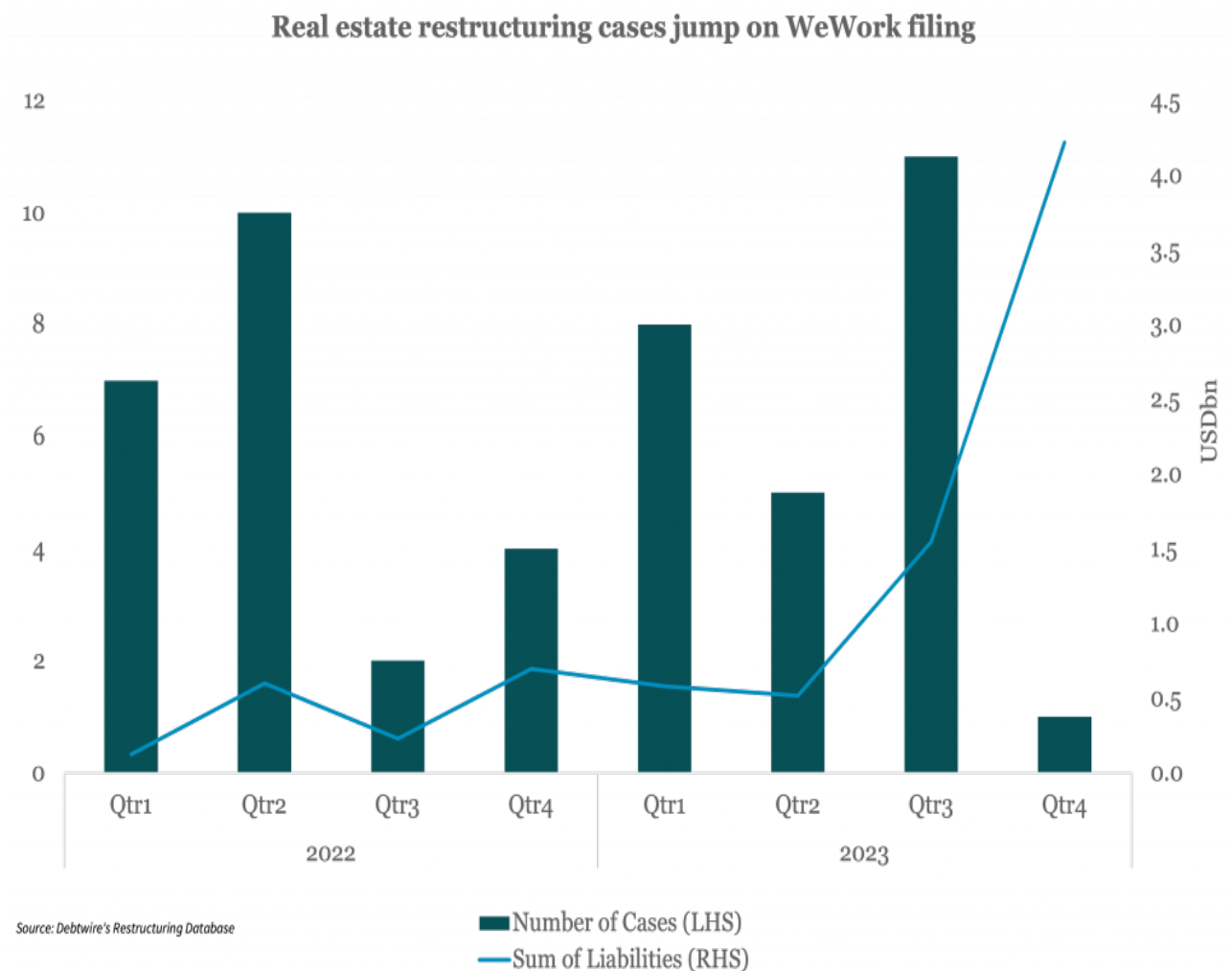


Exposed companies in the US real-estate market

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Restructuring activity in the real-estate market picked up in 3Q23, with 11 companies filing for Chapter 11 bankruptcy protection, representing USD 1.55bn of outstanding debt. Not to be outdone, 4Q23 has so far held the most anticipated RE bankruptcy of the year, as **WeWork** plunged into Chapter 11 with USD 4.22bn of funded debt. The reasons for the restructuring are not idiosyncratic; wider macroeconomic forces have had a crippling impact on the company, raising the question of which other firms in the sector are also in the firing line.

The office space provider, founded in 2010 and which once saw its overvaluation soar to an astronomical USD 47bn in 2019, struggled to maintain the confidence of investors and endured a failed IPO attempt in the same year, subsequently going public in 2021 via a de-SPAC transaction that valued the company at USD 9.5bn. The onset of the coronavirus (COVID-19) pandemic wreaked havoc on the commercial RE market, as customers moved, in some cases permanently, to remote working, flatlining demand for office space.

WeWork now finds itself ranked third in the largest Chapter 11 cases in 2023 year to date (YTD).

Is bankruptcy filing of RE behemoth WeWork an indicator of upcoming bankruptcies in the real estate space? With remote working stressing the commercial RE sector, the cost-of-living crisis coming hand in hand with higher mortgage rates has created a whirlwind for the residential section of the market.

Debtwire's Likely-To-Distress (LTD) scores highlight the most exposed companies within the sector. **Pennsylvania Real Estate Investment Trust** has the highest LTD score in the commercial space, with upcoming debt due to mature in early December following the announcement of a net loss of USD 168m in its 9M23 earnings report. Also in the pure commercial space are **Office Properties Income Trust** and **Hudson Pacific Properties**. Meanwhile, additionally offering residential RE, **Anywhere Real Estate** (formerly **Realty**), **Hillwood Development Company** and **Service Properties Trust** are also showing significant signs of stress.

Operating in the healthcare sector, **Medical Properties Trust** is plagued by upcoming debt maturities, while the current interest-rate environment is proving prohibitive to refinancing.

It is of note that Office Properties Income Trust (OPI) and **Diversified Healthcare Trust (DHT)** had been set to merge. However, OPI's acquisition of DHT was cancelled at the start of September, following which S&P downgraded DHT to CCC-. The company is unable to incur additional debt as it is currently outside its debt service level of 1.5x, leaving DHT at the top of Debtwire's LTD table.

With just one case registered so far in the fourth quarter, the deal count is sure to rise before the year-end.

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