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WeWorking It Out



Reinstein: Premier Workspaces has experience taking over failed competitors

Lakeshore campus: latest WeWork lease for bulk of Irvine building, yet to open

Coworking Giant’s IPO Implosion Could Be Boost for Others

By KATIE MURAR

WeWork’s botched IPO plans have, in six short weeks, cost the company’s chief executive his job and the jobs of a number

of his cronies, likely ended the hyper-aggressive growth push of Orange County’s fastest-growing coworking company for the immediate future, and even prompted bankruptcy speculation of the 9-year-old firm,

which this summer had an internal valuation of \$47 billion as it prepped to go public.

In OC, competitors and other real estate

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Antarctica Inspires Mavenlink CEO to Be ‘Explorer at Heart’

SOFTWARE: Sees 50% revenue growth, hiring 100 this year

By KEVIN COSTELLOE

Working in 100 degrees below zero in the Antarctic decades ago taught **Mavenlink Inc.** Chief Executive **Ray Grainger** how to be adaptable.

“You can’t leave—you’ve got to be resourceful,” Grainger said about spending months at the southern end of the world. “You can’t just go down to Home Depot and get tools.”



Grainger: out from the cold

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industry watchers see opportunity arising from the abrupt turn of events.

“There has been no other company in the coworking spaces that has acquired and repositioned more failed or distressed centers than Premier Workspaces,” said **Jeff Reinstein**, CEO of **Premier Workspaces**, an Irvine-based operator with about 90 locations in its portfolio.

Premier has a track record of benefitting from the errors of other coworking companies. The firm got its start by acquiring **American Office Centers** and its nine locations after it filed bankruptcy in 2001.

In OC, Premier operates 22 locations running nearly 471,000 square feet. It’s not opposed to taking on more area space if it makes sense financially, Reinstein told the Business Journal last week.

Premier has long been OC’s largest operator in the shared space and executive suite sector, although the title appeared likely to shift to WeWork over the course of the next year.

WeWork’s Irvine, Costa Mesa and Newport Beach collection of 10 open and soon-to-open locations total close to 600,000 square feet, according to **Cushman & Wakefield** data.

Half of those spots, running some 367,531 square feet, aren’t open yet.

Others Could Step In

The big question locally, among commercial real estate watchers: Will those locations all open, and if they do, will they be WeWork spots?

If WeWork does default on some of its lease obligations, this could open a door for other operators to come in, according to **Allison Schneider Kelly**, a senior vice president at **CBRE Group Inc.**’s Newport Beach office.



2211 Michelson: put on market earlier this year after 71,076-SF WeWork lease inked; firm yet to open spot

If the market is left with large swaths of office space vacated by WeWork, “other companies could see that as an opportunity.”

“Orange County is very entrepreneurial, with smart landlords and operators that are poised to

step in,” said Schneider, whose brokerage firm has its own coworking space offshoot ramping up.

Called **Hana**, one of its first spots nationally will be in Irvine’s **Park Place**. More Hana lo-

cations are possible in the area, company officials previously told the Business Journal.

Lincoln Pushes On

Despite WeWork’s woes, no one’s questioning, publicly at least, the viability of the coworking sector as a whole, which in OC now nears 2 million square foot, according to Business Journal data.

That’s up nearly 64% from two years ago.

“We definitely still see the benefit to partnering with coworking operators, and right now our focus is getting WeWork’s space here built out and operating,” said **Parke Miller**, executive vice president at **Lincoln Property Co.**, which oversees roughly 6.1 million square feet of office space in OC.

Lincoln, a Dallas-based company that operates locally out of Costa Mesa, is a national partner for WeWork, and signed its first local deal with the company in June.

That deal, a 51,714-square-foot space at the two-building **Redstone Plaza** in Newport Beach is still on track, Miller said.

The space is expected to open by December.

Irvine Co. Options

Likewise, WeWork’s largest local deal—a 116,300-square-foot, full-building lease at the just-built **Spectrum Terrace** complex—is still on schedule, **Irvine Co.** officials told the Business Journal.

Spectrum Terrace will be the fourth WeWork location at a local Irvine Co. office; the other three are performing strongly and have seen a heavy base of users, sources familiar with WeWork’s operations told the Business Journal.

Newport Beach’s Irvine Co. would appear to have a backup plan in the works, if a worst-case scenario takes place at WeWork and the company sheds leases.

WeWork

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In August, executives with the company's office division told the Business Journal that Irvine Co. was planning its own version of a flexible-space offering in the upcoming months; additional details haven't been disclosed yet.

In theory, the privately held firm, OC's dominant landlord, could operate any spaces given back by WeWork through the new business offering.

Model Questioned

Coworking works—if you follow solid business practices, Premier Workspaces' Reinstein said.

"I have been in the shared workspace industry for 20 years and haven't been able to get WeWork's business model to pencil," Reinstein told the Business Journal. "Based on the [IPO paperwork] and recent press, it didn't."

The company reported an operating loss of \$1.4 billion in the first half of this year after racking up \$1.9 billion in losses last year.

WeWork went wrong, Reinstein said, by taking up too much space per location, signing leases at top of the market rents, then spending too much money improving the space and renting them at too low of a price.

"They should have made sure that their model was profitable before expanding so rapidly," said Reinstein, who has several ideas on what WeWork's next steps should be (see story, this page).

He speaks from experience: the company has been profitable, or broke even, in all 17 years of operation and has zero debt.

The company said it has taken over and repo-

sitioned more than 60 shared workspace centers since, most of which were distressed.

WeWork's business model isn't all bad, Reinstein noted.

They have "done a lot of great things for the industry, including improving center layout and design, increasing awareness and bringing large corporations into the fold as customers," Reinstein said.

"We have seen a substantial increase in demand for our products and services. We hope to capitalize on that increase in demand and continue to grow Premier Workspaces' footprint in a profitable and responsible fashion."

SoCal Focus

WeWork formally pulled its IPO registration

Survival Tips from a Shared Space Exec

Jeff Reinstein has some thoughts on **WeWork**.

In August, after the firm's IPO plans were announced, the CEO of Irvine's **Premier Workspaces** penned a LinkedIn article titled "People Keep Asking What I Think About WeWork."

His short answer: Reinstein was skeptical of the company's business model.

Last week, he did a similar entry, called "What Would I Do If I Were the New CEO at WeWork."

These are his suggestions:

- Stop all projects in development where construction hasn't started, "even if it meant walking away from a letter of credit, deposits, or other costs."

- Lay off all acquisition/new business employees.

- Sell or shut down all non-coworking business.

- Cancel any private plane costs or other extravagant company expenses and sell the company's plane.

- Renegotiate all master leases where they are losing money. "In some cases that might mean reducing the size of some of the locations or closing them and relocating the customers to another property."

- Increase membership fees, "since they are too low for the premium product that WeWork built."

- Reduce the staff to roughly 2,500 employees. "WeWork probably doesn't need more than three employees per center [which totals 1,500 employees] and no more than 1,000 corporate employees including area managers," he said.

And most notably, if "I couldn't get enough landlords to work with me on restructuring the leases, I would have no other option, but to put the company into bankruptcy in order to force the landlords to renegotiate," he said.

statement from consideration last week.

The company also said in a statement last week that it expects "the [leasing] pace to slow over the next several quarters as we focus on strategic expansion and profitability."

It has indicated its retrenchment plan will result in focusing on its core markets for now.

OC's core market: WeWork's SoCal portfolio, including locations in L.A., Irvine and Costa Mesa, represents one of the company's seven largest markets, according to its shelved IPO paperwork. It said it has about a 0.5% market penetration in the region.

Irvine's 2211 Michelson office, where WeWork has a lease for 71,076 square feet but has yet to open, could be the area office to watch over the next few months. It was listed for sale

earlier this year; a buyer hasn't been announced yet. ■



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