

The long read

Why WeWork went wrong

by [Matthew Zeitlin](#)

Former WeWork CEO Adam Neumann. Photograph: Michael Kovac/Getty Images for WeWork

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It's so easy to focus on Adam Neumann, the tall, long-haired, barefoot, meat-banning, weed-smoking, tequila-drinking, Kabbalah-studying, experimental school-opening Paltrow-cousin-in-law and founder and now deposed chief executive officer of the We Company, the real estate company that dropped “Work” from its name after it bought the copyright for the word “We” from Neumann himself.

Neumann's ambitions were as ludicrous as his persona. “Rather than just renting desks,” [Fast Company reported](#) in January, “the company aims to encompass all aspects of people's lives, in both

physical and digital worlds.” This included expanding the WeWork model to residential housing and education. Before Neumann had even started the company, he had envisioned “WeSleep to WeSail to WeBank”. While none of these will ever be realised, perhaps he was right to think beyond office space subleasing. The company as he had built it is in crisis.

Everything went wrong for WeWork soon after it publicly filed documents for an initial public offering of shares, on 14 August. Six weeks later, Neumann had voted to remove himself from the CEO job and given up his majority control of WeWork’s stock. The company’s proposed valuation had fallen by more than half, and the IPO had been called off entirely. The failed IPO and the company’s subsequent takeover by SoftBank, its largest investor, were both facilitated by the public exposure of long-known information: WeWork was losing a ton of money; its projections of the size of the market for shared office space (up to \$3tn) were wildly optimistic (it counted anyone who worked at a desk in an American city where there was a WeWork as a potential “member”; in non-US cities with WeWorks, the estimate applied to anyone with an office job); and its corporate culture and strategy were completely in hock to Neumann and his family’s bizarre ideas and whims.

The company’s business model had been known to be expensive and have little path to profitability since at least 2015, when BuzzFeed first published documents WeWork had used to solicit investors. Neumann’s weird behaviour, meanwhile, had been part of the sales pitch from the very beginning. What seemed to make this year’s WeWork stories different, and more damaging, was the addition of alleged self-dealing and self-enrichment by Neumann to the core model of leasing office buildings, transforming them into “shared” workspaces, providing free beer to tenants, and then counting on a rotating cast of freelancers, venture-funded startups

counting on a rotating cast of freelancers, venture-funded startups and some larger corporations to pay rents that could be as short as a month at a time. But Neumann's propensity to sell stock and lease buildings he partially owned back to WeWork wasn't news either - it was exposed by the [Wall Street Journal](#) earlier this year, before the trouble started.

The more sceptical sections of the financial press have always had WeWork's number, even when the company's footprint and valuation were soaring. In 2017, the Wall Street Journal's indefatigable Neumann correspondent Eliot Brown [described](#) "A \$20 Billion Startup Fueled by Silicon Valley Pixie Dust". It was all there: his casual transubstantiation of office space subleasing into something more like software (he had told investors they were buying into a "physical social network"), as well as the doubts from anyone who knew about his actual business - real estate - that the company was worth \$20bn, let alone the \$47bn it was valued at in its last round of private fundraising, let alone the more than \$100bn Morgan Stanley reportedly told the company it could be worth.

What happened since August wasn't the consequence of the kind of investigative journalism that felled [Theranos](#), or the long-foreshadowed public tumble of an Uber. It was more akin to the kind of frenzied group condemnations that emanate from Twitter every so often. Widely known facts were re-aired in a new climate. What was once amusing or somewhat confusing was now, in a new light, merely horrifying. But this time, instead of hopped-up teenagers hurling moralistic condemnation at mediocre TV shows, it was middle-aged men condemning a 220-page financial statement on Twitter, in real time.

Like a film-maker caught in an unanticipated critical maelstrom, WeWork and Neumann tried hard to swim against the current. There was the eventual partial compromise to stem the tide of ill

will, when Neumann finally returned to WeWork the \$6m or so he got for the name “We”. But that didn’t help the valuation. Nothing did. Bankers proposed cutting the company’s value by more than 50% until the capitulation became final. By 24 September, Neumann was out of his job and the WeWork show was pulled off air. There would be no debut, no whirring of computers at Nasdaq’s New Jersey servers. Now the company is majority owned by SoftBank at a valuation of \$8bn, well short of the \$13bn that’s been put into it.

Past exposés of WeWork’s kooky business practices and sunny projections had relied on documents distributed to potential venture investors. When WeWork turned to the bond market last year to borrow hundreds of millions, it had to deliver some more revelations. What the investor documents showed, amid all the fantastical profit projections, was that in 2017 WeWork had lost \$883m, despite having some \$886m in revenue. A leak to the Financial Times revealed that in 2018 the company managed to lose \$1.9bn on some \$1.8bn of revenue.

Throughout all this, Neumann was being Neumann. His private jet trips may have involved some incidental transportation of marijuana across international borders, his wife may have fired employees for their bad vibes, and the company may have ended a meeting announcing layoffs with a performance by a member of Run-DMC.

A WeWork co-working space in Washington DC. Photograph: Mandel Ngan/AFP/Getty Images

But Neumann’s leadership and loose corporate culture wasn’t all surfing in the Maldives, guitar-shaped houses and expensive experimental schools, according to one lawsuit. A former WeWork

employee alleged last year in a civil case that she was groped or forcibly kissed at corporate events, including at an alcohol-fuelled WeWork “Summer Camp”, and that her complaints resulted in little attention from human resources and little to no action against her alleged assailants. She was later fired.

“The sexual harassment and assaults of Plaintiff did not happen in a vacuum,” the employee’s complaint read. “They are product in part of the entitled, frat-boy culture that permeates WeWork from the top down.” The former employee specifically mentioned that during her job interview with Neumann, he served shots of tequila and that “company managers and executives heap immense pressure on employees to attend after-work events and place a premium on employees’ participation in the parties that WeWork sponsors”. The company said she had been fired for poor performance.

What transformed WeWork from an investor darling into a pariah didn’t belong to any predetermined boom-and-bust model, and it wasn’t about prosaic investor concerns, like future cash flows. According to the great Bloomberg columnist Matt Levine, WeWork’s downfall could only be explained in abstract terms. Something about what happened - and the speed with which it occurred - seemed unknowable.

Levine pointed out that at its peak valuation, WeWork was worth almost half the entire value of publicly traded US real estate investment trusts: “Nobody gets into venture capital because the best-case scenario is doubling their money.” Such returns would be far too small. “For WeWork, maximal office-landlording success would be kind of disappointing,” wrote Levine. More ambitious schemes were required. If you could somehow build a company that included micro-apartments, software and schools, then, sure, why not? Maybe it really would be worth \$100bn someday. Or at

why not? Maybe it really would be worth \$100bn someday. Or, at least, if people as smart as WeWork's venture capital investors bought into this, then surely the less sophisticated asset managers that buy into IPOs would, too.

That's not how things worked out. Private investors are supposed to be long-term thinkers - especially SoftBank, which claims it wants "to create an ecosystem that will continue to grow for 300 years". But WeWork's investors folded quickly, suddenly demanding from the company the focus and discipline critics had been saying was missing for years. Maybe some of the more dour and anonymous asset managers expected the CEO of a nearly \$50bn company to act like one, while his venture capital investors wanted him to maintain his overwhelming ambition.

But it was precisely those investors, SoftBank and the Silicon Valley venture firm Benchmark, that forced him out. What was strange was that they knew better than anyone that WeWork really did need to raise more money to address its endemic cash burning. Even Levine admitted to being a little stumped: "WeWork's investors, particularly SoftBank, were there because of Neumann's upside, his ability to sell a wild vision of WeWork as a transformative company that can dominate the world and justify a \$47bn private valuation. And now, nah, never mind, office landlord."

Unlike real estate booms past, WeWork's subleasing spree won't leave behind many monuments: no half-built skyscraper complexes in Kuala Lumpur, no pointless airports in rural Spain. Instead the money found its way into already existing infrastructure, made visible only by discreet signs or logos on windows scattered on office buildings in New York, San Francisco, Seattle and Boston.

WeWork had consistently promoted itself as “asset light”: its buildings leased from developers, then, after being subdivided, rented out on a short-term basis. This lightness will stand out as WeWork’s true innovation, in two ways. The first was that by signing leases, as opposed to buying or even building, it could grow incredibly quickly, as long as it was able to raise enough money to cough up rent. It also built light. Contra its loudest critics, WeWork is more than just marketing, spin and pineapple water. It has used all of that atmospherical ephemera to convince workers - whether they’re freelancers or employees of fast-growing companies that can’t build out their own space quickly enough - that they don’t need as much space as they might have thought. One estimate puts WeWork’s square footage per “member” at around 50 sq ft, well short of the office average of 250. WeWork is thus able to charge high rents for substantially less space than its competitors.

But because of its pretensions to being a technology company, the offering to tenants is famously flexible: you can rent month to month and can easily expand or shrink your space according to your needs. For WeWork, this means that the revenue can vary substantially over a year. If there were ever a large drop in demand for flexible office space, WeWork would still have its own lease payments to contend with. In its company filings, WeWork placed its average lease length at 15 years and wrote that it was on the hook for some \$47bn worth of payments, with only \$4bn of revenue commitments from members. The company is essentially renting long and subleasing short, leaving itself exposed to the same risk as financial institutions that fund themselves with short-term borrowing while maintaining long-term funding commitments.

A model this risky requires an unusual source of investment, and these days SoftBank is the most unusual of all. Or perhaps the second most unusual, after its own partner: the Saudi government. A year before SoftBank's Saudi-backed Vision Fund poured \$4.4bn into WeWork, in 2017, the Saudis invested directly in Uber. WeWork and Uber's involvement with the Saudi government raised hackles in the press. For a while, before the assassination of [Jamal Khashoggi](#), the two companies were able to pitch themselves as liberalising forces in Saudi Arabia, helped along by the government's eventual announcement that women would finally be able to drive. But when the Saudis attempted to host a "Davos in the desert" investment conference soon after Khashoggi's murder, several technology and finance executives dropped out. Crown Prince Mohammed bin Salman's brutal purge of the Saudi elite investor class had not provoked much of an outcry from the American public and business class; neither had the brutal war against Yemen. The dismemberment of a journalist, overseen by some of the prince's closest advisers, was different.

Khashoggi's killing was so shocking and blunt that even SoftBank's CEO, Masayoshi Son, was compelled to condemn it. But that was as far as Son went. He would stay in business with the Saudis because SoftBank had "accepted the responsibility to the people of [Saudi Arabia](#) ... to help them manage their financial resources and diversify their economy".

Late last year, SoftBank publicly listed shares in its core business, a Japanese mobile phone company, helping effect its transition into a company that primarily invests or owns other technology companies. These holdings include a stake in the Chinese e-commerce marketplace Alibaba, a wholly owned English semiconductor company, and US telecoms giant Sprint, as well as

stand-alone funds for dozens of other bets, including the Vision Fund, whose biggest single investment was WeWork. The Fund is supposed to invest in “unicorns”, or in companies that are or will be leaders in their sectors. Typically these types of bets are supposed to be lower risk, because companies with valuations that high have businesses that are more or less ... real. Though the fund is supposed to be yoked to Son’s 300-year vision, it also promises some investors 7% returns every year.

It is in this nexus - between the Japanese telecom company trying to turn itself into an investor betting on a global technology revolution, a cash-rich nation trying to diversify its economy and embed itself into non-energy global markets, and an ambitious entrepreneur trying to raise as much money as possible - that the WeWork mania and Neumann’s behaviour come into focus.

When it comes to Neumann, there are two diverging theories. In one telling, he let his ambition get ahead of his abilities to run a profitable business: he was simply taking what money was available and pouring it back into the company, trying to deliver the impressive revenue growth that venture capital investors supposedly want. In a different telling, suggested by another one of WeWork’s great chroniclers, the journalist Reeves Wiedeman, Neumann is the genius of this period of venture capital mania. His deal to give up control over the company in SoftBank’s acquisition of majority control over it only proves it further: the Japanese conglomerate is buying \$1bn of WeWork stock from Neumann along with an \$185m consulting fee and \$500m in order to pay off a loan from JPMorgan - and, the [Wall Street Journal reported](#), covering \$1.75m he owed the company for using the company’s private jet for “surf vacations and other jaunts”. Neumann may have become a laughing stock, but he is a very rich laughing stock.

One of the great mysteries of modern finance is how to make money when you know there's a bubble, or at least how to get much, much richer than everyone else. The obvious way is to bet against the bubble, but this is difficult, as its expansion can easily outlast one's ability to finance the wager. It's even harder if the bubble is primarily happening in the private markets, where it is very difficult, if not impossible, to directly bet against the fortunes of a company that you think is overvalued. What you can do, however, is try to find a way to soak up as much money as possible from optimistic investors and then furiously distribute it to yourself and your family, so that by the time things turn, you're already rich.

And to properly pull this off, you would need to find investors with a lot of money that they felt obligated to spend. It was just as important for WeWork to serve as a parking place for Saudi and Japanese cash as it was to provide office space for burgeoning businesses. In the introduction to SoftBank's most recent annual report, Son thanks shareholders for their support as "we continue to move forward, inspired by our belief in the power of technology to build a more connected, efficient, and joyful world, as expressed by our corporate philosophy: 'Information Revolution - Happiness for Everyone.'" He goes on to hail the coming "AI Revolution, which is poised to redefine all industries - including education, health care, real estate and finance, as well as the advertising and retail sectors". This revolution will, Son intends, be funded by SoftBank.

SoftBank CEO Masayoshi Son. Photograph: Kazuhiro Nogi/AFP via Getty Images

The scale suggested by Son's plan is massive - literally all industrial output for the rest of human history - and it has been matched by the Vision Fund, which raised almost \$100bn, including a \$45bn commitment from Saudi Arabia. But you still have to invest the

commitment from Saudi Arabia. But you still have to invest the money, or, as Son put it, “take the helm of a group of companies led by top AI entrepreneurs from all different fields, much like a preeminent orchestra made up of virtuosos on scores of instruments, and help them harmonise, while creating additional value along the way”.

To take Son’s logic seriously, if the entire world economy is going to be transformed by a set of emerging technologies, the investment opportunity is never too big. But just because an investment is justified by a theory about how technology will transform all production doesn’t mean there are enough companies actually pushing those changes to fund. One day you wake up and you’re funding on-demand dog walkers, indoor farming and an Indian hotel chain, to the continued bafflement of journalists and market observers. The private equity titan Stephen Schwarzman put it delicately when he told CNBC: “[Tech] often comes with no earnings, and so if you’re going to finance the expansion of an industry that often doesn’t earn anything, you’re going to need large amounts of money to the extent you’re a believer.”

Unlike traditional venture capital funds that might raise, at most, a few billion from wealthy families and pension funds, SoftBank needed to raise much, much more, because its strategy was different. When those traditional venture capital firms are confronted with a bizarre, failed investment, more often than not they will shrug it off, pointing out that their overall returns are overwhelmingly generated from a few hugely successful bets. This model is most effective with software companies, which require some startup capital to hire engineers and start selling a product, but then can quickly turn into highly profitable businesses as they find a market and mature.

But as the technology industry grew, the market for funding tech

companies changed. Following the financial crisis, interest rates fell to rock-bottom levels, cash piled up on companies' balance sheets and in the hands of the ultra-wealthy, and regulatory changes made going public quickly less attractive. Technology companies were able to raise hundreds of millions of dollars from mutual funds, sovereign wealth funds, and other huge pools of capital when, 10 years earlier, they would have had to sell their shares to the public. But the resources and eagerness on the part of these funds - and the wealthy families that spent as lavishly - would come to mean what one might call over-investment.

While the cost of starting a traditional startup has plummeted thanks to cheaply available server access from Amazon, companies that, in the parlance of the industry, move "atoms" (stuff) instead of "bits" (code) can be ruinously expensive to run. Whether it's the cost of leasing and building out new locations for WeWork, or the torrent of rider discounts and driver bonuses that Uber and Lyft pay out to start up new markets, these companies eat through investor cash for years in order to survive.

Looking backwards through the telescope, the mega-funding for app-based taxi-cab dispatchers and beer-distributing office subleasers makes more sense as a case of savvy operators creating landing zones for massive flows of cash, of demand for big "tech" investments creating a supply of them, which can then be sold as the next big thing. What distinguishes many of these companies, especially ones that have received investment from SoftBank, is their neither-fish-nor-fowl, real world/software nature, along with their insatiable need for capital. As popular business analyst Ben Thompson has argued, the Vision Fund may have confused companies that need lots of capital with companies that offer big opportunities, resulting in a "paucity of tech companies" in its portfolio and instead a collection of Wags and WeWorks.

So why did the Saudi government want to pour money into companies selected seemingly almost at random by a charismatic and eccentric Japanese businessman? The resulting fit between the Saudis and Neumann was not just awkward for business reasons, but also cultural. Not because Neumann is Israeli, or likes weed and tequila, but because to a degree unusual even by startup-founder standards, WeWork had wrapped itself in gauzy rhetoric about its ability to change the world. This led to predictable tension when it turned out that the company's biggest funder was Saudi Arabia, a country ruled by an authoritarian regime and where religious authorities still exercise tremendous control over everyday life.

But as is so often the case in the world of technology investment, what looks like a contradiction may actually be consistency. If

WeWork couldn't offer software-esque returns on investment, then it could offer all the superficial trappings of a technology company: spiritualist pablum about elevating global consciousness, a charismatic CEO with a fondness for giving talks with a microphone attached to his face, and an overall approach that sometimes appears to have started with the HBO satire Silicon Valley and then worked backward into an actual company. If Saudi Arabia wanted to more fully enmesh itself into the global economy, then it had to sign up for the pseudo-new-age bullshit on offer from some of its largest companies. For the companies - whose social liberalism often runs far ahead of the Republican party's, let alone that of the House of Saud - SoftBank's intermediary role offered plausible deniability. But, as Mohammed bin Salman put it himself, with admirable directness: "Without the PIF [Saudi Arabia's sovereign wealth fund], there will be no SoftBank Vision Fund."

In the old days - which is to say before 2017 - Saudi leaders were

in the old days – which is to say before 2017 – Saudi leaders were content for their relationship with the US to be relatively discreet. Ever the flashy millennial, Bin Salman wanted more attention, touring the US in 2018 and publicly wooing the most visible instantiations of the American imperium: technology executives, prominent journalists, Dwayne “The Rock” Johnson. As part of his much-ballyhooed “opening” of Saudi Arabia, he even allowed an American movie to be screened on Saudi soil. The film told the story of an ambitious young king seeking to open up his rich but isolated country to the world: *Black Panther*.

The attempted diversification of Saudi Arabia’s economy has occasionally veered off into farce, like when the government tasked western consulting firms with implementing Bin Salman’s dreams of a [future city](#) in the Arabian desert called Neom. (According to the *Wall Street Journal*, Neom would feature a beach that supposed to glow “like the face of a watch”, as well as a “robo-cage fight”, “one of many sports on offer”.)

If Neom and Bin Salman’s American grand tour were the most visible attempts in a wider plan to become something more than an oil supplier to the modern corporate technology world, then the cheque written to SoftBank is the downpayment. And if WeWork is what happens when capital is in the hands of resource-rich autocracies, futurist telecom executives and cash-rich mature companies, perhaps it can serve as a launching point for thinking about how capital would behave differently under the aegis of democratic control.

The “We” in WeWork was the customers working in the offices, living in the apartment buildings, and learning in the schools – not the people determining where any of this was built, and in what quantity. If money is indeed piling up on the balance sheets of large corporations and in the coffers of the Saudi treasury as proceeds for

burning the planet - and if that money is ultimately at the disposal of a farseeing Japanese mobile phone mogul - one might ask if it could be managed differently if it were in the hands of, well, “We”.

A longer version of this article first appeared at nplusonemag.com

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