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CBRE Takes On WeWork

By David Feirstein, J.D. Candidate 2021 | February 26, 2019

CBRE, a worldwide leader in real estate services, launched a new business called Hana, eager to cut a piece of the coworking business pie. It aims to distinguish itself from companies like WeWork and its smaller peers like Knotel and Industrious by offering landlords an opportunity to maintain relationships with their tenants.

Coworking companies, such as WeWork, make their money through rental arbitrage by purchasing or renting commercial spaces from property owners, transforming them, by adding features such as cafés, communal spaces, and offices, then renting the space to clients at higher prices on a short-term basis. Their target markets typically include startups, work-at-home professionals, independent contractors, and remote freelancers seeking to avoid working in isolation. Landlords take companies like WeWork as tenants because they attract startup culture, facilitate short term leasing with multiple tenants, and can add to property value by making traditional 9-to-5 office buildings more vibrant.

However, coworking company profits stem also from larger company clientele, generating disconnect between landlords and the companies they usually court. CBRE's Hana takes advantage of this disconnect through partnerships with landlords that enable them to maintain their relationship with tenants. Therefore, owners wanting to share in the profits of the flexible office market can partner with Hana, effectively cutting out intermediary companies like WeWork. Under this alternative model, owners will co-invest with Hana in building the workspaces; Hana will manage them for a fee; and they both would share in the profits.

Indeed, the transition from arms-length leases to partnerships in the coworking sphere is not entirely new. WeWork and Industrious have begun using co-management agreements, a staple in the hotel industry, where landlords might pay for renovations and then split the profits equally. Still, however, lenders feel more comfortable issuing debt on a property with a long term lease, a reason why management agreements have not gotten much grip in the U.S., according to Granit Gjonbalaj, WeWork's real estate development officer. It is exactly this mismatch of long term commitments supported by short-term rentals that gives WeWork a going concern issue, the same exposure that pushed IWG's Regus into bankruptcy in 2003. It's possible that some landlords have refused to rent to WeWork because of concerns about its long-term viability.

CBRE’s Hana is betting that its partnership business model coupled with its deep relationships derived from its commercial real estate services, investment management services, and development services will give it a competitive edge in obtaining landlord business. While lenders still might prefer a long-term lease before issuing debt on a property, this may change as underwriting standards begin to better understand coworking income streams.