

**BLOGS**

Terminations

## Tennessee Federal Court Denies Franchisor's Motion to Dismiss Claims of Bad Faith in Denying Relocation

A federal court in Tennessee denied a manufacturer's motion to dismiss claims that it acted in bad faith and constructively terminated a dealership when it denied the dealer's proposed relocation sites. *Hyundai Subaru of Nashville v. Hyundai Motor Am.*, 2023 WL 2201015 (M.D. Tenn. Feb. 24, 2023).

A federal court in Tennessee denied a manufacturer's motion to dismiss claims that it acted in bad faith and constructively terminated a dealership when it denied the dealer's proposed relocation sites. *Hyundai Subaru of Nashville v. Hyundai Motor Am.*, 2023 WL 2201015 (M.D. Tenn. Feb. 24, 2023). A Nashville Hyundai dealer alleged that Hyundai improperly refused to approve its relocation because of policies aimed at keeping Hyundai dealerships out of African American neighborhoods. When Hyundai provided its own proposal for a site, it was too expensive to be profitable and too small to meet Hyundai's own standards. The dealer further alleged that Hyundai had continually changed its relocation requirements during the process, hoping to put the dealer out of business as its current lease approached expiration. The dealer even alleged that Hyundai had presented it with a written sales agreement to transfer the dealer to Hyundai's preferred operator. The dealer sued, claiming that this conduct breached the dealership agreement and the covenant of good faith and fair dealing, violated the Automobile Dealer's Day in Court Act (ADDCA), and constituted constructive termination. Hyundai moved to dismiss, arguing that demographic information in the complaint disproved the redlining allegations; that a dealership that is still operating cannot have been constructively terminated as a matter of law; and that Hyundai had not made any "wrongful demand" on the dealer as required to state a claim under the ADDCA.

The court denied Hyundai's motion in its entirety. It held that, demographic information aside, other allegations in the complaint were sufficient to state a claim of Hyundai's acting in bad faith, such as those that Hyundai had rejected the dealer's proposed sites without sufficient basis and that Hyundai had intentionally counter-proposed an unworkable site. The court further held that an operating dealership could state a claim—even for constructive termination—under the ADDCA, as the statute provides for a cause of action against manufacturers who fail to act in good faith in performing the terms of the agreement, and the manufacturer's bad faith may be aimed at putting a dealer out of business. It noted that the dealer's allegations described what could be interpreted as coercion on Hyundai's part, even if Hyundai's arguments may eventually prevail on summary judgment.

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