



Master Leases and Cross-Defaulted Lease Structures in Bankruptcy: All-or-Nothing Assumption or Rejection

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Master lease bankruptcy disputes frequently arise when tenants attempt to retain profitable locations while rejecting underperforming ones. In multi-location retail, office, and franchise portfolios, landlords and lenders often rely on master leases or cross-defaulted lease structures to prevent this outcome.

Recent bankruptcy cases interpreting [Section 365 of the U.S. Bankruptcy Code](#) highlight both the effectiveness and limitations of these structures. When properly structured, courts may treat a master lease as a single integrated agreement, requiring a debtor-tenant to assume or reject the entire portfolio rather than “cherry-pick” individual locations.

Below we summarize the legal framework and practical implications for landlords, lenders, and portfolio owners.

Section 365 and the Master Lease Bankruptcy Framework

A master lease bankruptcy structure refers to a lease arrangement where multiple locations are treated as a single integrated agreement, requiring assumption or rejection as a whole under Section 365.

Under Section 365(a) of the U.S. Bankruptcy Code, a debtor may assume or reject executory contracts and unexpired leases. The debtor’s ability to assume favorable contracts and reject burdensome ones is a central feature of the bankruptcy process.

However, a key limitation applies:

- A debtor must assume or reject a contract in its entirety.
- A debtor generally cannot assume favorable provisions of a contract while rejecting unfavorable ones. Courts refer to this principle as the “all-or-nothing rule.”

In practice, this means that if multiple leases are determined to be part of one integrated transaction, the debtor cannot selectively assume profitable locations while rejecting unprofitable ones.

Where multiple leases are treated as separate agreements, a tenant may reject some locations and assume others. But where a court determines that multiple leases constitute a single integrated agreement, the debtor must assume or reject the entire structure.

How Master Lease Structures Operate in Bankruptcy

A master lease consolidates multiple locations into a single lease agreement, typically with:

- One integrated document
- A single rent structure or aggregated obligations
- Cross-default provisions
- Portfolio-wide remedies upon default

If a bankruptcy court determines that the master lease truly constitutes one integrated agreement, the debtor generally must assume or reject all locations together.

This structure prevents tenants from keeping only profitable locations while abandoning underperforming ones.

Cross-Defaulted Leases in Bankruptcy Proceedings

Even when locations are documented as separate leases, landlords sometimes include cross-default provisions stating that a default under one lease constitutes a default under all related leases.

Courts have taken mixed approaches to these provisions. Some courts enforce cross-defaulted lease structures where the leases are economically integrated, while others view cross-defaults as an attempt to circumvent the debtor’s statutory rights under bankruptcy law.

The enforceability of cross-defaults often depends on whether the court views the leases as interdependent components of a single transaction.

How Bankruptcy Courts Evaluate Master Lease Structures

Bankruptcy courts analyzing whether multiple leases should be treated as one integrated agreement often consider:

1. Intent of the Parties: Whether the documents reflect an intent to create a single integrated lease structure.
2. Economic Interdependence: Whether the leases were negotiated as a package and rely on each

other economically.

3. Integrated Documentation: Whether the leases appear in one master document or incorporate each other.
4. Cross-Default and Cross-Collateralization Provisions: Whether the agreements expressly link performance across locations.
5. Portfolio-Based Rent or Remedies: Whether rent, termination rights, or remedies are calculated on a portfolio basis.

No single factor is dispositive, but courts often focus heavily on whether the agreements function economically as one deal.

Why Master Lease Bankruptcy Structures Matter for Landlords and Lenders

Where courts recognize a master lease or integrated lease structure, the result can materially affect a bankruptcy outcome.

Advantages include:

- Preventing tenants from retaining only profitable locations
- Strengthening landlord leverage in restructuring negotiations
- Protecting portfolio value
- Reducing risk that individual locations will be rejected

These protections can be particularly important in retail portfolios, franchise systems, hospitality portfolios, and portfolio sale-leaseback transactions.

Drafting Master Lease and Cross-Default Provisions to Survive Bankruptcy

Because bankruptcy courts focus on substance over form, careful drafting is critical. Landlords and lenders often incorporate the following structural features:

- A single master lease agreement covering all locations
- Portfolio-level rent obligations
- Explicit cross-default and cross-termination provisions
- Integrated remedies and cure obligations
- Language confirming the parties' intent that the leases constitute one indivisible agreement

Even with these protections, courts may still scrutinize whether the agreements operate as a single economic transaction.

Key Takeaways on Master Lease Bankruptcy Strategy

Master lease and cross-defaulted lease structures remain powerful tools for landlords and lenders seeking to prevent selective lease rejection in bankruptcy. However, their effectiveness ultimately depends on whether a bankruptcy court views the agreements as genuinely integrated transactions rather than separate leases tied together by form. As a result, master lease structures can significantly affect how bankruptcy courts apply the assumption or rejection rules of Section 365.

Counsel experienced in [commercial real estate finance and structured transactions](#) can help structure lease portfolios in ways that strengthen enforceability in bankruptcy.

Careful structuring and drafting at the outset of a transaction can significantly improve the likelihood that courts will require a debtor-tenant to assume or reject the entire portfolio of locations, preserving the economic expectations of the parties.

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