WeWork's Bankruptcy Filing and Its Impact on Credit
Our take on WeWork, and what it means for office landlords.

Morningstar Credit
November 14, 2023

Sarah Helwig
Vice President, Morningstar Credit
+1 312-244-7608
sarah.helwig@morningstar.com

David Putro
Head of CRE Analytics, Morningstar Credit
+1 312 244-7902
david.putro@morningstar.com

Ryan Venditti
Head of Business Development, Morningstar Credit
+1 508-733-1361
ryan.venditti@morningstar.com

Beth Forbes
Head of U.S. Product Strategy, Morningstar Credit
+1 312-244-7912
beth.forbes@morningstar.com

Despite headlines regarding the WeWork bankruptcy filing last week, our view of the effect on CMBS loans remains largely unchanged. Given the company's long history of financial troubles, Morningstar Credit has already been factoring a WeWork departure into our analysis since the summer and has been discounting property values under the assumption that the tenant ceases rent payments. Over one quarter of CMBS loans (by balance) with WeWork exposure are already specially serviced, and we are monitoring an additional 40% of our Morningstar Watchlist. While not necessarily surprising news, the prospect of WeWork terminating leases or negotiating lower rents in the face of shrinking office demand and the troubles office landlords are having maintaining occupancy at maintainable levels, will nonetheless add additional stress in certain markets. WeWork exposure is disproportionately in MSAs already plagued by waning demand—namely New York and the Bay Area—and we believe in many cases, the lease rejections could expedite the borrower's decision to hand back the keys.

Years of Financial Woes

We have flagged WeWork as a concern for several years given its tumultuous history plagued by legal troubles and shifting leadership, which led the company to terminate leases as far back as 2020. Notable examples include 340 Bryant ($30.9 million | CFCRE 2017-C8, WFCM 2017-RB1) where WeWork paid a $5 million termination fee to get out of its lease on 77% of the GLA in late 2020, and The Manhattan ($32.9 million | CSAIL 2017-CX9), which transferred to special servicing in early 2021 after the tenant terminated its lease on 42% of the space upon paying a $1.2 million termination fee.

In July 2023, the company publicly cast doubts about its ability to continue its operations and ceased paying rent on several of its leases. This was even less optimal than the original lease terminations, as the cessation of rent no longer included a termination fee and with WeWork still technically on the lease, the borrower was unable to market the space to prospective tenants. One notable example was 600 California Street ($246 million | GSCG 2019-600C) in San Francisco, which transferred to special servicing earlier this year after WeWork stopped paying rent and requested a lease modification. WeWork also ceased rent payments at 315 West 36th Street ($77.7 million | COMM 2018-COR3, BMARK 2018-B3) in April 2023, where it leases 93% of the GLA. The loan's special servicer is now pursuing foreclosure, and the property was reappraised for only $42.4 million in July 2023, down from $127.0 million at its origination in 2018.

Corporate Guarantees and Letters of Credit

Landlords and lenders have also been long wary of WeWork, and some of this has been baked into issuance underwriting with lease guarantees and letters of credit around many of the WeWork leases. Examples include WeWork's leases at the JACX ($425 million | BAMLL 2021-JACX) and 995 Market Street ($44.0 million | LNSTR 2016-4), which both included a corporate guaranty from WeWork as well as letters of credit totaling $5.0 million and $3.3 million, respectively. Although the letters of credit may still be valid, the WeWork guarantees carry little value after the bankruptcy filing. The exception is leases that have a corporate guarantee from a nonrelated company. One example is Hill7 Office ($101.0 million | CFCRE 2016-C6, CGCMT 2016-C3), where WeWork occupies 19% of the GLA. Originally occupied by LinkedIn, the space was assigned to WeWork with an absolute guarantee by Microsoft after Microsoft acquired LinkedIn in 2016. The lease is guaranteed by Microsoft until 2029 with a termination option in 2028.

Looking Forward: Opportunities and Risks

WeWork announced immediate plans to terminate 69 leases, with the potential for more to follow. In some cases, the landlord has announced plans to manage the WeWork space as its own coworking space. Despite WeWork's troubles, the tenant invested significantly into its buildouts, allowing new owners to operate in the spaces without the retrofitting costs. We highlighted one such example, The JACX ($425 million | BAMLL 2021-JACX), in our Nov. 9 Newsflash. WeWork will give back its 217,000-square-foot space to building owner Tishman Speyer and operate its own branded co-working space, per *Bisnow*. Former WeWork competitors are also eyeing the spaces with co-working operator Industrious taking over 12 of the 69 rejected leases, with more to potentially follow, also per an article in *Bisnow*. As is playing out across large U.S. markets, well-amenitized Class A spaces that WeWork left behind are likely to have more opportunities than older Class B/C spaces. For the less desirable spaces, landlords will likely have trouble backfilling the vacancies, although this is not unique to vacated WeWork space and more emblematic of the headwinds facing all office space in this environment.
For access to our full list of WeWork exposures in CMBS, contact Ryan Venditti at ryan.venditti@morningstar.com.

MORNINGSTAR Credit

4 World Trade Center
48th Floor
150 Greenwich Street
New York, NY 10007

The Morningstar Parties did not: (i) conduct site visits of any properties, (ii)conduct any legal review, (iii)review any underlying loan documentation or transaction documentation, (iv)engage in discussions with an arranger and / or any person or entity obligated to make payments under any loan, or(v) review any third - party reports prepared as part of any transaction.

Morningstar's ability to continually monitor transaction(s) referred to in the Content is contingent on Morningstar's continued timely receipt of certain information and data regarding such transaction(s).If any key information is missing, deficient or inadequate, the analysis in the Content may be limited and may be adversely affected.

Morningstar is not a credit rating agency. Morningstar's assessments, risk scores and / or forecasts, including any change or withdrawal thereof, contained in the Content should not be considered or construed as a credit rating or credit rating action. Morningstar's assessments, risk scores and forecasts contained in the Content are not credit ratings subject to the Securities Exchange Act of 1934 requirements and regulations promulgated thereunder with respect to credit ratings issued by nationally recognized statistical rating organizations.

References to DBRS Morningstar credit ratings contained in the Content refer to credit ratings assigned by one of the DBRS Morningstar group of companies. References to DBRS Morningstar rankings contained in the Content refer to Commercial Mortgage Servicer rankings issued by DBRS, Inc. DBRS Morningstar Commercial Mortgage Servicer rankings contained in the Content are not credit ratings and should not be considered or construed as such. DBRS Morningstar Commercial Mortgage Servicer rankings are not credit ratings subject to the Securities Exchange Act of 1934 requirements and regulations promulgated thereunder with respect to credit ratings issued by nationally recognized statistical rating organizations. All DBRS Morningstar credit ratings and other types of credit opinions are subject to disclaimers and certain limitations. Please read these disclaimers and limitations at http://www.dbrsmorningstar.com/about/disclaimer. Additional information regarding DBRS Morningstar credit ratings and other types of credit opinions, including definitions, policies and methodologies, are available on http://www.dbrsmorningstar.com. The DBRS Morningstar group of companies consists of DBRS, Inc., DBRS Limited, DBRS Ratings GmbH and DBRS Ratings Limited. For more information on regulatory registrations, recognitions and approvals of the DBRS Morningstar group of companies, please visit https://www.dbrsmorningstar.com/research/225752/highlights.pdf.
The DBRS Morningstar group of companies are wholly - owned subsidiaries of Morningstar, Inc.

Morningstar Credit Information & Analytics LLC is a wholly - owned subsidiary of Morningstar, Inc.

If you wish to inquire about reprinting, translating, or using any of the Content other than as provided herein, please contact us by email at credit@morningstar.com.