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WeWork Looks to Renegotiate Most of Its Leases as It Fights to Survive

The co-working company seeks concessions from landlords already dealing with a slumping commercial real estate market

A WeWork office in Mill Valley, Calif. The company in August warned that it may not be able to stay in business.

PHOTO: JUSTIN SULLIVAN/GETTY IMAGES

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WeWork launched a renegotiation of its office leases globally, testing its leverage against landlords that stand to lose if the embattled co-working space provider goes out of business.

WeWork's current lease liabilities are "dramatically out of step with current market conditions," interim Chief Executive David Tolley said Wednesday. WeWork held calls with landlords to inform them that it would be seeking concessions on its office leases, which account for more than two-thirds of its operating expenses.

The company last month raised doubts that it would continue as a going concern, citing its dwindling cash and market headwinds. Once among the world's most valuable startups at $47 billion, WeWork recently installed several directors with bankruptcy and restructuring experience to its board. Some of its major creditors have held preliminary talks among themselves to explore a bankruptcy filing for WeWork.

Landlords are themselves grappling with a slumping commercial real estate market, especially in New York and San Francisco, and have a lot to lose if WeWork were to go out of business. Bankruptcy proceedings allow for the rejection of undesirable contracts and would give WeWork legal power to reject undesirable leases while extinguishing its liability for any resulting damages claim.

Landlords whose leases are rejected in bankruptcy are classified as unsecured creditors—and would rank behind billions of dollars owed to secured bondholders. That could motivate some landlords to come to the negotiating table with WeWork because the alternative—a potential bankruptcy filing—could be worse.

"No one wants to deal with bankruptcy," said Ruth Colp-Haber, founder of Wharton Property Advisors, whose previous clients included WeWork landlords.

Landlords with more popular locations may be less willing to make concessions than less popular ones, but a possible bankruptcy filing on the horizon "will make landlords more negotiable with WeWork," she said.

Landlords don't have to look beyond the co-working industry to see what could happen. Knotel, another flex-office firm, filed for bankruptcy in 2021 and sought to reject most of its more than 100 leases on the first day of its bankruptcy filing.

Another flex-office provider, Regus, placed a handful of its subsidiaries under chapter 11 in 2020 as part of its initiative of renegotiating more than 1,000 leases as office use collapsed during the Covid-19 pandemic.

The small set of Regus subsidiaries placed in chapter 11 were used as a prop to renegotiate additional leases, said Ivan Gold, a lawyer with law firm Allen Matkins who represented Regus landlords in the bankruptcy case.

“They used the bankruptcy to create leverage in their negotiations with landlords of the tenants who weren’t in bankruptcy,” Gold said.

Lawyers represented Regus didn’t respond to requests for comment. Regus did not immediately respond to a request for comment.

For years, WeWork succeeded by taking out discount long-term leases from landlords and subletting them at a markup to entrepreneurs and small businesses. That model is now threatening the company’s existence as work-from-home continues to sap interest in flexible office space.

WeWork said last month that its ability to negotiate concessions from landlords in the next few months will determine whether the business survives as it faces weaker-than-expected demand and higher member churn.

If WeWork is able to renegotiate a sufficient number of its high-cost office leases and bring down its cost of rent, the company may not need to file for bankruptcy and it could avoid restructuring its debts.

Since the end of 2019, WeWork has amended or canceled hundreds of its leases, resulting in an estimated reduction of $12.7 billion in fixed lease payments, according to securities filings.

As of June, WeWork maintained 777 locations across 39 countries, including 229 locations in the U.S., according to its filings. WeWork has an estimated $10 billion in lease obligations due starting from the second half of this year through the end of 2027 and an additional $15 billion starting in 2028, according to public filings.

The company burned through $530 million during the first six months of 2023 and had around $205 million of cash on hand as of June, according to securities filings. Last week, the company boosted its liquidity by borrowing another roughly $313 million from its largest investor, SoftBank.

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