
LEGAL UPDATE

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IOWA SUPREME COURT DECISION — LIMITATIONS PERIOD FOR CONTRACT DAMAGES CLAIM ARISING FROM BREACH OF RIGHT OF FIRST REFUSAL

Purpose. *Legal updates are prepared by the nonpartisan Legal Services Division of the Legislative Services Agency. A legal update is intended to provide legislators, legislative staff, and other persons interested in legislative matters with summaries of recent meetings, court decisions, Attorney General Opinions, regulatory actions, federal actions, and other occurrences of a legal nature that may be pertinent to the General Assembly's consideration of a topic. Although an update may identify issues for consideration by the General Assembly, it should not be interpreted as advocating any particular course of action.*

In re Estate of Franken

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www.iowacourts.gov/courtcases/4051/embed/SupremeCourtOpinion

Facts and Procedural Background. In 1973, Mr. and Mrs. Rottinghaus sold real estate owned by Mrs. Rottinghaus to Mr. and Mrs. Kipp. The Kipps granted the Rottinghauses a right of first refusal to purchase the real estate. The right of first refusal was reserved within the deed. Only Mr. Kipp signed the deed. The deed was recorded in 1973. The Rottinghauses never refiled or renewed the right of first refusal.

Mr. Kipp died in 2001. Mrs. Kipp subsequently married Mr. Franken. In 2005, Mrs. Franken executed a quitclaim deed conveying the real estate to her and Mr. Franken as joint tenants in common with full rights of survivorship. Both Mr. and Mrs. Franken signed this deed. In 2010, Mr. and Mrs. Franken executed a warranty deed conveying the real estate from themselves to Mrs. Franken, as sole titleholder. Mrs. Franken bequeathed a life estate in the real estate to Mr. Franken.

Mrs. Franken died in 2014, and Mr. Franken died in 2015. The life estate then extinguished. This left Mrs. Franken's estate as the sole titleholder of the real estate.

In April 2016, the executor of Mrs. Franken's estate entered into a purchase agreement to sell the real estate to a third party. In May 2016, the executor sold the real estate to the third party for \$195,000. The executor did not notify the Rottinghauses of the sale.

In July 2016, the Rottinghauses filed a claim in the probate estate. The Rottinghauses alleged breach of contract alleging the estate breached the right of first refusal to purchase the real estate. The Rottinghauses sought damages in the amount of \$195,000, plus interest. The executor disallowed the Rottinghauses' claim. The executor moved for summary judgment, arguing Iowa Code section 614.17A, relating to the statute of limitations period in real estate claims, barred the claim.

The district court granted the estate's summary judgment motion. The Rottinghauses appealed. The Iowa Court of Appeals, in a divided opinion, affirmed the judgment of the district court. The Rottinghauses appealed to the Iowa Supreme Court (Court).

Issues. The primary issue was whether Iowa Code section 614.17A (limitations of actions — claims to real estate after 1992) bars the Rottinghauses' contract claim for damages. The Court addressed

additional issues, including whether the merger doctrine, statute of frauds, and the statute of limitations period in Iowa Code section 614.1(5) bars the Rottinghauses' claim.

Holdings. The Court vacated the decision of the Iowa Court of Appeals and reversed and remanded the district court's judgment. In terms of the primary issue, the Court held Iowa Code section 614.17A does not bar the Rottinghauses' claim. In terms of the additional issues, the Court held neither the merger doctrine, statute of frauds, nor the statute of limitations period in Iowa Code section 614.1(5) bars the Rottinghauses' claim.

Analysis. The Court began its analysis of the primary issue by examining the text of Iowa Code section 614.17A, which bars an action to recover or establish an interest in or claim to real estate only if the action is based upon a claim arising more than ten years earlier or existing for more than ten years, the action is against the holder of the record title to the real estate in possession, and the holder of the record title to the real estate in possession and the holder's immediate or remote grantors are shown by the record to have held a chain of title to the real estate for more than ten years.

In interpreting the meaning of Iowa Code section 614.17A, the Court acknowledged Iowa Code section 4.1 requires that "[w]ords and phrases shall be construed according to the context and the approved usage of language" The Court will not search for alternative meanings or resort to rules of construction if the text is plain and the meaning of the statute is clear.

The Court found the text of Iowa Code section 614.17A was plain and unambiguous. By its plain text, Iowa Code section 614.17A only bars claims seeking to "recover or establish an interest in or claim to real estate" A party who only seeks damages through a breach of contract claim does not seek to recover or establish an interest in or claim to real estate. According to the Court, the plain text of Iowa Code section 614.17A does not bar the Rottinghauses' claim because the claim seeks only damages in lieu of recovering or establishing an interest in or claim to real estate. In addition, the plain text of Iowa Code section 614.17A does not bar the Rottinghauses' claim because the claim was brought against the estate. The Court reasoned Iowa Code section 614.17A(1)(b) was not satisfied because the estate sold the real estate to a third party.

In determining that Iowa Code section 614.17A does not bar the Rottinghauses' claim, the Court also analyzed the purpose of the statute. The Court noted that Iowa Code section 614.17A is a marketable title statute. The purpose of Iowa Code section 614.17A and its predecessor statutes is to give stability and effect to record titles. Claims seeking to recover or establish an interest in real estate against the titleholder create instability in record titles. The Court stated "[o]nly those actions implicate the purpose of the statute. And only those actions should be limited by this statute." According to the Court, because Iowa Code section 614.17A is a marketable title statute, it only affects claims seeking to recover or establish an interest in real estate and has no impact on claims seeking only damages.

The estate argued Iowa Code section 614.17A indirectly barred the Rottinghauses' claim because it prevented them from establishing an underlying claim to the real estate, which, the estate argued, prohibited the Rottinghauses from proving a breach of contract as a matter of law. The Court stated Iowa Code section 614.17A is merely a statute of limitations, it does not extinguish the underlying relief. The right of first refusal is contained in the deed. Therefore, the Rottinghauses have established that right.

The Court then addressed and rejected additional issues raised by Mrs. Franken's estate on appeal.

The Court found the merger doctrine (contract merged into the deed) did not bar the Rottinghauses' claim. The Court explained that the Rottinghauses did not seek to enforce any collateral agreements. The right of first refusal the Rottinghauses sought to enforce is contained within the deed itself. In addition, the Court found the statute of frauds did not bar the Rottinghauses' claim. Mrs. Franken, the vendee, took possession of the real estate by virtue of a contract. Accordingly, pursuant to Iowa Code section 622.33 (exception to statute of frauds in creation or transfer of land interests), the statute of frauds was not implicated in this case. Finally, the Court found the Rottinghauses' claim was not barred by the statute of limitations period set out in Iowa Code section 614.1(5). Pursuant to Iowa Code section 614.1(5), claims

based on written contracts must be brought within 10 years. The claim presented in this case is whether the estate breached the right of first refusal in 2016. That claim was clearly brought within the limitations period provided in Iowa Code section 614.1(5).

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