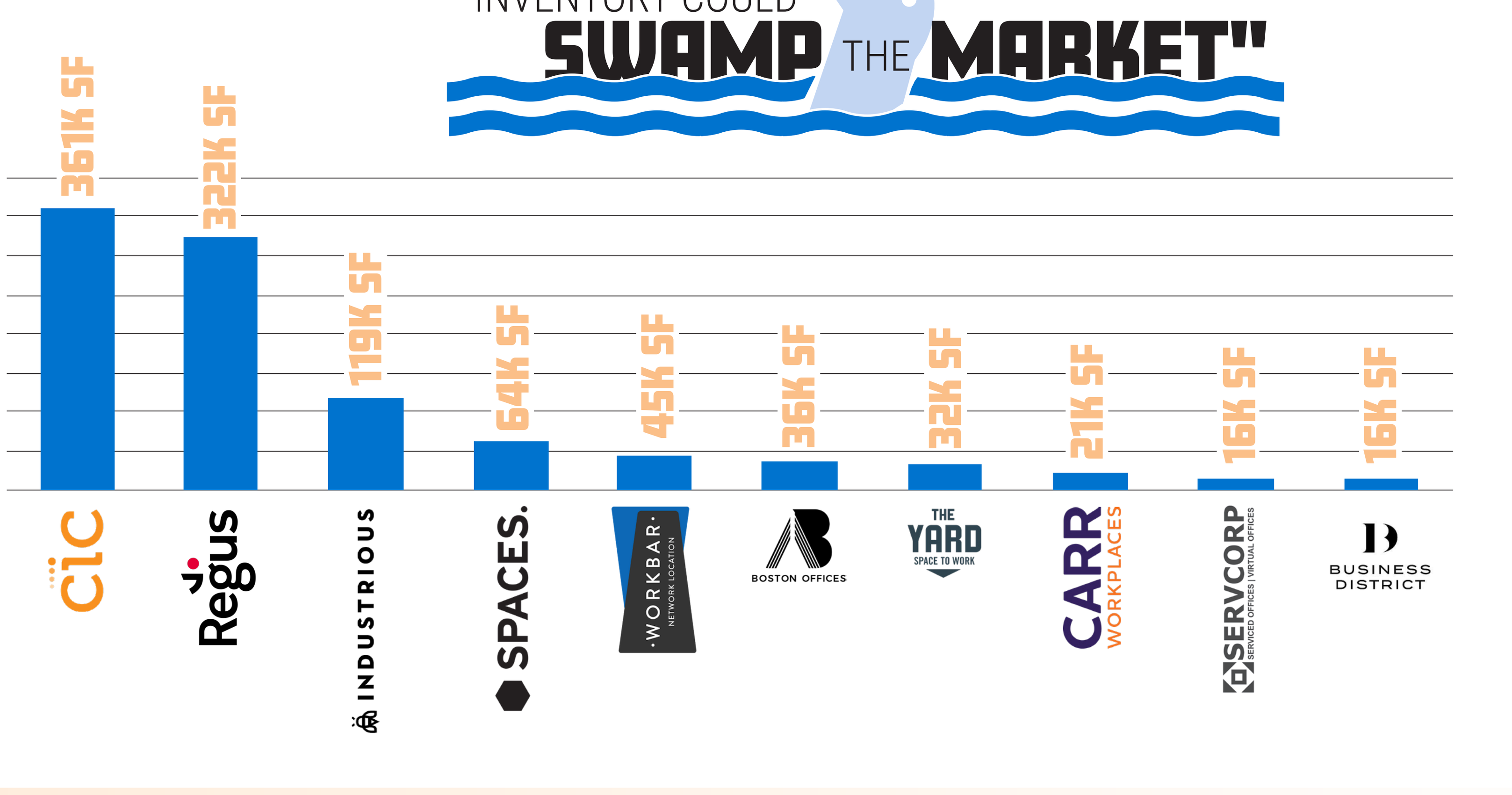
THE COMPETITIVE LANDSCAPE

While WeWork may be the biggest game in town, there are several other coworking operators located in Boston and Cambridge. Industrious, Regus and Work Bar represent some of these companies. Combined, all non-WeWork coworking locations in Boston's urban markets occupy roughly 1.1 million square feet or 41% of the total.

Like WeWork, many of their competitors are also actively expanding in the Boston market. Work Bar recently added to its downtown portfolio with a 17,600-square-foot lease at 24 School Street in Downtown Crossing and Spaces recently opened a 30,734-square-foot location at 75 State Street in the Financial District. Knotel, a new-comer to the Boston market, announced plans to expand rapidly here as well. Landlords, like Tishman Speyer, are also throwing their hat in the ring, and creating their own flexible office space.

Given that most shared office companies have yet to operate during a recession period, it's somewhat difficult to determine market saturation. Currently, urban coworking totals nearly 2.7 million square feet and accounts for 3.5% of total office inventory. Though this is well below markets like New York and Los Angeles, adding another 1-2 million square feet of coworking space to Boston's inventory could swamp the market.

"INVENTORY COULD SWAMP THE MARKET"



POTENTIAL ADDITIONAL COSTS TO LANDLORDS

INCREASED WEAR & TEAR on the building infrastructure

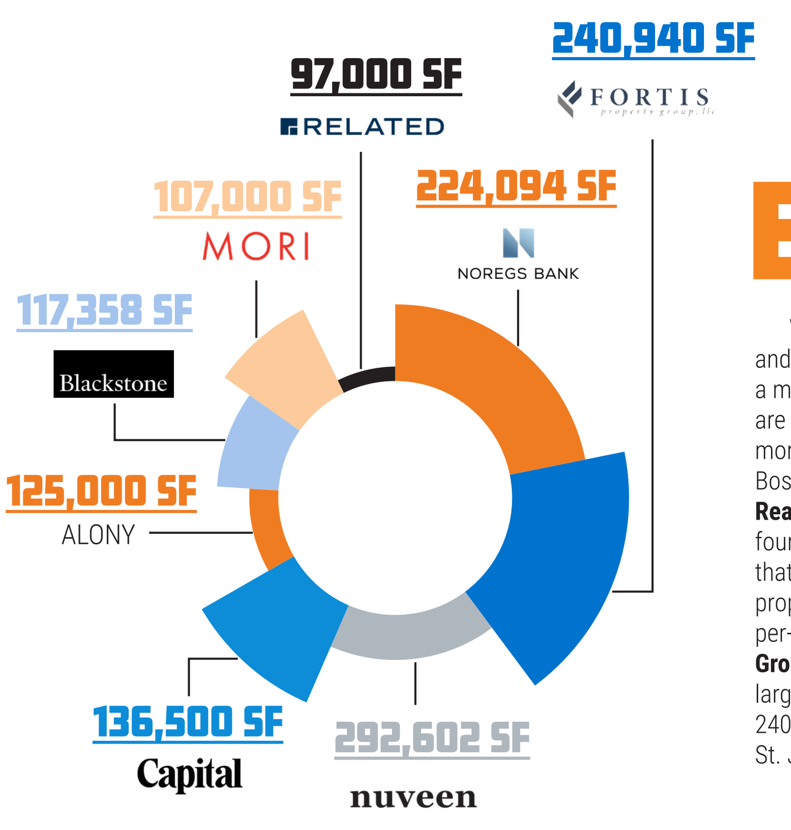
Need for **EXTRA BATHROOMS**

HIGH FOOT TRAFFIC in and out of the building

Potential **ELEVATOR UPGRADE** due to increased dwell times

Need for **EXTRA CLEANING** due to density

CAPITAL IMPROVEMENTS to keep the spaces fresh



LANDLORD EXPOSURE

With 20 locations throughout Boston and Cambridge, WeWork has deals with a multitude of landlords. That said, there are a handful of property owners that have more than one WeWork location across their Boston portfolio. **Norges Bank** and **Nuveen Real Estate** are at the top of this list with four and three offices, respectively. Given that these investors hold joint interest in two properties, they are among the top three on a per-square-foot-basis as well. **Fortis Property Group**, owner of 1 Lincoln Street, boasts the largest single WeWork operation in Boston at 240,940 square feet. **Capital Properties**' 31 St. James Avenue in the Back Bay is home to another large WeWork, operation totaling nearly 137,000 square feet.

Individual landlord exposure to WeWork doesn't appear to be concerning. Yet, if one or more locations were to shutter it could spell trouble for some of these property owners. While a correction in the office market poses downside risks to WeWork's operations, recent concerns surrounding the company's planned IPO are more troublesome at the moment.

wework's RISKY BUSINESS

Even before the recent debacle, several aspects of WeWork's business model have many industry experts raising their eyebrows. While it's not all bad news, here are some their top concerns:

Long-term Leases/Short-term Tenants: WeWork has traditionally executed leases with 10-15 years of term. Given that many of their members sign on for short-term deals or are paying month-to-month, if their customer base dries up they will be on the hook for millions of dollars in rent.

Subsidiaries: For each leased location, a separate corporate entity is established. The parent company (the We Company) only guarantees the lease for 6-12 months on a 15-year deal. Thereafter, each subsidiary is responsible for the leased location. This set-up makes it much easier for a single WeWork location to go dark, as it would not directly impact others.

Outsized Growth: WeWork has been adding 500,000 to one million square feet per month globally. This pace of growth is likely not sustainable – especially as the market moves into a late-cycle phase. While growth plans are already slowing under new management, WeWork claiming that they aren't halting their expansion completely.

"PACE OF GROWTH IS LIKELY NOT SUSTAINABLE"

"EXPANSION PLANS HAS LED TO... REPORTED LOSSES"

Net Losses: WeWork has yet to turn a profit. Though the firm was reportedly valued at $47 billion in January 2019, they continue to report net losses. In fact, in 2018 alone, WeWork posted losses of $1.6 billion versus $1.8 billion in revenue. Their aggressive expansion plans has led to much of these reported losses.

WeWork has shifted to mitigate some of these issues. For instance, they have been focused more on landing enterprise clients, which accounts for 29% of their client base. They also have been shifting from to leases to co-management deals as well as moving towards longer lease terms for its members.

The Mighty Have Fallen: Swift changes are likely in store for WeWork. Late in the summer of 2019 WeWork announced their plan to go public and filed paperwork with the SEC. Given that the firm reported a $900-million loss in just six months the prospectus was met with much skepticism. Notably, their $47.2 billion in future rent obligations were concerning and the math surrounding their $47 billion value from earlier in 2019 came into question. WeWork quickly began damage control and made moves to quell doubts in the marketplace. By mid-September, it looked like the firm would make its public debut but at a much lower valuation — reportedly as low as $10 billion. Conditions remain precarious. The firm has since postponed their IPO filing until late-2019 and the CEO, Adam Neumann, is stepping down. Many are now speculating that WeWork is unlikely to move forward with its public filing this year and new leadership are reportedly considering several thousand layoffs in the coming months. These moves could certainly trigger the closure of poor-performing locations and will certainly curtail the coworking giants growth plans.

LOCAL RISKS

At one point, WeWork was looking to take down another one million square feet throughout Boston, and were looking at expanding into the West - 128 markets. Now, however, landlords seem to be taking a step back from negotiating with the coworking giant. Their recent attempt to go public was met with much skepticism, causing the company to postpone its IPO. Ultimately this will limit the firm's previous rabid expansion plans.

Over-exposure to WeWork carries many of the same risks locally as it does nationally. In Boston, several enterprise clients have gravitated toward the flexible work options WeWork has to offer. Liberty Mutual's Solaria Labs and Current by GE were among the earliest adopters in 2015. Since then, several other tenants have shied away from traditional office for their real estate needs. **Amazon**, **PUMA**, **ezCater**, **Ocean Spray**, **Cambridge Semanitcs** and **Google** top the list. However, many of these firms only signed shorter-term deals with WeWork; lasting any where from 2-5 years. **PUMA**, **Google** and **Amazon**, specifically, will be relocating to their permanent space once construction concludes. As a result, WeWork will most likely need to backfill several hundred thousands square feet of office space over the next few years here in Boston.

THE FUTURE OF wework 3 SCENARIOS

TEMPERED GROWTH

1. Close deals in the pipeline
2. Continue to expand, but at a slower pace
3. Build occupancy in newest locations
4. Move forward with IPO within the next year

MODEST CORRECTION

1. Right the ship
2. Company-wide layoffs
3. Halt all new leasing
4. Identify non and under-performing locations
5. WeWork's footprint shrinks

SEVERE COLLAPSE

1. Office market correction triggers delinquency
2. File bankruptcy and restructure
3. Close multiple locations
4. Other coworking operators step in
5. Possible M&A with a competitor

CONCLUSION

Given the firm's relatively small footprint in Boston, a catastrophic failure on WeWork's part would not be as to the office market when compared to a market like New York. Regardless of the outcome, landlords with exposure to WeWork should continue to evaluate their options and be mindful of potential costs of a location going dark.

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