



# To what extent do PEST factors contribute to the growth of the coworking industry and what caused WeWork's downfall?

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## Abstract

Given the growing popularity of the concept of coworking, this research paper aimed to conduct a thorough analysis of the origins and evolution of coworking, both as a concept and industry, and then further evaluate the influence that PEST factors have on the growth of the aforementioned industry. The latter half of the paper aimed to conduct an in-depth review of WeWork - once one of the most prominent players in the coworking industry - to understand what caused the company's downfall whilst its competitors enjoyed sustained growth and profits.

*Key Words: Coworking, WeWork, PEST framework, Real estate*

## Introduction

With the number of coworking spaces worldwide having increased from merely 3 locations in 2005 to 16,000+ spaces in 2018 (Statista, 2024), the question arises: is there a fundamental and sustained change in the way we think about and use commercial real estate?

We can track the beginning of the concept of a coworking space back to 1995 when hackers in Berlin opened a space known as the Hackerspace - this greatly resembled what we now recognise as a coworking space as it too emphasized the ability of such a space to enable sharing of knowledge and common space while working collaboratively. As the years progressed, coworking, as we know it today, became a popular concept with coworking spaces being designed to help people benefit from the flexibility of working on their own, with the structure of an actual workspace. The

growth in coworking as a concept and coworking spaces is greatly triggered by various social, technological and economic factors including a shift towards freelancing, growth in remote working as well as advancements and innovation in technology among other influencers. Furthermore, when discussing the coworking industry, one can not ignore WeWork - the company offering coworking spaces which was once the most spoken about and repeatedly recognised as being a leader in innovation but is now bankrupt and on a rampage of closing their spaces.

Taking the above into consideration, this research paper aims to answer the following question: **“To what extent do PEST factors contribute to the growth of the coworking industry and what caused WeWork’s downfall?”**. In order to answer the aforementioned question, this research paper aims to analyse the coworking industry, including its evolution from its origin, and then further evaluate how PEST factors influence coworking spaces' growth and popularity. The paper also aims to analyse the case of WeWork - the company that was once at the forefront of the coworking industry in an endeavour to understand how the image the founder created for the company may have ultimately led to its downfall.

### **An Introduction to and Exploration of Coworking**

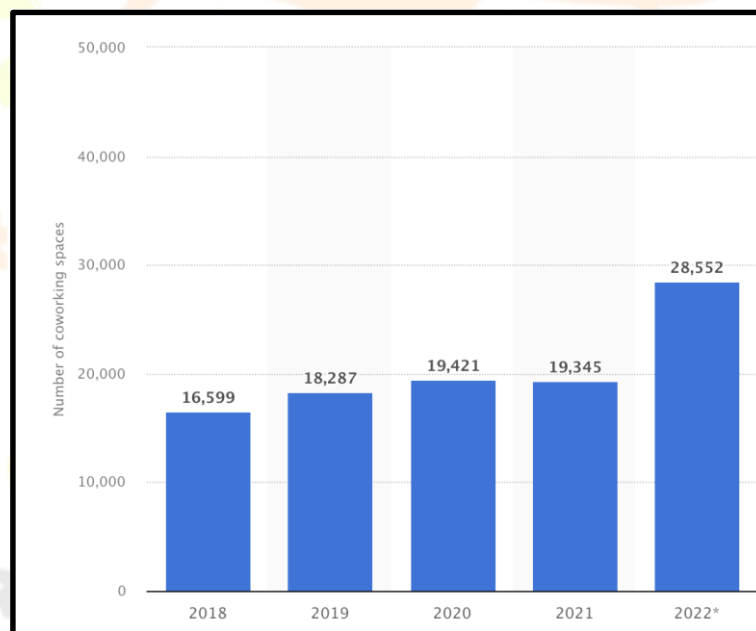
What does coworking, a term we frequently use in today's time, actually mean? Bernard DeKoven coined the term coworking in the late 1990s encapsulating the concept of “collaborative work among equals”. “It was envisioned as a scenario where freelancers or individuals employed by various companies could come together, sharing insights and resources within a communal network” (FOERTSCH and CAGNOL, 2013). The aforementioned makes it evident that at the time of inception, coworking was intended to refer more to the act of collaborative work i.e. the manner in which one works. In more recent times, however, we associate coworking more with the availability of dedicated spaces i.e. where a person works. That being said, the initial definition most definitely influenced the evolution of coworking and whilst the core idea may have changed from then to now, the foundations of community and shared knowledge are still built on in many coworking spaces.

As mentioned in the introduction, the first space that resembled a coworking space was known as Hackerspace and was founded by hackers in Berlin. There were, however, also other spaces which were developed with ideologies similar to coworking spaces. For example, in 2002, two Austrian entrepreneurs set up Schraubenfabrik, what they referred to as an entrepreneurial centre. The space, built in an old factory in Vienna, aimed to provide entrepreneurs with a space in which they could avoid having to work from home and instead collaborate and work with like-minded people (FOERTSCH and CAGNOL, 2013). Given the similarities between the intended purpose of this space and the definition of coworking, whilst it may not have been officially termed a coworking space, many consider it to be the precursor to what we know and recognise as coworking spaces today.

So, when were coworking spaces actually established? In 2005, Brad Neuberg envisioned a coworking space as a result of some financial hardships that he was going through. Neuberg essentially wanted a space in which he could

combine his feeling of independence and autonomy of working by himself with the community feel and structure of working with others (Risio, 2021). The aforementioned led to the creation of the first-ever coworking space, San Francisco Coworking Space, in August 2005. In just a little over a year, as a result of the overwhelming demand for his concept. Neuberg found himself moving the coworking space from the walls of the Spiral Muse to the Hat Factory and making it the first-ever full-time coworking space. Neuberg had officially started what would become one of the most popular, innovative and in-demand trends. In 2006, Brooklyn Coworking, New York's first-ever coworking space opened (Grinberg, 2023). In the same year, Jelly, a company that encouraged remote workers to meet up in one space was also founded and expanded into cities such as Austin and Phoenix by 2007 (Deskpass, 2022). In 2009, the Global Coworking Unconference Conference (GCUC), which is still an authority in the coworking industry, was established (Grinberg, 2023).

Moving on from the year 2000s, the data from more recent years proves how coworking has remained popular. As seen in the graph below, in 2018, for instance, there were approximately 16,599 coworking spaces. Whilst there was a steady increase in the number of coworking spaces in 2019 (18,287), 2020 (19,421) and 2021 (19,345), the world witnessed a sudden and significant jump in the number of coworking spaces in 2022 when the number reached 28,552 spaces worldwide (Statista, 2023).



The data leads to the question; what is continually fuelling the popularity of these coworking spaces? The answer lies in a variety of interconnected political, economic, social and technological factors that can be analysed within the PEST framework.

### Political

A growing number of governments are becoming aware of the potential of coworking and the importance of such spaces for entrepreneurship and the economy in both urban and rural regions. An example of this is seen in the findings of a paper titled ‘Rural Development Policy in Germany Regarding Coworking Spaces and Effects on Vitality and Versatility of Rural Towns’, written by Holzdel and de Vries (2023), which, in the context of Germany, concludes that “a growing number of policies address coworking in general and in rural areas in particular”. The study found that policies concerning coworking in rural regions were mainly initiated by the Federal Ministry of Food and Agriculture (BMEL) at the federal level. The study also found that at the level of the federal states, “in Schleswig-Holstein and Saxony-Anhalt, several documents offering multiple hits for the search term (coworking) could be found. This is reflected by the fact that Schleswig-Holstein and Saxony-Anhalt offer funding programs expressly for coworking spaces” (Hölzel and de Vries, 2023).

The above is one amongst several examples of government bodies developing and implementing policies in favour of coworking spaces. Once again, these policies may also come with funding availability for such spaces - representing a keenness on their presence in a country.

### Economic

The economic factors contributing to the growth of coworking spaces are varied and play a very significant role. One of the first economic factors is concerned with the growth of the gig economy - “a labour market that relies heavily on temporary and part-time positions filled by independent contractors and freelancers rather than full-time permanent employees” (Investopedia, 2024). Over the years, there has been a growth in the number of independent workers. According to McKinsey’s 2022 American Opportunity Survey, “a full 36 percent of employed respondents—roughly 58 million Americans—identify as independent workers. That’s a significant increase from 2016, when McKinsey research estimated that 27 percent of the workforce was independent” (McKinsey & Company, 2023). This number highlights the large number of people working outside of conventional office environments. It is also such individuals who seek spaces in which they are able to focus on their work, conduct meetings and possibly network. The answer to the aforementioned is coworking spaces as they seem to tick the box for all the requirements.

Another influential factor has been the growth of remote working. It is essential to highlight that remote working was already increasing dramatically with many modern-day companies not requiring much physical presence from their employees. The COVID-19 pandemic underlined this shift in working even further - whilst many companies were forced to adopt remote working, many also continued to or are strongly considering adopting it as regular practice as the world returned to ‘normal’ (Kitchlew, 2020). In fact, research shows that making the option of remote working available leads to more efficient job matching in the labour market. For instance, an article by Risse (2024) highlights how with distance and location no longer being deal-breakers, there are fewer obstacles getting in the way of matching

jobseekers to employers. Better job matching comes with less unemployment which is one of the key macroeconomic objectives of almost all governments. In the article, Risse evidences the aforementioned by highlighting how in Australia, “in finance and insurance – the industry with the biggest and fastest-growing rate of working from home – the proportion of jobs that were vacant fell from 2.5% before the pandemic to just 1.7% by the end of 2023” (Risse, 2024). Once again, this increasing acceptance and adoption of remote working brings with it demand for spaces with all the functionalities of a workspace whilst practising one’s freedom - which coworking spaces provide the most ideal solution to.

### Social

Research proving the social factors leading to individuals thriving in and demanding coworking spaces is abundant. As part of this, one of the most commonly occurring social explanations for the popularity of coworking spaces is the ability for individuals to feel as though they are a part of a community. All the coworking spaces are modelled around a different vibe and are designed to a certain extent to enable connections between the individuals using these spaces. An article published on HBR, however, highlights how individuals value this community-like feeling because they are not forced into socializing and can instead choose when and how they want to interact with others. For instance, “they are more likely to enjoy discussions over coffee in the café because they went to the café for that purpose – and when they want to be left alone elsewhere in the building, they are” (Spreitzer, Bacevice and Garrett, 2018). The research conducted by the authors also uncovered how “while some people interact with fellow coworkers much less than others, they still feel a strong sense of identity with the community” (Spreitzer, Bacevice and Garrett, 2018).

Another interesting social factor that drives demand for such spaces is that, unlike traditional offices, coworking spaces consist of members who are working for different companies or on different ventures or projects. As a result of this, there is very minimal direct competition or potential to get involved in internal politics or conflict. This creates a very positive environment wherein workers experience less pressure - not only from the job or task they are fulfilling but also because they do not feel a need to put on a persona to fit into any specific organizational culture. As an added advantage, the characteristics of coworking spaces can also encourage the creation of synergies between the businesses of different workers (Adler, 2022).

### Technological

From a very realistic perspective, the creation and operation of coworking spaces would not be possible without technological factors. The availability of high-speed internet, digital communication platforms such as Zoom and cloud-based tools (Sable, 2023) is what enables seamless connectivity and remote work - both of which are essential in the facilitation of such spaces and also in the reasoning for many individuals choosing to become members of such spaces.

## The WeWork Controversy

The PEST analysis clearly highlights the myriad factors fuelling the growth of coworking spaces. However, when we speak of this industry, one of the most prominent players is WeWork. In 2010, Adam Neumann and Miguel McKelvey founded WeWork and rented its first location in New York, opening it in April 2011. The entire idea of the business was to provide both physical and virtual coworking spaces. Over the years, the company made many advancements - for instance, in April 2017, WeWork launched an online store providing its members with access to services and software (Crook, 2017). By January 2019, the reported public valuation of WeWork was \$47 billion - largely a result of Neumann taking an investment of \$3 billion in November 2018 and then \$2 billion in January 2019 from SoftBank (Sherman, 2019). However, this was not a realistic valuation. Instead, it was an instance whereby the valuation of WeWork had skyrocketed from \$20 billion to a rather appalling \$47 billion - a valuation that was inflated and led to WeWork being ill-advised to move forward with an initial public offering (IPO) (Sherman, 2019) which they filed a proposal for at the end of April 2019. Unfortunately, while many may have predicted, the following months saw many twists for the company resulting in them being "besieged with criticism over its governance, business model, and ability to turn a profit" (Brown, 2019). Making several internal changes, the company managed to stay afloat and as of December 2022, WeWork operated a total of 43.9 million square feet of space in 779 locations in 39 countries and had around 547,000 members (SEC, 2022). However, WeWork finally filed for Bankruptcy in November 2023 (Steinberg and Pollard, 2023).

A common perception is that one of the many reasons the company that was once deemed the darling of Silicon Valley has now crashed was because it was a real estate company disguising itself as a technology company all along. An article published by the Washington Post, for instance, stated that "WeWork's core "space-as-a-service" business involves turning leased buildings into co-working spaces that offer perks like yoga classes and kombucha taps. But it has consistently pitched itself as something more than a real estate company-- the prospectus describes We Co. as a "global platform (that) integrates space, community, services and technology" - and major investors have agreed. Softbank invested more than \$10 billion in WeWork through its technology-focused Vision Fund" (Baca, 2019). Elaborating further on this remark, many noticed Neumann's tendencies to repeatedly promote WeWork as though it were a tech company. Particularly, he ensured clients that WeWork's office spaces would boost the social interaction between workers and lead to untold innovations (Clarke, 2023). In line with the aforementioned, Neumann always reiterated that the true platform for communication and collaboration was the office space itself. So, if the CEO continued to highlight the crucial component of the business being based in the real estate industry, where was the problem? Well, the issue primarily arose from the manner in which he described WeWork as a 'physical social network offering space as a service' (Nicolau, 2016). He essentially cast the spaces as a form of innovation technology, trading on a notion which was wildly popular in the 2010s i.e. the dissolving boundary between the physical space and computers (Clarke, 2023).

When all is said and done, it is now evident that WeWork had many successes since its founding primarily because of the ever-larger investments and valuations they attracted from tech venture capitalists due to the narrative and wording they used to pitch their business model. Realistically, this technology business model would have never allowed the company to maintain their position because it simply was not reflective of the industry it truly belonged to i.e. the real estate industry. If operated as a real estate company, perhaps WeWork may not have enjoyed the same economies of scale or network effects as a technology company but chances are they would have survived and witnessed sustained growth - as may be seen in the case of WeWork's main competitor IWG who is larger and has a longer operating history than WeWork but has a valuation at just a fraction of company's peak valuation (around USD\$1.8 billion) and has remained consistently profitable with steady growth.

## **Conclusion**

Coworking is not a new concept but instead, one that has been refined several times since its inception and now stands to be the foundation of a thriving industry - the coworking industry. This research paper aimed to evaluate the various PEST factors that may be fuelling the growth of coworking spaces and therefore, the coworking industry, before analysing WeWork, one of the most prominent names in this industry, and the reasons for the company's downfall.

The numbers speak for themselves, a year-on-year increase in the number of coworking spaces is not without reason. As evaluated in this paper, political, economic, social and technological factors are all catalysing the growth of the coworking industry, to a great extent. For instance, on a political front, there has been more attention paid by governments and respective ministries to the importance of coworking and implementing it as a means of economic development in both urban and rural regions. Furthermore, when we look at the economic factors, the rise of the gig economy and remote working has fuelled demand for coworking spaces as they provide a space where people can exercise their freedom but in an organizational structure. When considering the social factors, it is evident that the collaborative aspect of coworking spaces puts them at an advantage but what truly suits the people is the lowered pressure translating to their ability to exercise selective collaboration in a space where it is not necessary to adopt a business persona. Finally, technological factors are the entire basis of coworking spaces and the industry as they provide the infrastructure needed to enable the remote working and seamless connectivity that characterise such services.

Whilst many successful companies in the coworking industry have risen and continue to rise in their power, one of the most prominent names is WeWork. The analysis conducted in this paper makes it evident that WeWork's downfall was almost inevitable as a result of the founder continuously pushing the narrative of the company being a technology one instead of a real-estate one. The significant investments obtained translated to high valuations and an IPO which

all drove the company to bankruptcy. When observed now, it can be concluded that the company existed in a bubble of fast growth and failed to realise or learn from some of its main competitors, such as IWG, that to be successful in this game, it would be necessary to position and run your company as the real estate company that it is even if it meant slower growth or lower valuations.

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