

# Cancellation Strategies in Commercial Real Estate Leasing

Robert M. Mooradian, Shiawee X. Yang

First published: 22 September 2003

<https://doi.org/10.1111/1540-6229.00793>

## Abstract

In a contractionary corporate environment, lease cancellation strategy becomes an important component of corporate real estate leasing decisions. This paper presents a leasing model in which less well-informed lessors offer leases with alternative lease cancellation options. The model demonstrates that a tenant's choice of cancellation option reveals his private information with respect to the likelihood of option exercise. Tenants who select a lease with a downsizing option are more likely to exercise the option. Given the higher likelihood of option exercise, the model suggests that the downsizing option will be priced higher. We examine a sample of 311 leases, and consistent with the model's prediction, we find that on average leases with a downsizing option have significantly higher contract rent. However, termination and sublet options are not associated with higher rent. The evidence suggests that market uncertainty, private information and adverse selection affect the pricing of alternative cancellation options and the choice of cancellation option.

## References

Benjamin, J.D., C. de la Torre and J., Musumeci. 1995. Controlling the Incentive Problems in Real Estate Leasing. *Journal of Real Estate Finance and Economics* 10: 177-191.

[Web of Science®](#) | [Google Scholar](#)

Brown, D., C. James and R. Mooradian. 1994. Asset Sales by Financially Distressed Firms. *Journal of Corporate Finance* 1: 233-257.

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

Manage Preferences

Accept All

Reject Non-Essential

Greenbaum, S., G. Kanatas and I. Venezia. 1991. Loan Commitments and the Management of Uncertain Credit Demand. *Journal of Real Estate Finance and Economics* 4: 351–366.

[Google Scholar](#) 

Grenadier, S. 1995. Valuing Lease Contracts: A Real-Options Approach. *Journal of Financial Economics* 38: 297–331.

[Web of Science®](#)  | [Google Scholar](#) 

John, K., L. Lang and J. Netter. 1992. The Voluntary Restructuring of Large Firms in Response to Performance Decline. *Journal of Finance* 47: 891–917.

[Web of Science®](#)  | [Google Scholar](#) 

John, K. and E. Ofek. 1995. Asset Sales and Increase in Focus. *Journal of Financial Economics* 37: 105–126.

[Web of Science®](#)  | [Google Scholar](#) 

Kaplan, S. and M. Weisbach. 1992. The Success of Acquisitions: Evidence from Divestitures. *Journal of Finance* 47: 107–138.

[CAS](#)  | [Web of Science®](#)  | [Google Scholar](#) 

Lang, L., A. Poulson and R. Stulz. 1995. Asset Sales, Firm Performance, and the Agency Costs of Managerial Discretion. *Journal of Financial Economics* 37: 3–38.

[Web of Science®](#)  | [Google Scholar](#) 

McConnell, J. and J. Schallheim. 1983. Valuation of Asset Leasing Contracts. *Journal of Financial Economics* 12: 237–261.

[Web of Science®](#)  | [Google Scholar](#) 

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

Manage Preferences

Accept All

Reject Non-Essential

## ABOUT WILEY ONLINE LIBRARY

[Privacy Policy](#)

[Terms of Use](#)

[About Cookies](#)

[Manage Cookies](#)

[Accessibility](#)

[Wiley Research DE&I Statement and Publishing Policies](#)

## HELP & SUPPORT

[Contact Us](#)

[Training and Support](#)

[DMCA & Reporting Piracy](#)

[Sitemap](#)

## OPPORTUNITIES

[Subscription Agents](#)

[Advertisers & Corporate Partners](#)

## CONNECT WITH WILEY

[The Wiley Network](#)

[Wiley Press Room](#)

Copyright © 1999-2026 John Wiley & Sons, Inc or related companies. All rights reserved, including rights for text and data mining and training of artificial intelligence technologies or similar technologies.

**WILEY**

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

**Manage Preferences**

**Accept All**

**Reject Non-Essential**