AVISON YOUNG

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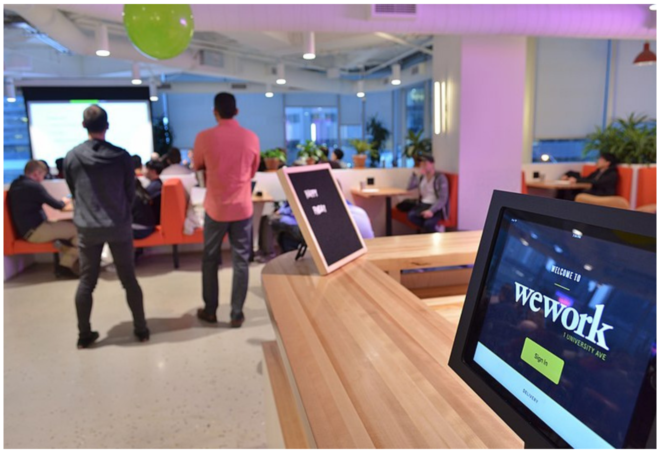
Debt Market Monitor

Debt Capital Markets Services

Commercial Mortgage Backed Securities analysts nervous about WeWork



In April 2018, WeWork – the company that provides flexible workspaces for startups and other enterprises – issued more than $700 million (all figures USD) of unsecured bonds due in 2025 that yielded 7.85%. Recently, these bonds traded at a record low, reflecting a decline in value of more than 20% and a yield of slightly more than 12%. There are worries about WeWork's ability to convert its business to a profitable model. This concern has extended to the viability of its planned $3-billion public offering and the attached $6-billion loan from a club of banks – $9 billion in total capital for WeWork now at risk. Two major rating agencies have downgraded WeWork to junk-bond territory and in mid-2018 another agency stopped coverage. Market short bets are appearing at a meaningful level, according to Reuters.

The implications of a default of rent by WeWork and, by extension, the impact on landlords, borrowers and lenders are being studied urgently by the likes of Trepp, which analyzes commercial mortgage backed securities (CMBS). Trepp reports that New York has the largest WeWork CMBS participation, with exposure of $1.5 billion across 29 note issues. California is second, with $800 million contained in 14 notes. WeWork has expanded its footprint through direct ownership in the office market for its own occupancy and businesses. Trepp estimates that about 4% of all office-backed CMBS loans include security through WeWork leases and cash flow – a substantive exposure. There are other unicorns that have plunged from their public offering debut or peak pricing: these include Peloton (-22%), Dynatrace (-30%), Slack Technologies (-39%), Crowdstrike (-35%), Chewy (-37%), Pinterest (-37%), Zoom Video (-31%) and PagerDuty (-57%).

WeWork is so large in some markets that if its market demand were to reverse or its leases were unwound, it would put downward pressure on rents and prices and could negatively affect borrowers' ability to meet mortgage payments. Beyond the CMBS world, look for lenders and landlords to be much more cautious when startup-company tenancies form a significant part of overall income from a project being financed.

Fiscal Snapshot

Bank of Canada

	Bank Rate	Bank Prime Lending Rate
October 2019	2.00	3.95
September 2019	2.00	3.95
October 2018	2.00	3.95

Government of Canada Benchmark Bond Yields

	5-Year	10-Year	Long
October 2019	1.42	1.42	1.58
September 2019	1.40	1.37	1.53
October 2018	2.42	2.49	2.52

Indicative Commercial Mortgage Spreads* Over Government of Canada Bond Yields

Conventional	5-Year	10-Year
October 2019	1.55 - 2.00	1.65 - 2.10
October 2018	1.50 - 1.90	1.60 - 2.10
Insured	**5-Year**	**10-Year**
October 2019	0.90 - 1.10	0.85 - 1.10
October 2018	0.80 - 1.10	0.80 - 1.10

*Spreads are indicative of high quality real estate in major Canadian markets.

Source(s): Bank of Canada

Highlighted Transaction

Asset Type	Suburban office/retail property
Location	Major Canadian city
Facility Details	A $26M facility representing 70% of value was arranged to repatriate capital, for a 7-year term. The structure included a part interest only pay period and part amortizing loan, secured with limited recourse to the owner at an attractive rate of interest.

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Please contact our Debt Capital Markets team for more details related to debt financings or real estate transactions.

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