
REAL ESTATE – COMMERCIAL LEASING

The Court of Appeals of Tennessee at Knoxville held that the use of the word “Premises” in a commercial lease unambiguously referred to the space within the commercial building that the tenant occupied during the lease. *Coffey v. Buckeye Home Health Ctr.*, No. E2022-00928-COA-R3-CV, 2023 Tenn. App. LEXIS 43, 2023 WL 1498760 (Ct. App. Feb. 3, 2023).

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In *Coffey v. Buckeye Home Health Ctr.*, the Tennessee Court of Appeals addressed whether a failure to define the word “Premises” in a commercial lease rendered an insurance provision unenforceable. Using the natural and ordinary meaning of the word “Premises,” the Parties’ knowledge, and the surrounding circumstances when the commercial lease was signed, the Court of Appeals found that the term “Premises” was not unambiguous.

On May 1, 2019, Dr. David Coffey (“Dr. Coffey”), the owner of a commercial building located at 277 Underpass Drive, Oneida, Tennessee, executed a commercial lease with Buckeye Home Health Center (“Buckeye”). The lease provided that Buckeye would rent and occupy 1,800 square feet of the building for one year. Section 12A of the lease provided that “Tenant agrees to secure an[d] keep in force from and after the date Landlord shall deliver possession of the Premises to Tenant and throughout the terms of this Lease, at Tenant's own cost and expense: fire coverage....”¹ On January 30, 2020, a fire burned down Dr. Coffey’s building. While Buckeye held insurance through The Southern Agency, this insurance did not include fire coverage that would pay for any part of Dr. Coffey’s building.

On May 13, 2021, Dr. Coffey filed a complaint against Buckeye in the Circuit Court for Scott County alleging a breach of contract and failure to keep fire insurance as required in the lease. Buckeye moved for summary judgment and made two arguments: (1) the requirement to secure fire insurance was unenforceable because Section 12A failed to define the word “Premises,” and (2) regardless of the interpretation of the word “Premises,” it was impossible for Buckeye to obtain fire insurance on a portion of a building.

Dr. Coffey and Buckeye each submitted affidavits from licensed insurance agents. Buckeye’s agent, Derek Wirz, indicated that writing fire insurance coverage for a portion of a building would not be possible, especially because Buckeye did not hold an insurable interest in the building. Dr. Coffey’s agent, Chad Daniel, stated that writing fire

¹ *Coffey v. Buckeye Home Health Ctr.*, No. E2022-00928-COA-R3-CV, 2023 WL 1498760, at *1 (Tenn. Ct. App. Feb. 3, 2023).

insurance for a portion of Dr. Coffey's building would be possible, according to conversations he had with multiple underwriters at different insurance companies.

The trial court ultimately granted summary judgment in Buckeye's favor, holding that the word "Premises" was ambiguous and that the failure to define the term rendered the fire insurance requirement unenforceable. Because of this, the trial court did not address whether Buckeye could have acquired fire insurance for a portion of Dr. Coffey's building. Dr. Coffey appealed.

On appeal, the Tennessee Court of Appeals addressed the single issue of whether the trial court erred in holding that the failure to define "Premises" rendered the fire insurance requirement unenforceable. Ultimately, the Court of Appeals found that "Premises" was not ambiguous because of the circumstances surrounding the signing of the lease and the language used in the rest of the lease. The Court of Appeals reversed the trial court's granting of summary judgment and remanded the case for further proceedings consistent with this finding.

To determine whether "Premises" was ambiguous, the Court of Appeals looked at three sources: the four corners of the lease, the circumstances surrounding the lease signing, and the intent of the Parties in signing the lease.² Before beginning its analysis, though, the court restated Tennessee's precedent on contractual interpretation. In *Planters Gin Co. v. Fed. Compress & Warehouse Co.*,³ the Supreme Court of Tennessee held that "[w]hen resolving disputes of contract interpretation, a court should determine the intentions of the parties based upon the usual, natural, and ordinary meaning of the contractual language."⁴ Additionally, in *Lamar Advert. Co. v. By-Pass Partners*,⁵ the Court of Appeals stated that a contract is not ambiguous "simply because the parties have different interpretations of its provisions."⁶

To start its analysis, the Court of Appeals first examined how the Parties understood the meaning of "Premises" when the lease was signed. The court believed that the only logical conclusion, based on the usual, natural, and ordinary meaning of the word "Premises," was that the Parties understood the term to mean the space Buckeye rented and occupied. In the court's view, interpreting "Premises" as parts of the building that

² See *Individual Healthcare Specialists, Inc. v. BlueCross BlueShield of Tennessee, Inc.*, 566 S.W.3d 671, 692 (Tenn. 2019).

³ 78 S.W.3d 885 (Tenn. 2002).

⁴ *Coffey*, 2023 WL 1498760, at *1 (quoting *Planters Gin Co.*, 78 S.W.3d at 890).

⁵ 313 S.W.3d 779 (Tenn. Ct. App. 2009).

⁶ *Coffey*, 2023 WL 1498760, at *3 (quoting *Lamar Advert. Co.*, 313 S.W.3d at 792).

Buckeye did not rent or occupy would be unusual and would strain the court's credibility.⁷

Next, the Court of Appeals turned to the four corners of the lease and found that the lease would conflict with itself if "Premises" was interpreted to mean the entire building.⁸ Other sections of the lease provided that the "Premises" should be used for Buckeye's course of business and that Buckeye should pay for the utilities of the "Premises." Interpreting "Premises" as the entire building meant that Buckeye would be using and paying utilities for portions of the building that they did not rent out or occupy. Therefore, for the word "Premises" to be consistent throughout the entire lease, it must be interpreted as the portion of the building Buckeye rented out and occupied. To solidify this reasoning, the court agreed that the common lease provisions of keeping the "Premises" in a neat and orderly condition were set by the Parties to only apply to the space Buckeye rented out and occupied.

The Court of Appeals concluded their reasoning by noting that it is essential that the trial court address the impossibility of partial fire insurance coverage, as well as the competing credentials and affidavits of Mr. Wirz and Mr. Daniel.

The Court of Appeals found that the term "Premises" in an insurance provision of a commercial lease was not ambiguous because of the use of the term in other sections of the lease and the circumstances surrounding the signing of the lease. The "Premises" in Section 12A referred specifically to the 1,800-square-foot space that Buckeye rented and occupied during the leasing period. Therefore, the Court of Appeals reversed the ruling of the trial court and remanded the case for a proceeding regarding fire insurance coverage consistent with this opinion.

In light of this decision, transactional attorneys in Tennessee should place a heightened focus on promoting consistency in the terms of the contracts they write. While this decision did not introduce any new law or overrule any precedent, it emphasized that contract interpretation depends on the entire contract, not a single provision. A single provision might seem out of place or incorrect when taken out of context; however,

⁷ *Coffey*, 2023 WL 1498760, at *3 (citing *Farmer's—Peoples Bank*, 519 S.W.2d at 805) (noting that "courts are prohibited from assigning a strained construction to the language to find ambiguity where none exists").

⁸ *Id.* at *4 (quoting *Adkins v. Bluegrass Ests., Inc.*, 360 S.W.3d 404, 411 (Tenn. Ct. App. 2011) ("All provisions of the contract should be construed in harmony with each other to promote consistency and avoid repugnancy among the various contract provisions.") (citing *Teter v. Republic Parking Sys., Inc.*, 181 S.W.3d 330, 342 (Tenn. 2005)).

the Court of Appeals proved that the context of the entire document is most important when reading each provision.

Additionally, transactional attorneys in Tennessee should be careful when calling a contract ambiguous. As the Court of Appeals mentioned, a contract is not ambiguous just because opposing parties interpret its provisions differently. Instead, contractual ambiguity is a question of law, allowing only a judge to determine if a term can be fairly construed in multiple ways.