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Contracts-Implied Assumption of Continued Existence of Building Recovery for Part Performance

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been repudiated by the American view of a prima facie hiring at will, said, "There can be no flexible rule in this respect. . . . It is an open question to be determined by the circumstances of each particular case, or as one which is dependent upon the understanding and intent of the parties to be ascertained by influence from their negotiations, usages of business, nature of the employment, and all of the surrounding circumstances." In the case before us, the Indiana Appellate Court in adopting this third doctrine has altered the view that it set forth in 1897.

Since our law is a scheme of social control for the betterment of social interests, we must look for a rule which will be most beneficial to society and also give the best results. The third doctrine which is set out by the Indiana Appellate Court appears to fall into this category in that by using this rule the objective understanding of the parties to the contract will be enforced.

I. K.

CONTRACTS—IMPLIED ASSUMPTION OF CONTINUED EXISTENCE OF BUILDING—RECOVERY FOR PART PERFORMANCE.—Action to recover the balance of contract price under a contract to "furnish, fabricate, and erect" two large steel storage tanks in defendant's building, and to make certain alterations in the building necessary for the installation of the tanks. Payment was to be made after each tank was completed, tested, and accepted. After the tanks were partially erected, an explosion and fire destroyed the building, making further performance impossible; thus, without fault of either party, the uncompleted tanks and other materials brought onto the premises but not yet incorporated into the tanks were destroyed. Plaintiff relies especially on a provision of the contract that "it is further agreed that no . . . injury to or loss or destruction of said property shall release the buyer from his obligation hereunder." Held, destruction of the building released both parties from their obligations under the contract and each party was left to bear its own loss.

A contract to erect an entire building is not discharged by destruction after part performance; the risk is on the contractor and he has the duty to rebuild. On the other hand, where a contract provides for work to be done on an existing building, as by repairs or installation of fixtures, the contract is made on a mutual assumption that the building will continue in existence;


14 Supra, note 7. Speeder Cycle Co. v. Teeter.


16 Problem discussed in this note also discussed by Hardman, Contracts of Agency Without Stipulations as to Duration, 35 West Virginia L. Q. 116.


2 School District v. Dauchy (1856), 25 Conn. 530; Prather v. Latshaw (1919), 188 Ind. 204, 122 N. E. 721.
its accidental destruction operates as an implied casual condition subsequent to release both parties from further obligations under the contract.\(^8\) As to these two propositions, the authorities are in accord. A clear break in authorities is found on the question of the right of the contractor, thus discharged from the duty of further performance on a contract to work on an existing building, to recover for part performance prior to the destruction. It is held in England and in several American states that all rights and liabilities are discharged and that the law will aid neither party, leaving each to bear its loss as it fell.\(^4\) The majority of the states, however, permit recovery in one form or another: recovery pro tanto by treating the contract as divisible upon destruction;\(^5\) recovery in quasi-contract for benefits conferred;\(^6\) recovery quantum meruit presumptively at the contract rate;\(^7\) recovery allowed, but decision ambiguous as to the standard employed.\(^8\)

The problem involved is an apportionment of loss between two innocent parties, and it is not surprising that the various courts have taken different views as to what is a fair and reasonable solution. The contractor has expended time and money upon the owner's property and presents a strong argument for compensation; on the other hand, it seems a considerable burden to release both parties from further obligations under the contract.

\(^3\) See cases cited below, notes 4, 5, 6, 7, and 8.


\(^7\) Cook v. McCabe (1881), 53 Wis. 250, 10 N. W. 507, 40 Am.Rep. 765.

tion the loss according to the contract; they hold that all rights are cut off by the unforeseen event. Thus, the contractor is not entitled to recover any payments not expressly due at that time, and the owner is not entitled to recover back any advance payments made. The underlying premise of these cases, that the loss must fall in accordance with the provisions of the contract, is logically unsound. The very reason for relieving the parties from responsibility for further performance is that they dealt on a mutual assumption of the continued existence of the building, or, in other words, that they did not contemplate and provide for this contingency. The view of most American courts has been that the fairest apportionment is made by allowing recovery for part performance; the various standards listed above represent the various methods of putting this policy into effect. The most satisfactory disposition, both from the standpoint of logic and reasonableness, seems to be that of allowing a quasi-contractual recovery for benefits conferred; recovery is thus granted for parts of the job put into permanent form and annexed to the owner's realty such that it was in position to operate to his sole benefit had not the accident intervened. No recovery is allowed for materials not yet incorporated. The Indiana Appellate Court adopted this latter standard in a case before it in 1903 only to be overruled on transfer to the Supreme Court of the state, which adopted the English rule of no recovery. This rule has been consistently followed in Indiana since that time.

All of the various rulings heretofore discussed operate only when the parties have made no express apportionment of loss; the parties are free to provide for the contingency of accidental destruction in any way they see fit, if they are foresighted enough to do so. The court in the instant case, treating the Krause case as a binding authority, considered the effect of the provision that "no . . . destruction of the property shall release the buyer from his obligation hereunder;" the court construed property, as used in this provision, to refer only to the tanks fabricated, erected, completed, tested, and accepted, thus making the provision a nullity. It appears then, that under the rule followed in Indiana, the risk of loss incident to the destruction of a building after part performance of a contract to install machinery falls wholly on the contractor, and that loss can be shifted only by a clear and exact provision, incapable of ambiguity. There seems to be no reason for a policy so strongly unfavorable to the contractor.

D. M. C.

9 See cases cited supra, note 4.
11 Krause v. Board of Trustees of Crothersville (Ind. App. 1903), 66 N. E. 1010.
14 Cited supra, note 12.