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The Rise and Fall of WeWork

Garrett Pendergraft

Abstract

This case examines the rise and fall of WeWork—a company that experienced one of the most dramatic changes of fortune in technology company history. For several years, WeWork was a Silicon Valley darling, growing at breakneck speed with visionary Adam Neumann at the helm. By some estimates, Neumann’s company was worth \$47 billion in January of 2019. But when the company filed paperwork in preparation for going public later that year, investors balked at the details revealed in the documents: billions of dollars in losses and lots of questionable behavior on the part of Neumann (including numerous conflicts of interest involving his personal business dealings). The IPO was postponed and later withdrawn; Neumann was forced to step down as CEO; and by May of 2020 the company’s valuation had dropped to \$3 billion. Exploring this recent history will provide an opportunity to ask what lessons can be drawn from the rise and fall of WeWork, and from the economic and social context that enabled its growth.

Learning Outcomes

After reading, reflecting on, and discussing this case study, students should be able to:

- Briefly summarize the recent history of WeWork.
- Explain what made WeWork one of the fastest growing startups in history.
- Articulate the factors that led to the company’s IPO being withdrawn and Neumann being forced to step down as CEO.
- Explore some of the broader economic and social issues raised by WeWork’s change of fortune.

Introduction

On a beautiful day in the summer of 2018, the crowd started to arrive. As they settled into their tents, attendees were looking forward to a packed lineup that included Florence + the Machine, Lorde, and Bastille. Some had chosen tents closer to the music venues, where sleep was going to be scarce; others opted for quieter tents farther away. In addition to the music, attendees anticipated activities ranging from canoeing and rock-climbing to pottery and cocktail-making. (But even for those who didn't engage in cocktail-making, there would be plenty of alcohol available.) According to all accounts, there was plenty of sex, drugs, and rock and roll to go around. What was the event? It wasn't Coachella or Burning Man; it was actually a WeWork corporate retreat—a mandatory, all-expenses-paid, company retreat called “Summer Camp.”¹

Summer Camp represented both the success and excess of WeWork. Only a company flush with cash could afford something so extravagant; only a company whose CEO was committed to party culture would encourage—and in fact require—employees to participate in their own private Coachella. At that point in 2018, and in early 2019, WeWork appeared to be an exemplar company. Not only was the company offering a glimpse into the future of work and workspaces, it was a darling of the tech industry: a Silicon Valley unicorn that boasted valuations as high as \$47 billion in January 2019 (Campbell 2019). (A “unicorn” is a company that has reached a private valuation of \$1 billion.) But the party had to end sometime, and that time, as we will see, turned out to be September of 2019.

A Brief History of WeWork

WeWork was founded in 2010 by Adam Neumann and Miguel McKelvey. Neumann and McKelvey had developed an environmentally conscious co-working space, called Green Desk, in 2008, but decided to sell that company to their partner and invest the proceeds into starting WeWork (Sheftell 2011). At the most basic level of description, what WeWork does is sign a long-term lease for some office space, spend some money making that space more inviting, and then rent that space out to other companies (or individuals) on a short-term basis.

Although the idea of office subletting was not a new one, WeWork clearly offered a new take on the idea. Their spaces were designed to be creative, collaborative, and aesthetically pleasing: the opposite of cubicle-heavy 20th-century office spaces (Sheftell 2011). The rental terms were flexible, with monthly terms available. The concept quickly caught on, at first appealing to individuals and small companies but eventually also attracting larger companies who were looking for overflow office space or a quick way to experiment with new locations (Vincent 2020).

But WeWork was more than just a contemporary take on renting out short-term office space. The company saw itself as a “community company,” a disruptive revolutionary in the mold of Uber or Airbnb (Bliss 2018). The comparison with Uber and Airbnb is apt—not only because WeWork was a high-profile provider in the “sharing economy,” but also because it didn’t take long for WeWork to reach the stratospheric valuations characteristic of unicorns such as Uber and Airbnb.

Neumann, the CEO and face of the company, acknowledged in a 2017 interview that those valuations did not represent just the core business prospects: “Our valuation and size today are much more based on our energy and spirituality than it is on a multiple of revenue” (Bertoni 2017). And much of that energy flowed from Neumann himself, who was as ambitious as he was idealistic. A colorful and charismatic individual, his goal for the company was to “elevate the world’s consciousness” (Gelles et al. 2019); and his goal for himself was to be the world’s first trillionaire (Brown 2019).² His ambitions even reached as far as world peace: he was quoted in *New York* magazine as saying “I need to have the biggest valuation I can, because when countries are shooting at each other, I want them to come to me” (Feldman 2020). Neumann’s wife, Rebekah Neumann, shared similar ambitions, telling a podcast interviewer that she “knew he was the man that was, hopefully, going to help save the world” (Brown 2019). Ms. Neumann later became the company’s chief brand officer and the head of a private school started by the company called WeGrow. (In January of 2019, WeWork rebranded itself as the We Company, representing its expansion into education and other industries.)

For several years, Adam Neumann’s ambition paid enormous dividends: in 2014, WeWork was launching 10 locations a year (Bertoni 2017); by 2019, WeWork had locations in dozens of countries, and was the largest commercial tenant in Manhattan. It rose to a private valuation as high as \$47 billion (Gelles et al. 2019).³ Some observers wondered why an office subleasing company should have such a high valuation, but Neumann argued that

because his company was growing as fast as the fastest-growing tech companies, and because it relied so heavily on technology, its valuations should resemble the valuations enjoyed by tech companies (Brown 2019). As Neumann moved to take the company public, one of the banks vying for underwriting duties suggested that the IPO valuation might be as high as \$100 billion (Sorkin 2019).

Despite (or perhaps because of) his ambition, Neumann was impulsive and often made snap decisions—including suddenly banning meat at the company without explaining why (Gelles et al. 2019). (This ban apparently didn't apply to himself, as he was seen eating meat even after the ban (Brown 2019).) Rebekah Neumann shared some of these impulsive tendencies; for example, she was known to have employees fired after first meeting them because she didn't like their energy (Brown 2019).

Adam Neumann also engaged in behavior that generated a conflict of interests. He trademarked the word 'We,' decreed that WeWork change its name to the We Company, and then charged his own company \$5.9 million for the permission to use the trademark. He also used part of a \$500 million line of personal credit (issued by investor banks) to purchase an ownership stake in several of the buildings in which WeWork leased office space (Sorkin 2019).

As WeWork continued to grow, problems started to crop up. In 2015 the company was involved in a labor dispute involving office cleaners (Ramey 2015). The following year, WeWork laid off roughly 1,000 employees. Shortly after that 2016 layoff, Neumann held an all-hands meeting in which he explained the need for the firings. The meeting was followed by an unexpected party, in which shots of tequila were handed out while Darryl McDaniels (aka the DMC of Run-DMC) gave a private concert (Brown 2019). Needless to say, some of those present at the meeting wondered about the propriety of throwing this kind of party.⁴ And in June of 2019, multiple former executives sued the company, alleging gender and age discrimination (Albert-Deitch 2019).

Additional investment in WeWork fueled an increased focus on rapid growth. Turning a generic office space into a WeWork space requires significant renovation (on top of leasing costs), which means that a new location will need to operate successfully for months, if not years, before turning a profit. Rapid expansion involves more and more of these front-loaded startup costs, which in turn involves greater and greater financial losses (Gelles et al. 2019). Add to these expansion costs various extravagances, such as Summer Camp, and it's not hard

to see why WeWork's chase for growth produced annual losses in the hundreds of millions of dollars (Farrell 2019). This "growth-first, profits later" approach culminated in a \$1.9 billion loss in 2018 and a loss of over \$2 billion in 2019 (Feldman 2020)—roughly \$5.5 million per day for the entire year.⁵

As of August 2020, the We Company was on track to be profitable in 2021, but its path to profitability required that the company cut its workforce by 60%: from 14,000 in 2019 to 5,600 in 2020 (Platt, Inagaki, and Massoudi 2020).

Private investors were willing to put up with the financial losses (as long as the growth continued), and they were also willing to put up with Neumann's excesses and idiosyncrasies. But after the We Company filed its pre-IPO paperwork in August of 2019, it quickly became clear that the general investing public was growing more and more skeptical. Widespread concerns about the business model, and about Neumann's behavior (including the numerous conflicts of interest), caused the IPO to be delayed and eventually withdrawn. The ongoing uproar, and the loss of support from some of Neumann's most important backers, forced Neumann to step down from his position as CEO in September (Gelles et al. 2019). As of May 2020, the company's valuation had plummeted to \$3 billion from its peak of \$47 billion (Savov 2020).

Although the controversy has mostly subsided, the fallout from the failed IPO continues. SoftBank offered a \$3 billion bailout package in October 2019, after the IPO had been canceled, but withdrew the offer in April 2020 due to some of the conditions not being met. This decision has resulted in at least two lawsuits, first from the WeWork board, and then from Neumann himself (Sharf 2020).

To make matters worse, the COVID-19 pandemic was not kind to the We Company. In March of 2020, the company's credit rating was downgraded from B- to CCC+, dangerously close to being in default (Scaggs 2020). And by April, WeWork was trying to secure rent concessions from its landlords in the face of \$47 billion in future rent liabilities. (It's interesting to note that \$47 billion remained an important number for the company, but as a liability rather than a valuation.) Even after the pandemic, WeWork will likely continue to be affected by reduced revenues resulting from fewer tenants per location (due to the need for additional spacing) and fewer tenants overall (Vincent 2020).

WeWork's struggles have also had an adverse effect on the broader commercial real estate market, and on mortgage-backed securities in particular. For example, the price of

bonds backed by WeWork lease payments dropped sharply in the second quarter of 2020 (Rennison & Platt 2020).

Analyzing WeWork's Downfall

The investor concerns that torpedoed WeWork's IPO went deeper than the behavior of Adam Neumann. Potential investors weren't happy with the amount of money the company was losing, and they had concerns about the overall business model.

Around the time of the failed IPO, WeWork's "long-term liabilities, short-term tenants" business model had produced a wide discrepancy between incoming and outgoing rents: \$4 billion in expected rental income, with an average tenant lease of 15 months, compared to the aforementioned \$47 billion in rental liabilities, with an average lease of 15 years (Reiff 2019). Even in 2018, observers (e.g., Bliss 2018) were pointing out that this lease arbitrage model was risky, because it was vulnerable to decreases in demand for office space—exactly what happened during the Covid-19 pandemic and the ensuing recession. Similar companies have actually been through the same cycle: Regus was a company with a similar business model that grew quickly in the 1990s, but went bankrupt after the dot-com bust (Bliss 2018).⁶

Thus, the pandemic-caused recession exposed the vulnerabilities of WeWork's business model in a dramatic way. Even after the worst of the pandemic was over, the global shift to remote work meant that tenants were slow to return—with some deciding never to return at all (Rennison & Platt 2020). This also had ripple effects in the broader industry, as commercial landlords affected by WeWork's struggles became less willing to rent space to companies who plan to sublet it as office space (Eavis & Merced 2019).

Another fundamental problem, as alluded to above, was that WeWork was valued as a tech company, even though its balance sheet did not look very much like a software company's balance sheet. One useful metric is gross margin, expressed as a percentage, which can be calculated by dividing profits by overall revenue. Software companies typically have gross margins above 75% (e.g., Zoom's gross margin was 81% in 2019), but WeWork's gross margin in 2019 was only 20% (Wilson 2019).

The dramatic failure of WeWork's IPO, together with the lackluster results of other recent tech company IPOs—e.g., Lyft, Uber, and Slack⁷—has brought about a shift in

investor focus. Instead of focusing exclusively on growth, and ignoring losses, Silicon Valley is returning to the old-fashioned strategy of making a profit (Griffith 2019a; cf. Thompson 2019a). Perhaps this shift would have occurred without WeWork's meltdown, but it does seem as though the WeWork fiasco has brought about significant changes in the behavior of investors.

A final complaint to consider is that WeWork's approach, at least when Neumann was at the helm, exacerbated the negative effects of "hustle culture." In the 20th century, broadly speaking, there was a relatively clear distinction between work life and personal life. (There were, of course, plenty of exceptions to this rule.) At some point during the early 2000s, however—as the millennial generation was entering the workforce—technology companies such as Google became known for offering extensive workplace perks. Free food, massages, and ping-pong tables (to mention just a few of the typical perks) certainly made the workplace a more enjoyable environment, but these perks inevitably led to workers spending more time at the workplace. In a related trend, college students and graduates seeking employment were urged to "pursue your passion" and "do what you love." These two trends (among other factors) led to increased working hours and an expectation that all of one's best energies should be directed into job performance—a mindset exemplified by hashtags like #TGIM ("Thank God It's Monday"). As [Elon Musk said on Twitter](#), "nobody ever changed the world on 40 hours week ... But if you love what you do, it (mostly) doesn't feel like work." There is, of course, nothing wrong with working hard or loving your job; but hustle culture appears to be causing widespread burnout and depression, especially among millennials (Griffith 2019b).

The WeWork culture is, if nothing else, a hustle culture. WeWork locations include throw pillows decorated with the "Do what you love" slogan and signs that tell tenants to "Hustle harder"; and one location went so far as to carve "Don't stop when you're tired, stop when you're done" into the cucumbers inside a water cooler (Griffith 2019b).

Both Griffith and Thompson (2019c) have pointed out that whereas work used to be, for many, something that allowed you to purchase leisure time, a lot of workers are now investing their identity, not to mention their free time, in their work. Thompson calls this "workism," and points out that work can be a cruel master for all but the luckiest.

Decision Point

Suppose that you are brought in as the CEO of the We Company after Adam Neumann's departure. What steps would you take to address investor concerns about the business model and the conflicts of interest? Which parts of the We Company culture would you try to preserve, and which parts would you try to change?⁸

Discussion Questions

1. Consider the debate over the proper valuation of WeWork. Should it have been given a valuation closer to that of a real estate company, or was it appropriate to give it the tech company valuation(s) that it was given before the attempted IPO?
2. WeWork's business model is built on a lease arbitrage strategy in which the company signs long-term leases on office space and then rents out that space at a premium. This strategy has proved especially risky in the aftermath of the COVID-19 pandemic, but there was always the risk of a recession occurring and drying up demand. Are there ways to mitigate this risk while still adhering to the basic business model? If you were starting up a company like WeWork, how would you set things up?
3. As mentioned above, one of the primary criticisms of WeWork's pre-IPO documents arose from the conflicts of interest that Neumann was involved in. How would you define a conflict of interests? What is it that makes a conflict of interests, such as Neumann's, ethically suspect?
4. In light of WeWork's recent woes, investors are starting to be more wary of the "growth first, profits later" model pursued by Uber, Lyft, Slack, and others. Would you describe this as an overreaction to the excesses of the We Company, or is it more of a recognition that profit should always be the primary focus? Would it have been better if Uber, for example, had been forced to focus on profitability before going public? Explain your answers.
5. The growth of WeWork was intertwined with two socioeconomic trends: the growth of the sharing economy and the emergence of hustle culture. (As we have seen, WeWork's version of hustle culture was also very much a party culture.) These socioeconomic changes are often described as generational trends—e.g., hustle culture is described as partly a manifestation of the "millennial id" (Bliss 2018). Is it accurate to identify the millennial generation as the source of these trends? What

might be some other economic and societal factors that contributed to the excesses of the We Company?

Further Reading

- For those interested in some of the more specific details of WeWork's history, Aydin (2019) provides a detailed timeline. Brown (2019), Morris & Bort (2019), and Wiedeman (2019a) discuss Neumann's approach to running the company (and to life in general); Wiedeman (2019b) provides additional details on the failed IPO attempt.
- For more details on the recent shift in investor behavior, and in particular a stronger preference for profitability, see Griffith (2019a) and/or Thompson (2019b).
- For those interested in broader economic and cultural trends (including hustle culture and workism), see Griffith (2019b) and Thompson (2019c).

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Endnotes

¹ Summer Camp is described in detail in Morris & Bort (2019), which includes reports from those who were in attendance. For example, Morris & Bort quote one attendee as follows: “We’re talking people having sex in the bushes, people openly popping pills, railing lines [of drugs] in the middle of

crowds while watching Bastille perform. You could hear people audibly having sex in their tents all day and night. People peeing all over the place, and pulling down their pants and defecating in between the tents because they are so drunk they can't even make it to the bathroom.”

² Telford (2019) lists some of Neumann’s other ambitions: taking WeWork to Mars, living forever, being Israel’s prime minister or ‘president of the world.’

³ Not everyone agrees that \$47 billion was the correct valuation after SoftBank’s January 2019 investment; for example, see Pino (2019).

⁴ This incident is actually an example of satire becoming reality. As noticed by [Ryan Broderick on Twitter](#), here is a [January 2019 headline from the satire website ClickHole](#): “Coolest Job Ever: This Awesome Digital Media Company Hired Post Malone To Entertain Laid-Off Employees With Amazing Music While They Cleaned Out Their Desks!”

⁵ In support of the idea that investor expectations at least partly fueled this fixation on growth, it’s worth noting that WeWork’s early flagship location in Soho was reportedly profitable a mere one month after it opened (Aydin 2019).

⁶ Regus now operates as IWG, which “manages five times the square footage [as WeWork] but has about one-eighth the market value” (Bliss 2018).

⁷ Lyft shares declined 47% in their first six months of trading (which started in March 2019); Uber shares declined 35% in their first six months of trading (which started in May 2019); and Slack shares declined 44% in their first six months of trading (which started in June 2019).

⁸ Thanks to an anonymous reviewer and the editors of SAGE Business Cases, who provided valuable feedback on an earlier draft of this case study.