WHERE **WE** GO FROM HERE

Stakeholder Perspectives on WeWork's Future

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FILLING THE STRATEGIC VOID

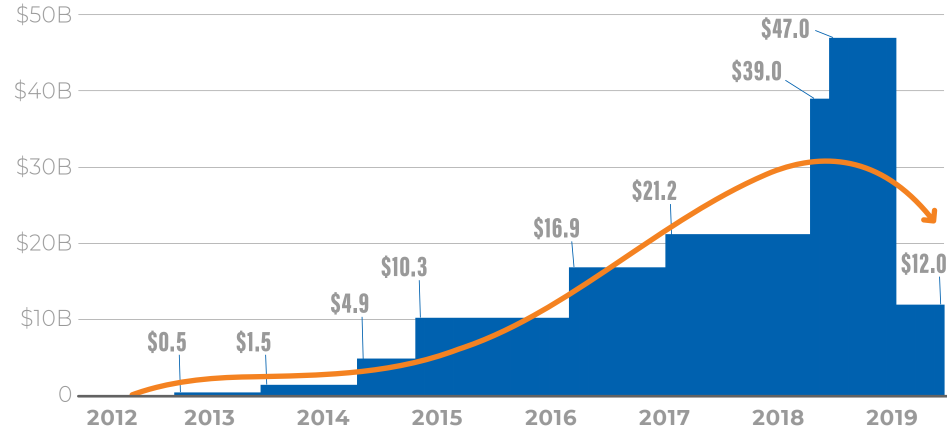
News outlets have bombastically chronicled the steep decline in WeWork's valuation, and commercial real estate service providers and trade publications have documented coworking's proliferation in markets across the U.S. Few advisors have considered practical implications for stakeholders, however, when WeWork takes significant measures to reduce current and long-term financial obligations. Seeking to fill the strategy void, Transwestern has identified immediate and potential challenges created by WeWork's setback.

Having completed an extensive review of all U.S.-based WeWork locations, Transwestern's insights relate to the implications for specific properties, geographic markets and stakeholders, including investors, landlords, tenants and other market participants.

The foundation of intelligence includes all WeWork lease location, size, sign and open date, expansion dates, and relevant market/building level data. Each WeWork location was analyzed and codified per the company's "Workstation Pipeline" operating categories, as outlined in the company's S-1 filed with the U.S. Securities and Exchange Commission on August 14, 2019. Changes in marketed availability within each WeWork location were monitored after the IPO roadshow, gauging changes to WeWork operating fundamentals. Neighborhood and submarket saturation, in the context of WeWork operating categories and changing availability, were then analyzed to understand WeWork's overall potential effect on an area.

Transwestern synthesized information from a variety of sources including its proprietary leasing and absorption database, CoStar, Pitchbook and various news outlets, as well as WeWork's corporate website, company filings and press releases. Transwestern's Research & Data Analytics, Occupier Solutions and Agency Leasing service lines contributed significantly to the analysis.

WEWORK VALUATION VOLATILITY



Source: Transwestern, Rueters

A BUSINESS MODEL IN TRANSITION

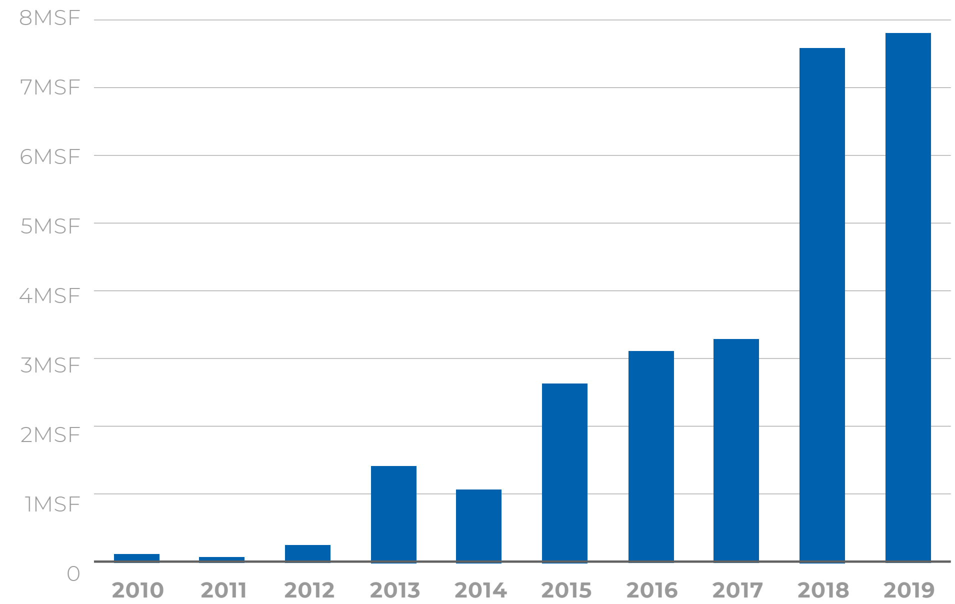
Since inception in 2010, WeWork had by August 2019 rapidly grown its U.S. footprint to more than 365 properties covering 27 million square feet of coworking space. Over the past five years, the company accounted for roughly 71% of growth in the coworking industry with its nearest competitor, IWG/Spaces, contributing only 10% share. Today, WeWork has a presence in 35 metropolitan areas in the U.S.; however, activity in its top five metros accounts for 64% of its domestic portfolio.

> "WeWork's model was predicated on positive leasing spreads between its own base rent and that of its sublessees."

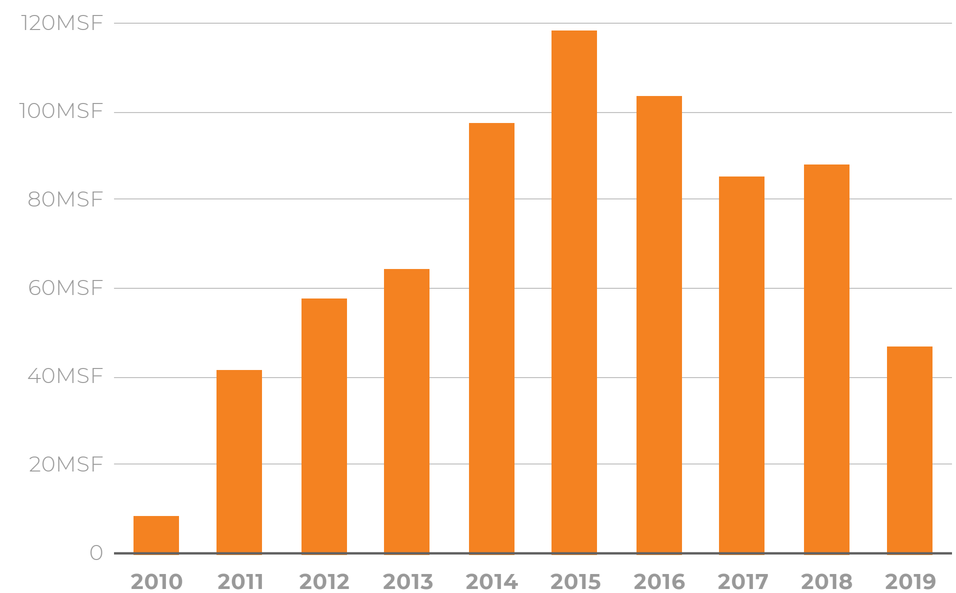
Disruptive Force or Unsustainable Model?

The remarkable pace of growth, deliberate in developing the desired "community" atmosphere in a given market, has come at the consternation of many who believe the short-term leasing model created artificial, unsustainable demand. Some market participants considered WeWork glorified executive suites for Millennials, while others considered it a disruptive force emblematic of the future of real estate demand. Regardless of perspective, WeWork's model was predicated on positive leasing spreads between its own base rent and that of its sublessees, an increasingly difficult balance as prevailing market rents increased over time. As a result, the risks inherent in WeWork's business plan would most probably play out in periods of adverse market conditions. As we now know, such circumstances came in the form of restrictive capital supply, not from a dearth of tenant demand.

WEWORK SF LEASED



U.S. OFFICE ABSORPTION

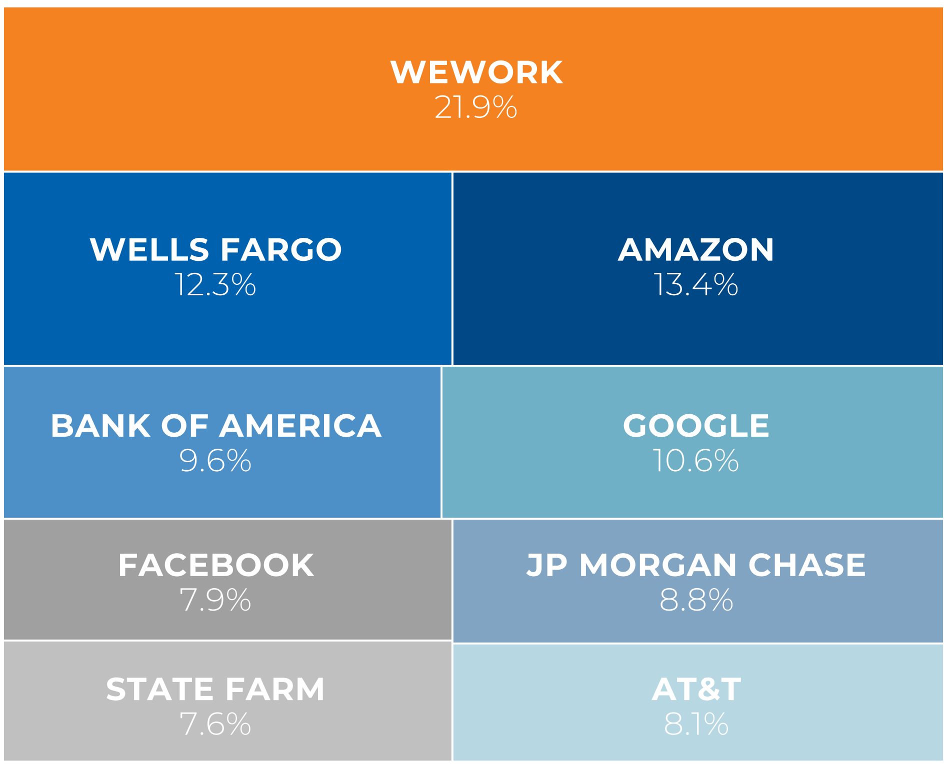


Source: Transwestern, CoStar.

	WEWORK SF	LOCATIONS
United States	27,268,930	365
METRO AREA	**WEWORK SF**	**% OF TOTAL**
New York City	10,307,329	37.8%
Los Angeles	2,214,355	8.1%
San Francisco	1,837,760	6.7%
Washington, DC	1,633,722	6.0%
Boston	1,477,171	5.4%

MAJOR TENANT EXPANSION

2010 - Current



Source: Transwestern, CoStar.

De-Scaling After A Breakneck Expansion

While flexible-term office space has long existed in the office market, WeWork re-envisioned the concept. Coupling the experiential nature that energized Starbucks' growth with the look and feel of luxury and premier hospitality, WeWork infused life into a utilitarian concept and expanded the potential tenant capture from a narrow scope (e.g., satellite/overflow space) to a broad "community" servicing "everyone from global citizens to global entrepreneurs."

Broadening the definition of the envisioned user and enhancing the experience allowed for rapid lease-up of new locations, with occupancy averaging approximately 40% upon "location opening," according to WeWork's S-1 filing. However, more than two additional years were required to reach "location maturity."

> "WeWork committed to 56% of its 27 million square feet of leasable coworking space in the U.S. in the last two years alone."

WeWork's expansion over the past decade mirrors that of its valuation; the most recent two years were meteoric. To wit, over the past decade, WeWork has accounted for just 3.8% of overall absorption across the U.S. However, WeWork committed to 56% of its 27 million square feet of leasable coworking space in the U.S. in the last two years alone. While representing a nominal amount of overall office absorption, WeWork did hold the title of the nation's fastest-growing tenant, well ahead of other growth companies including Amazon, Facebook, Apple, Wells Fargo and Google. As WeWork arrests its pace of growth, and even retrenches in some places, the marketplace's pace of net absorption is palpably undermined, as is confirmed by a review of current availability.

In explaining its Workstation Pipeline, WeWork breaks down its global desk figures into five distinct phases. Transwestern has aligned these categories to all leases, providing a detailed perspective on WeWork's maturity by submarket. Locations in operation for over two years, referred to in the S-1 as "Run" phase locations, have a low availability rate of just 6.0%. In stark contrast, overall availability of 27% is highly influenced by locations under construction (i.e., "Build" phase), or by those having very recently opened, referred to as "Fill" phase.

PRE-OPENING LOCATIONS | **OPEN LOCATIONS**

FIND	SIGN	BUILD	FILL	RUN
724K workstations*	327K workstations	195K workstations	425K workstations	180K workstations
39% of total	18% of total	10% of total	23% of total | 70% of open	10% of total | 30% of open
SOURCE LOCATION	**SIGN LEASE**	**TAKE POSSESSION**	**OPEN**	**STABALIZE**
			Non-mature: 0-24 months	Mature: 24+ months

INVEST TO SCALE PLATFORM

Incur capital expenditures and growth operating expenses

Generate losses since locations are pre-revenue

GAAP rent begins once WeWork takes possession

MONETIZE PLATFORM

Generate revenue and contribution margin

Achieve breakeven occupancy

Generate recurring cash flows

* Includes locations with either a term sheet exchanged (whether or not executed) or a draft lease agreement exchanged (but not yet executed)

TOP MARKETS BY WEWORK MARKETED AVAILABILITY

		BUILD PHASE			FILL PHASE			BUILD + FILL PHASES			RUN PHASE			OVERALL		
RANK	GEOGRAPHY	LOCATIONS	AVAILABLE SF	AVAILABLE %	LOCATIONS	AVAILABLE SF	AVAILABLE %	LOCATIONS	AVAILABLE SF	AVAILABLE %	LOCATIONS	AVAILABLE SF	AVAILABLE %	AVAILABLE SF	AVAILABLE %	METRO OFFICE VACANCY
1	New York City	10	1,229,872	93.8%	59	1,227,541	27.0%	69	2,457,413	42.0%	40	184,584	4.1%	2,641,997	25.6%	7.0%
2	Washington, DC	5	414,067	91.8%	10	191,984	30.6%	15	606,051	56.2%	15	9,957	1.8%	616,008	37.7%	9.5%
3	Los Angeles	4	226,055	64.6%	20	333,318	30.2%	24	559,373	38.5%	17	26,417	3.5%	585,790	26.5%	13.9%
4	San Francisco	2	58,079	94.8%	17	255,217	22.9%	19	313,296	26.7%	10	58,111	8.8%	371,407	20.2%	5.2%
5	Atlanta	5	241,608	76.3%	6	68,694	18.1%	11	310,302	44.6%	2	15,304	21.2%	325,606	42.4%	16.4%
6	Seattle	2	43,223	36.6%	14	214,167	19.5%	16	257,390	21.1%	4	11,519	4.8%	268,909	18.5%	6.3%
7	Denver	3	152,263	107.6%	7	102,344	20.3%	10	254,607	39.4%	2	0	0.0%	254,607	33.4%	9.4%
8	Chicago	2	195,322	90.0%	5	53,514	14.5%	7	248,836	42.4%	6	26,957	6.1%	275,793	26.8%	14.4%
9	Boston	3	122,315	58.5%	10	113,290	13.3%	13	235,605	22.2%	5	5,165	1.2%	240,770	16.3%	7.5%
10	Sacramento	2	192,600	100.0%	2	38,767	41.0%	4	231,367	80.6%		0		231,367	80.6%	10.8%
11	Dallas/Ft Worth	2	112,095	99.8%	8	103,768	29.3%	10	215,863	46.3%	2	3,635	3.9%	219,498	39.2%	15.7%
12	Orange County	2	115,324	60.3%	7	92,377	27.2%	9	207,701	39.1%	1	5,707	20.9%	213,408	38.2%	12.6%
13	South Florida	2	140,783	80.8%	3	29,772	16.8%	5	170,555	48.5%	4	32,483	13.0%	203,038	33.8%	8.3%
14	Austin	1	27,906	65.8%	4	94,186	35.5%	5	122,092	39.6%	4	140,653	50.9%	262,745	45.0%	9.3%
15	Phoenix		0		4	117,392	45.1%	4	117,392	45.1%		0		117,392	45.1%	12.9%
	All Other	7	192,185	48.9%	36	456,736	22.2%	43	648,921	26.5%	16	33,097	4.0%	682,018	20.8%	
	Grand Total	**52**	**3,463,697**	**80.9%**	**208**	**3,375,675**	**24.3%**	**260**	**6,839,372**	**37.7%**	**128**	**553,589**	**6.0%**	**7,392,961**	**27.0%**	**9.2%**

Source: The We Company Form S-1 as filed with the SEC on August 14, 2019, Transwestern, CoStar.

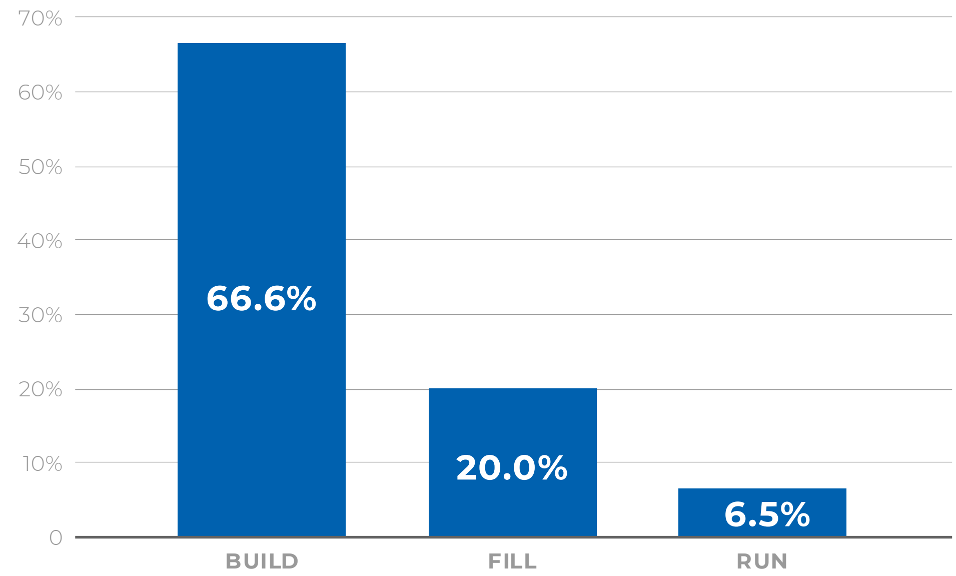
NEGATIVE IMPLICATIONS FOR OPERATIONS & PROPERTY FUNDAMENTALS?

Examining top U.S. markets by WeWork marketed availability reveals that the overwhelming majority (90.5%) of "risk" is identified as WeWork lease commitments still in Build and Fill phases, wherein WeWork is constructing space they intend to sublease, or are currently subleasing, to corporations and/or individual memberships. In all, WeWork has committed to selling more than 7.0 million square feet that has yet to be occupied, with 6.8 million square feet never having reached "locational maturity."

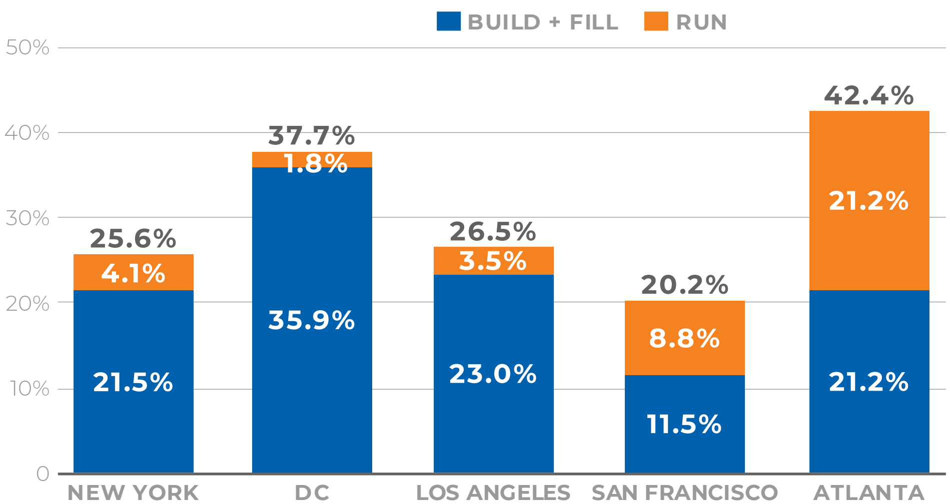
As the preceding table manifests, a critical mass of this exposure is in New York City, but also in other major markets, some with challenging submarket vacancies already undermining property fundamentals. Seven of the top 15 markets ranked here exhibited double-digit office vacancy rates at the time of this report. Many markets exhibit concentration of WeWork availability in proximity to submarket-level availability.

In a scenario where WeWork concesses its space, repudiates it altogether, or begins competing for corporate clients with other landlords or its very own landlord, the impact on property and market fundamentals could be pronounced.

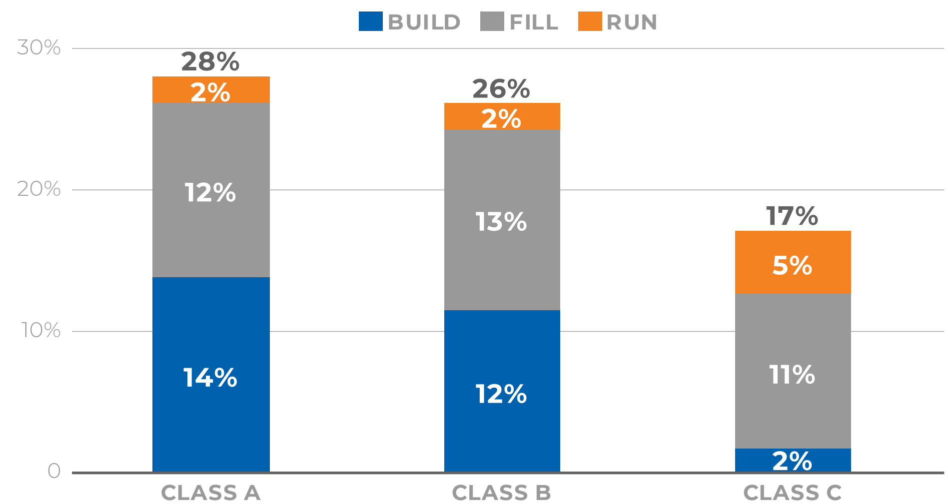
AVAILABILITY BY OPERATING STATUS



AVAILABILITY IN WEWORK'S TOP FIVE METROS



AVAILABILITY BY PROPERTY CLASS



Source: Transwestern, CoStar, as of November 30, 2019.

TAKEAWAYS FOR STAKEHOLDERS

In the wake of slowing and even retrenching WeWork operations, the U.S. office market is sure to feel the resulting void. Some markets will experience deeper reverberations than others. The resulting impacts will affect various stakeholders in myriad and complex fashions, necessitating discussion with informed subject matter experts. Below are some practical inquiries for stakeholders to consider when navigating related decisions for the foreseeable future.

Meanwhile, it is imperative to acknowledge the silver lining of WeWork contributions both to the commercial real estate industry, and to industry overall. Perhaps never in the history of commercial real estate has an individual company's proliferation resulted in as significant an increase in ideation or the literal revolution of property's role in innovating corporate culture. WeWork's model cast bright light on the value of amenities and experience to owners and tenants, inspiring property renovations resulting in invigorating, collaborative and efficient workplaces.

Yet, WeWork's diminution underscores the importance of due diligence and an avoidance of proselytizing rapid, sustainable change in the world's oldest asset class.

Considerations for WeWork Landlords

- Will WeWork perform once I fulfill my landlord obligations?
- What "sign" locations may be at risk?
- What other WeWork contracts have been entered into near me, and what maturity stages have been achieved?
- What is availability of space in my market? Could WeWork create more availability, or compete for corporate tenants that other landlords are pursuing?
- If WeWork terminates its lease obligations, what rights do I have, and what is my contingency plan?
- What outcomes would present conflict or opportunity for my investors, tenants and lenders, and what is the probability of each scenario
- Could – and when – might WeWork renegotiate its lease obligations?
- What is WeWork's potential for undercutting lease pricing through subleasing? What rights do I have, and what is my contingency plan?
- Are alternative coworking operators available to run my vacated WeWork location? Do I have the means, or should I engage an operator?
- Has WeWork's devaluation hurt the value of my asset?
- Is WeWork's construction finish quality in my asset marketable, or would it require capital investment to bring to market competition?
- Has support staffing and amenity availability changed since the WeWork IPO roadshow? How will this affect the perception of my building?
- Should I be proactive? If so, what steps should I take now?

Considerations for WeWork Members

- Has support staffing and amenity availability changed since the WeWork IPO roadshow, or is it likely to change?
- Is my location likely to close? What are my alternatives?
- Will my space alternatives also be impacted by WeWork in any negative or positive way?
- If there has been a decline in service, am I paying too much? Does the space still meet my needs?

Considerations for Investors, Tenants & Landlords Near WeWork Locations

- Could property fundamentals erode should WeWork's position in my market deteriorate?
- Are lease rates likely to shift? How can I position myself to defend or take advantage of such an outcome?
- Will potential future market conditions inhibit property acquisitions and/or development?
- Are some property categories more or less resilient to potential increased availability?
- Should I be proactive? If so, what steps should I take now?

About Us

Transwestern advises clients on real estate strategy, site selection, lease-up and disposition of commercial assets, property and project management, portfolio strategy, debt and equity financing, and development.

For a deeper dive on the coworking landscape in your market contact a local Transwestern advisor at **Transwestern.com/locations**

Transwestern Research & Data Analytics

In markets across the country, Transwestern research and data analytics professionals produce sophisticated data intelligence, local market analyses and insight on national trends that help clients make informed real estate decisions.

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