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WeWork is still working. | Tomohiro Ohsumi/Getty Images

The pandemic could have crushed WeWork. It may have saved it instead.

How do you make a business out of sharing office space when no one is going to the office?

By [Rani Molla](#) | [@ranimolla](#) | Dec 22, 2020, 8:00am EST

Last year, WeWork failed to become a public company after a high-profile implosion full of intrigue, excess, and downright foolishness. Miraculously, one year and one pandemic later, the coworking company is not only still kicking, but it stands to ride post-Covid-19 office trends to profitability and an IPO — if it can hold on long enough.

A company that rents out trendy shared and private office space, WeWork has made a number of critical changes that have helped it hold on while facing a pandemic that kept people home and away from offices. Some of the most important changes, however, happened before the coronavirus took hold.

Last year, the company ditched its founder, Adam Neumann, who had created a company culture that was more in line with the most outrageous tech company than something as quotidian as real estate. As he sought a tech company valuation for the office subleasing company, Neumann's hard partying, profligate spending, and poor judgment derailed that goal and nearly destroyed the company. A new CEO, Sandeep Mathrani, took over this February and was charged with righting the company's mission, cutting costs, and excising a destructive company culture in order to bring the once highly valued unicorn back from the brink.

WeWork's upheaval meant that the company was already forced to

be agile in order to avoid destruction before the pandemic. But the company's perseverance is also a testament to the strength of the flexible office market, a real estate sector that focuses on short leases and move-in-ready space, in addition to coworking. Indeed, so-called flexible office space has proved surprisingly hardy during the pandemic, given that its business had been predicated, in part, on the idea of squeezing as many people into as little square footage as possible.

With the arrival of a vaccine, those issues are seeming less important. Meanwhile, flexible space's value proposition is looking more attractive for companies trying to contend with the uncertainty of a more dispersed workforce spending more of their days at home.

“We believe, based on our data and history, that flex is going to be a very viable alternative when interest in office space rebounds,” Julie Whelan, global head of occupier research at the commercial real estate firm CBRE, said in a recent briefing about flexible office space. “It will come out of this stronger than it went in.”

So to comprehend WeWork's remarkable recovery, you need to know more about flexible office space and its prospects.

Why flexible office space has a future

There's no getting around the fact that the pandemic has been rough on owners and operators of office space, including flexible space, which people can get rid of more easily. Only a small portion of people have returned to the office. In Manhattan, the biggest office market, just 10 percent of office workers have come

back, and some may never do so.

But while new leases are down, few are relinquishing flexible office space. The amount of leased flexible office space in the top 23 US markets was 67.1 million square feet at the end of the third quarter this year, according to the commercial real estate services giant Cushman & Wakefield, up 2.5 percent from where it was at the end of 2019.

WeWork and its competitors like Knotel and Industrious — all of which lease ready-to-use office space to individuals and companies — have slowed their rapid growth but haven't had to downsize much. They've retained enough business to keep them afloat during the pandemic and are looking forward to a time when their flexible space is more attractive than regular long-term office leases. Industrious says it thinks it will max out on fitting new customers into its existing space next year.

The attraction to flexible office space is that businesses can more easily adjust to trends like the hybrid office, in which people go into the office less often and for different reasons than they used to. They also provide a stopover for companies still trying to figure out what the future will bring.

Real estate experts say that rather than shying away from the space, companies — especially big ones — are planning to increase their flexible space footprints and making it a bigger part of their portfolio in the future. Some 86 percent of companies plan to use flexible space as a key part of their real estate strategies in the future, according to a report by CBRE that

surveyed about 80 companies around the globe. They're also highly likely to favor leasing in buildings that have flexible space offerings.

JLL, a commercial real estate services company, predicts that 30 percent of all office space will be flexible by 2030.

Jonathan Wasserstrum, CEO of the digital commercial real estate brokerage [SquareFoot](#), thinks it could happen sooner. Demand for flexible options on his platform increased 15 percent in 2020. The reasons for the move to flexible space are myriad, and in general, they represent an acceleration of trends apparent before the pandemic.

Surprisingly, real estate experts don't think that shared space will be as scary in the future as it's been during the pandemic, thanks to widespread adoption of safety measures and, perhaps more importantly, a vaccine on the way.

"Anyone who manages an office environment, including flexible space providers, has been tasked with putting protocols in place to increase safety at work, such as air filtration, social distancing, enhanced cleaning, mask usage, etc.," CBRE's Whelan said. "As long as safety protocols are in place and followed, we don't see flexible space being different than other types of office space."

In fact, the pandemic has made such space more attractive.

"For corporate occupiers considering spacing needs, having flexibility is exactly what they would want because of things like this pandemic," Paul Leonard, a managing consultant at CoStar

Advisory Services, told Recode.

That is, if something bad happens, companies want to be able to relinquish their rental expenses more quickly than if they signed a traditional office lease. They're willing to pay a premium to mitigate uncertainty.

But the main reason for wanting more flexible space, according to the CBRE survey, is to provide places for companies' increasingly mobile workforce to work. Going forward, most companies plan on adopting a so-called hybrid model where some of their employees work from home some of the time. The rest of the time, they'll need office space. Flexible space helps accommodate office space in a wider variety of locations to reflect a dispersed workforce. It can also more easily be acquired and relinquished than traditional office space.

Flexible space is ascendant as businesses are reconsidering the purpose of the office, according to David Smith, Americas head of occupier research at Cushman & Wakefield.

“Instead of having just an office space, we'll have a workplace ecosystem,” Smith told Recode. That means people may not go to a main office every day by default, but instead go there “more for learning development, collaborating, mentoring, socializing.”

In other words, businesses still need office space, but they need it for different reasons than they used to. Offices for many will function as a welcome reprieve from working from home, especially for people with roommates or children or too-small apartments. And companies like WeWork are uniquely positioned

to provide office space for people and companies not quite sure what the future will hold.

WeWork's miraculous turnaround

No one could've predicted that WeWork would still be at the forefront of office trends in 2020. Its new path to profitability and perhaps even a public listing is especially extraordinary considering how bad things were and how far it fell in the past few years.

Though it's a tech company in name only, WeWork had once been a Silicon Valley darling with a lofty valuation of \$47 billion and the biggest banks tripping over themselves to help make it a public company. But the process of going public brought to light the company's shocking financial mishaps and cultural ethos.

The year before it intended to go public, the company was losing \$1.6 billion on \$1.8 billion in revenue. Losing money is nothing new for tech startups, but those losses were the product of even larger issues about corporate governance and bad behavior.

As the company struggled to prove its value to potential public shareholders, its co-founder and CEO Adam Neumann surfing, missed meetings, and enriched himself and his family with company money. There were drugs, alleged sexual assault, and a "spa and ice bath" attached to Neumann's office. He also spent ridiculous amounts of money on investments that had nothing to do with WeWork — which he needlessly renamed the We Company — including a school and a wave pool.

It turned out that the public markets were less amenable to this behavior than the private investors had been.

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In late 2019, the company canceled its public offering and fired Neumann, who got a giant \$1.7 billion exit package to leave the company he drove into the ground. SoftBank, its main investor, lost billions on the company and set about trying to rescue it. That included cutting spending, slowing its new real estate investments, and reconsidering the ones it already had. It fired thousands of employees and divested from non-core businesses, including the wave pool. It also hired Mathrani, a more moderate executive known for turning companies around. And finally, the We Company changed its name back to WeWork.

While the company isn't out of the woods, it has managed to get back on the right path. WeWork has already halved the amount of money it's losing from \$1.2 billion in the third quarter of last year to a still large but more manageable \$500 million this year. Its membership and revenue are down, but they're down less than 15 percent from last year. That's not so bad when you consider that many of WeWork's members have monthly subscriptions and can cancel any time.

Additionally, a growing share of its memberships — 54 percent versus 43 percent last year — is coming from enterprise companies that have 500 or more employees. These companies

sometimes lease whole floors or buildings and are more valuable and stable than individual memberships.

The company has also added some revenue lines that actually make sense. In October, the company launched Business Solutions to help small and medium businesses in its spaces handle things like human resources and payroll. Businesses will pay a monthly subscription fee for access to these services, in addition to what they pay for rent.

“This is really moving [WeWork] from not just a space company but really offering end-to-end business solutions,” Prabhdeep Singh, WeWork’s global head of marketplace, told Yahoo Finance in October. “I wouldn’t say this is the final grand vision and plan, but this is the first step.”

It also added in-office advertising to allow advertisers to reach its business clientele through the thousands of screens within WeWork offices.

The challenges ahead

WeWork has fixed some major flaws and is in a promising industry, but that doesn’t mean it’s assured success. The company is going to face some severe challenges before the pandemic is over.

WeWork generally operates by leasing space in buildings or entire buildings from landlords, and retrofitting that space to make it look like a hip startup office. It then subleases desks, offices, or even entire floors or buildings to individuals and companies, who

pay much more than WeWork pays for it. One challenge is that WeWork signed many of those leases with landlords at the top of the market before the pandemic, when rents were at their highest. But the company is subleasing them now when people expect to pay less for office rent since there is more available and we're in a recession. Newer locations are also less likely to be fully occupied, since it takes a while to fill them with tenants, so they're bringing in less total rent than mature locations do. In other words, for its newer locations, WeWork is paying more and bringing in less.

One of WeWork's biggest competitors, Industrious, has foregone leases in exchange for revenue shares with building owners. That means instead of paying rent, it gives landlords a share of its revenue for about 80 percent of its portfolio. That arrangement allowed it to actually expand into new locations during the pandemic. It also let it minimize losses, since bringing in less revenue meant it had to pay out less as well. CBRE says to expect more of these types of arrangements in the future.

Additionally, building owners themselves are getting into the coworking and flexible office space, meaning they could knock out intermediaries like WeWork.

Finally, a large portion of WeWork's business does come from traditional coworking, with many people using shared workspaces. It remains to be seen if people prefer private offices within flexible space after the pandemic is over. For now, WeWork has to make it through the rest of the pandemic if it's going to continue to be a major contender in the flexible office space.

As CoStar's Leonard put it, "If you can survive it, the concept is still good. The survivors of this period will probably do well and thrive again."

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