Conditions began to deteriorate as we ended what initially began as a promising year. Q4 of 2020 produced a negative 400,000 SF of absorption, which primarily came from CHOPS' decision to vacate 250,000 SF of office space at the Wanamaker Building, relocating their personnel to other locations. The CBD's vacancy rate rose to 11.6% with 5.2M SF available.

As the Pendulum Begins Shifting to a Tenant-Friendly Market…

Q4, like Q3, saw small-to-medium-sized business and nonprofits struggle, and that has not changed.

- As the Coronavirus pandemic stalled foreclosures, Philadelphia-based foreclosure law firm, Phelan Hallinan Diamond & Jones, permanently closed its doors and vacated 30,000 SF at Suburban Station.
- Without contraction rights, Simon & Simon is left trying to sublease 30,000 SF at 1818 Market Street.
- The Graham Company leases 76,000 SF at 30 S. 15th Street, and they have placed three floors totaling 30,000/SF (39%) of their space on the market for sublease.
- Q4 brought about a few kinks in the once formidable armor that was Trophy Tower vacancy. Larger users of office space began to feel the effects of the existing economic climate.
- Blank Rome announced a new 15-year lease on 200,000 SF at One Logan Square. This Am Law 200 firm is expected to contract by approximately 40% after exercising pre-negotiated contraction rights and trying to meet the industry-standard goal of 600/RSF per attorney. Utilizing this math, we can expect 80,000 SF to be given back to their landlord.
- One Liberty Place will have the 9th & 10th floors to lease after Aon Risk departs to merge with Willis Towers at Mellon Bank Center. Floors 32 and 46 are vacant as well and available to lease.

These are just a few examples. I expect more sublease and direct space to reach the market as leases expire and the effects of the pandemic are realized.

What Happens When the Pandemic Subsides?

Everyone is anxious for this pandemic to be over, but landlords specifically are eager to resume leasing at the all-time highwater marks for rent—and leave the Covid-19 era in the rearview mirror, where it belongs. However, landlords, lenders, asset managers, and their broker advocates are in for a rude awakening. What I described above is the beginning of a pendulum shift. As more direct and sublet space hits the market, there will be an increase in competitive opportunities for tenants. And an increase in opportunities for tenants means there will be a boost in competition amongst landlords. Subsequently, as competition spikes amongst landlords, tenants will realize more options, which means a highly competitive environment will serve as the backdrop and landlords will be in hot pursuit of any prospective tenant who gives them attention, thus yielding the return of tenant-friendly transactions.

Tenants with leases that are expiring in the next 12-36 months are well positioned. If you are a tenant that does not take advantage of the uncertainty that landlords are facing you will likely be remiss as landlords, at some point, will seek to recoup lost revenue and lost profit margins to once again meet their debt service.

Ultimately, now is the time to negotiate more aggressively than what you were able to do prior to the pandemic. Any tenant, but specifically those possessing solid credit and wanting to take advantage of the current uncertainty, **can and should**. And do it now.

What Will 2021 Bring?

As 2021 unfolds, it will bring with it a rethinking of office space and will require each of us to have the ability to react quickly to changing trends. For one, office users will attempt to determine how extensive and long lasting the "work from home" trend will last. Of course, when this pandemic began companies were in no hurry to bring their employees back to the office, and employees enjoyed the freedom that remote working provided.

However, as we closed out 2020 it was clear companies transitioned into a different mindset, and they now want their employees back in the office, accountable, collaborating, and mentoring younger associates. At the same time, employees and staff are eager to get back into a routine and to get out of the house. Zoom has changed the way we do business, and the way kids can be educated but speaking through a screen simply does not replace the value and connection of daily face-to-face interaction. Ultimately, we all crave personal connection with each other.

Therefore, expect to see an increase in hoteling, where employees do not have assigned seats and use whatever desks are available when they arrive to work. This will enable office users to lease less space while still offering an office environment to those individuals who are required to be in the office or who simply want to be there.

Below are the current quoted rental rates: The key word here is "quoted." Please keep in mind that these numbers do not accurately reflect how landlords are currently addressing transactions:

- Trophy Class space is priced at $43.00/SF
- Class A space is priced at $35.50/SF
- Class B space is priced at $28.25/SF
- Class C space is priced at $23.50/SF

I might advise you to expect a 5% reduction during the first half of 2021. I believe a further reduction in asking rates will occur towards the end of the year.

The Path Forward

Landlords possessing trophy assets have long touted a 5% vacancy in the Trophy Towers to justify historically high asking rents. This is changing and will continue to do so as long as tenants continue to feel the after-effects of this tumultuous and uncertain era.

Brandywine Realty Trust has toed the line, so to speak, and pushed new highwater marks for rent—and in turn, other trophy landlords have followed suit. Will this continue? I don't know. But what I do know is as more direct and sublease space becomes available the fallout will impact each and every CBD landlord. After all, an avalanche always starts at the top of the mountain.

Throughout 2021 I expect there to be a tug of war between tenants that are looking to capitalize on the environment and landlords that are torn between facing reality and dreaming of yesteryear. In the end, reality will prevail, but it will come with a struggle.

Finally, putting business aside, I would like to take a moment to pay tribute to a close friend who succumbed to COVID-19. As a well-respected member of our legal community, Angelo Louis "Scotty" Scaricamazza, Jr., Esq. was born on November 18, 1950. He passed on December 2, 2020. He will be missed. May he rest in peace.

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