Toronto Star – November 8, 2023

'This is a huge blow:' Toronto's empty office space crisis worsens as WeWork teeters on bankruptcy

One time shared workspace darling WeWork files for creditor protection amid a Toronto office rental crisis that has up to 20 per cent of all space sitting empty.

Josh Rubin || November 8, 2023

The WeWork office space at 240 Richmond St. W., so far, is not among the two of eight Canadian operations on the chopping block. WeWork.

The glut of office space up for grabs in Toronto just got bigger.

News that shared workspace giant WeWork is filing for protection from creditors comes at a time when the office rental market was already struggling with the work-from-home trend, a slumping economy, and a struggling technology industry, real estate analysts say.

“This will absolutely make it more difficult for building owners to lease out office space,” said veteran real estate analyst and consultant John Andrew. “This is a huge blow.”

WeWork filed for Chapter 11 bankruptcy protection from creditors in the U.S. Monday, owing $18.7 billion (U.S.) in debt, with $15.1 billion in assets. The company also said it plans to rip up leases at underperforming locations, 70 of them immediately. At least two leases in Toronto are part of the initial culling, the company said, adding that it also plans to seek protection from Canadian creditors, via the Companies’ Creditors Arrangement Act.

“We have exceptional confidence that we will emerge from this process as a financially stronger company that can focus on investing in our products, our services, our growth, our employees, and most importantly, our members,” said WeWork spokesperson Emily Place, who insisted that it’s business as usual for WeWork customers, who typically pay a monthly membership fee for use of office space.

“WeWork spaces remain open and there is no change to the way we operate for our members in Canada,” Place said.

In Toronto, ‘it’s a tenant’s market right now’

Two of WeWork’s office spaces in Toronto — 171 East Liberty St. and 292 Adelaide St. W. — are on the company’s initial list of closures. The company has another eight Toronto sites.

Damon Conrad, national director of commercial real estate at Royal Lepage, said WeWork’s insolvency filing is just another sign of the times.

“It won’t move the needle much in terms of the vacancy of the space on the market, but it will reinforce the narrative that’s out there,” said Conrad, who estimated that there’s already an office vacancy rate of between 15 and 20 per cent in Toronto.

That makes it harder for commercial landlords to push back when a tenant — including WeWork — decides to get out of a lease, said Conrad.

“It’s a tenant’s market right now. So they’re probably going to say ‘look, we’re going to do this, so you can either help us out or we’re going to walk away from it. And you’re already bleeding as it is’,” said Conrad.

There are already 30 million square feet of vacant office space up for rent in the Greater Toronto Area, estimates Peter Norman, chief economist at Altus Group, a real estate data analysis company. And that excess space, he said, isn’t likely to be snapped up any time soon.

Toronto’s office space glut ‘is a 20-year issue’

“There’s a big glut, and the glut will be around for a long time,” said Norman. “It is a 20-year issue.”

While the slumping Canadian economy might turn around, Norman added, the way in which companies and their workers use office space has likely changed for good. Even if they have the same number of workers as they previously did, odds are they’re not all coming to the office every day. And when they do, they’re likely sitting at smaller desks, and closer together, Norman said.

“I was in a meeting with architects recently and I asked if any of them were designing office spaces in the same way they were doing in 2016. Not a single one of them put up their hand,” said Norman.

And, said Norman, the full effect of the work-from-home trend won’t be felt for several years, because many companies are in the middle of long-term leases.

“They’re set for five or ten years. As they come up, that’s when you start thinking ‘do you want to stay in the amount of space that you’re in? Do you want to stay in the building that you’re in? You can get better space for cheaper,’” said Norman. “You start looking around. That’s going to continue.”

Still, Norman added, the market for shared office spaces like WeWork offers is also probably here to stay, for some of the very same reasons that the overall market is struggling.

“These coworking spaces are delivering a service to people. They’ve already got it all fitted out. It’s turnkey. … There’s always going to be a little demand for that sort of thing,” Norman said. “On paper, it seems like a model that should probably work. But I think the devil is probably in those details.”

Correction - Nov. 8, 2023: *This article was edited from a previous version that misstated WeWork's debts and assets in millions instead of billions. In fact, the company owes $18.7 billion (U.S.) in debt, with $15.1 billion in assets. As well, Damon Conrad's given name was misstated.*