

Using Chapter 11 Reorganization to Break Burdensome Lease Agreements

In recent years, commercial real estate values have tumbled along with home values. Many businesses, struggling with the new challenges of a worsened economy, have been straddled with a long-term lease at unreasonably high rates. When a business is in this situation, it is not uncommon for the business to file a petition for Chapter 11 Reorganization to break the lease.

In a Chapter 11 Reorganization, the bankruptcy court often grants debtor businesses broad discretion in breaking service contracts and lease agreements. The landlord may claim damages for breach of the contract, but there is a chance such damages will not be paid or that the debtor will be able to renegotiate with the landlord.

Realty Executives, one of the largest [real estate firms](#) in the country, recently engaged in this strategy to break two Tucson and several Phoenix area leases. Such leases were amounting to a combined \$37,733 a month, and the landlords were not willing to negotiate. After being locked out of the office several times for lack of payment, the company decided to file a petition for Chapter 11 in order to either find a new lease or renegotiate a lease. When it submitted its petition, Realty Executives requested an immediate court approval for walking away from its lease agreements.

Commercial leases are more rigid than residential leases, often for longer time periods, and are less regulated by the government. Because of this, bankruptcy is often an effective way to renegotiate or break a lease that is too expensive. It permits a business to change locations, reduce size or cost of lease and can often prevent worsening financial condition of the company. If this topic is something you may be struggling with or considering for yourself or your business, you will be best informed about your situation by [contacting an experienced Tucson bankruptcy attorney](#). There is also a possibility that your case may fit into a [Chapter 13](#) reorganization rather than an 11, it is a good option to explore depending on how your business is set up.

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