

SUPREME COURT OF VIRGINIA

Fairfax County Redevelopment and Housing Authority v. Riekse

707 S.E.2d 826 (Va. 2011) · No. Record No. 092486 · Decided March 4, 2011

SUMMARY

The Supreme Court of Virginia held that a deed conveying property acquired through foreclosure was not void ab initio merely because the property was subject to a right of first refusal. The court further held that specific performance could not be ordered against prior owners who no longer held title to the property. The court affirmed dismissal of the Fairfax County Redevelopment and Housing Authority's action.

CASE DETAILS

COURT	Supreme Court of Virginia
WRITING FOR THE COURT	Justice William C. Mims; Chief Justice Kinser; Justice Lemons; Justice Goodwyn; Justice Millette; Justice Mims; Senior Justice Koontz
JURISDICTION	Virginia
DECIDED	March 4, 2011
DOCKET	Record No. 092486
DISPOSITION	affirmed
PROCEDURAL POSTURE	Fairfax appealed after the circuit court granted Riekse's motion to strike at the conclusion of Fairfax's evidence and dismissed the action. The Supreme Court of Virginia reviewed the circuit court's interpretation of the deed and the requested remedies de novo.
STANDARD OF REVIEW	De novo review of the circuit court's interpretation of the deed.
PRECEDENTIAL VALUE	Published opinion of the Supreme Court of Virginia; binding precedent in Virginia.
PARTIES	Fairfax County Redevelopment and Housing Authority v. James C. Riekse, Rajinder Kapani, Rajesh Kapani, Trustees under Riekse's deed of trust

TOPICS

- real estate
- specific performance remedy
- remedies
- appellate procedure
- standard of review

PRACTICE AREAS

real estate

specific performance

property remedies

appellate procedure

QUESTIONS PRESENTED

1. Whether the deed conveying the property from the Kapanis to Riekse was void ab initio because the conveyance allegedly violated Fairfax's right of first refusal.
2. Whether Fairfax could obtain specific performance of the right of first refusal from the Kapanis after they had conveyed the property and no longer held title.
3. Whether Fairfax's right of first refusal could be enforced only as a condition subsequent through an action of ejectment.

HOLDINGS

1. The deed was not void ab initio. A conveyance to a subsequent purchaser who lacked actual knowledge of the right of first refusal, without collusion to defeat the prior contractual obligation, does not warrant the extraordinary remedy of declaring the executed deed void ab initio.
2. Specific performance could not be ordered against the Kapanis because they no longer held title and therefore could not convey the property to Fairfax.
3. On the posture of this case, Fairfax's remedy was enforcement of the right of first refusal as a condition subsequent through an action of ejectment, rather than specific performance by the Kapanis.

KEY QUOTATIONS

“Accordingly, the circuit court's determination that it could not order the Kapanis to perform because it was impossible for them to offer the parcel to Fairfax was correct.” (829)

“For the reasons set forth above, we will affirm the judgment of the circuit court.” (830)

FACTUAL BACKGROUND

In 1989, Fairfax conveyed real property to Peter and Christine Tovar subject to a right of first refusal allowing Fairfax to repurchase the property upon the death of the grantee or the grantee's determination to sell within thirty years. After Peter conveyed his interest to Christine, the debt secured by a deed of trust was defaulted, and substitute trustees sold the property at foreclosure to Rajinder and Rajesh Kapani in 2002. The Kapanis conveyed the property to James Riekse in 2003; Fairfax later sued to enforce the right of first refusal, although Riekse had no actual knowledge of it and the Kapanis no longer held title.

PROCEDURAL HISTORY

Fairfax filed a circuit-court complaint seeking to enforce a right of first refusal, declare Riekse's deed void ab initio, remove the deed of trust, and compel the Kapanis to convey the property to Fairfax. The circuit court overruled the defendants' demurrers, but after Fairfax presented its evidence, it granted Riekse's motion to strike, ruling that the deed was not void ab initio and that Fairfax's remedy was an action of ejectment to enforce the right as a condition subsequent. The court denied reconsideration, and the Supreme Court affirmed.

DISPOSITION

affirmed

CASES CITED

- Beeren & Barry Investments, LLC v. AHC, Inc., 277 Va. 32, 671 S.E.2d 147 (2009)
- Bond v. Crawford, 193 Va. 437, 69 S.E.2d 470 (1952)
- Thompson v. Thompson, 171 Va. 361, 198 S.E. 897 (1938)
- Schmidt & Wilson, Inc. v. Carneal, 164 Va. 412, 180 S.E. 325 (1935)
- Landa v. Century 21 Simmons & Co., Inc., 237 Va. 374, 377 S.E.2d 416 (1989)
- Commonwealth Transportation Commissioner v. Windsor Industries, Inc., 272 Va. 64, 630 S.E.2d 514 (2006)
- Cangiano v. LSH Building Co., 271 Va. 171, 623 S.E.2d 889 (2006)
- Shepherd v. Colton, 237 Va. 537, 378 S.E.2d 828 (1989)
- Fishburne v. Furguson, 85 Va. 321, 7 S.E. 361 (1888)
- Preston v. Johnson, 105 Va. 238, 53 S.E. 1 (1906)
- Smith v. Woodward, 122 Va. 356, 94 S.E. 916 (1918)
- Tabet v. Goodman, 136 Va. 526, 118 S.E. 230 (1923)
- Dickerson v. McNulty, 142 Va. 559, 129 S.E. 242 (1925)
- Everette v. Woodward, 162 Va. 419, 174 S.E. 864 (1934)
- Wills v. Chesapeake Western Railway Co., 178 Va. 314, 16 S.E.2d 649 (1941)
- Turk v. Clark, 193 Va. 744, 71 S.E.2d 172 (1952)
- First Funding Corp. v. Birge, 220 Va. 326, 257 S.E.2d 861 (1979)
- Business Bank v. Beavers, 247 Va. 413, 442 S.E.2d 644 (1994)

OPINION

PER CURIAM.

707 S.E.2d 826 (2011) FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY, v. James C. RIEKSE, et al. Record No. 092486. Supreme Court of Virginia. March 4, 2011. F. Hayden Coddling, Assistant County Attorney (David P. Bobzien, County Attorney; Cynthia L. Tianti, Deputy County Attorney, on briefs), for appellant. *827 Bizhan Beiramee; Daniel M. Rathbun; James M. Stewart, Jr. (George LeRoy Moran; Rathbun & Goldberg; Moran Monfort, on briefs), Fairfax, for appellees.

Present: KINSER, C.J., LEMONS, GOODWYN, MILLETTE, and MIMS, JJ., and KOONTZ, S.J.
[*] Opinion by Justice WILLIAM C. MIMS. In this appeal, we consider whether the Fairfax County Redevelopment and Housing Authority ("Fairfax") may enforce a right of first refusal to repurchase a parcel of real property by demanding specific performance by the current owner's predecessor in title.

I. BACKGROUND AND MATERIAL PROCEEDINGS BELOW In 1989, Fairfax granted and conveyed a parcel of real property to Peter and Christine Tovar as tenants by the entirety subject to certain conditions. Among those conditions, Fairfax reserved a right of first refusal to repurchase the property ("the ROFR").

The ROFR provided that [i]n the event that Grantee shall die (both of them if more than one is named as Grantee), or in the event the Grantee shall determine to sell this Property at any time within thirty (30) years from the date of this Deed, then and in either event, the said Grantor, its successors or assigns, shall have the option to repurchase the Property at the original sales price of \$74, 640[, adjusted for inflation].

The deed further provided that the ROFR was to be a "covenant[] running with the land, the burden of which covenant [is] assumed by Grantee as evidenced by Grantees['] signatures hereon and by any subsequent successor in title as provided herein."

The Tovars contemporaneously executed two deeds of trust to secure the indebtedness they incurred to purchase the parcel. In 1995, the Tovars satisfied the indebtedness secured by those two deeds of trust and executed a third deed of trust to secure an indebtedness of \$92,400.

In 1997, the Tovars separated and Peter Tovar conveyed his entire interest in the parcel to Christine Tovar. The indebtedness secured by the third deed of trust subsequently was defaulted and the substitute trustees under that deed of trust sold the parcel at a foreclosure auction to Rajinder and Rajesh Kapani in November 2002.

The Kapanis conveyed the parcel to James Riekse in May 2003. Riekse executed a deed of trust to secure an indebtedness of \$213,200. In September 2007, Fairfax filed a complaint in the circuit court against the Kapanis, Riekse, and trustees under Riekse's deed of trust alleging that the Kapanis had violated the ROFR as a covenant running with the land and as a condition subsequent.[1] Fairfax asked the court to restore title to the Kapanis by declaring Riekse's deed void ab initio, to declare the parcel unencumbered by Riekse's deed of trust, and to order the Kapanis to convey the parcel to Fairfax under the terms of the ROFR.

The Kapanis filed a demurrer asserting that the ROFR had not been triggered because the express language in the Tovars' deed stated that Fairfax had the option to repurchase the parcel "[i]n the event that Grantee shall die... or in the event the Grantee shall determine to sell," and the Tovars had neither died nor determined to sell the parcel. Riekse later joined the Kapanis' demurrer, asserting that the ROFR was not a covenant running with the land because it did not "touch and concern" the land, that the ROFR was enforceable only as a condition subsequent, and that the 10-year statute of limitations set forth in Code § 8.01-255.1 had expired.

The circuit court found that the ROFR did touch and concern the land and thus was a valid covenant running with the land. It also found that it could not determine on demurrer whether

Fairfax's claims were time-barred because it could not determine as a matter of law when the ROFR initially had been breached.

Accordingly, the court overruled the demurrer. The case proceeded to a bench trial. At the conclusion of Fairfax's evidence Riekse moved to strike asserting that Fairfax was not entitled to the relief sought, a declaration that his deed was void ab initio.

The circuit court ruled that Riekse's deed was not void ab initio and consequently Fairfax was unable as a matter of law to "get the relief it requests under the Complaint with the case in the posture that it's in." Rather, the court ruled that Fairfax's remedy was to enforce the ROFR as a condition subsequent by filing an action of ejectment to effect a re-entry.

Accordingly, the court granted Riekse's motion to strike and dismissed the case. Upon Fairfax's motion for reconsideration, the circuit court reiterated that Riekse's deed was not void ab initio and that it therefore could not order the Kapanis to perform the ROFR because they no longer held title to the parcel. Consequently, the court denied the motion.

We awarded Fairfax this appeal. II. ANALYSIS Fairfax assigns error to the circuit court's holdings that it could not declare Riekse's deed void ab initio and that Fairfax may enforce the ROFR only as a condition subsequent by filing an action of ejectment.

The challenged rulings arise from the circuit court's interpretation of the Tovars' deed, which we review de novo. *Beeren & Barry Invs., LLC v. AHC, Inc.*, 277 Va. 32, 37, 671 S.E.2d 147, 150 (2009). A. THE VALIDITY OF RIEKSE'S DEED Fairfax argues that the ROFR divested the Kapanis of the power to sell the parcel without first offering it to Fairfax.

Accordingly, the deed conveying the parcel to Riekse is void ab initio. However, the cases Fairfax cites do not support this proposition. The primary case upon which Fairfax relies is *Bond v. Crawford*, 193 Va. 437, 69 S.E.2d 470 (1952). There, the Crawfords contracted to sell a parcel to the Bonds but instead sold to the Londons.

The Londons had actual knowledge of the Bonds' contract prior to their purchase. *Id.* at 443, 69 S.E.2d at 474. The Bonds asked the circuit court to declare the Londons' deed void ab initio and to order the Crawfords to perform the Bonds' purchase contract. This Court determined that the relief was appropriate, citing *Thompson v. Thompson*, 171 Va. 361, 198 S.E.

897 (1938). In *Thompson*, the Court ruled that collusion between a grantor and a grantee to convey property to allow the grantor to escape performance of a contract rendered the resulting deed void. *Id.* at 370, 198 S.E. at 900.

The Court held that [w]here a conveyance is made in order to put it out of the power of the grantor to fulfill a contract previously entered into with the knowledge or concurrence of the grantee, the

transaction will be declared null and void, and, if the proper parties are before the court, a decree will be rendered compelling a conveyance to the party rightfully entitled.

Id. at 371, 198 S.E. at 901 (quoting Am. & Eng. Ency. of Law 40 (2nd ed.)). Fairfax concedes that Riekse did not collude with the Kapanis to avoid their performance of the ROFR and that he did not even have actual knowledge that the ROFR existed. Rather, Fairfax contends only that Riekse had constructive knowledge of the ROFR because it was contained in the Tovars' deed, which had been properly recorded.

Consequently, Bond and Thompson are distinguishable and the extraordinary relief of declaring an executed deed void ab initio is not appropriate in this case. Fairfax also cites cases where conveyances by trustees under deeds of trusts were declared void ab initio.[2] They are distinguishable *829 as well because they are predicated on the well-settled rule that a trustee in a deed of trust can only do with the trust property what the deed either in express terms or by necessary implication authorizes him to do.

In other words, the powers of the person foreclosing under a mortgage or deed of trust are limited and defined by the instrument under which he acts, and he has only such authority as is thus expressly conferred upon him, together with incidental and implied powers that are necessarily included therein.

Accordingly, the trustee or mortgagee must see that in all material matters he keeps within his powers, and must execute the trust in strict compliance therewith. Schmidt & Wilson, Inc. v. Carneal, 164 Va. 412, 415, 180 S.E. 325, 326 (1935).[3] That line of cases is inapplicable here because the Kapanis were not trustees under a deed of trust. Rather, they were owners of a fee simple estate, though the fee was defeasible rather than absolute, and they had all necessary power to convey the whole estate of which they were themselves seised at the time of their conveyance.

Consequently, the circuit court did not err when it refused to declare Riekse's deed void ab initio. B. ENFORCEMENT OF THE ROFR Fairfax also argues that the circuit court erred in ruling that it could only enforce the ROFR as a condition subsequent by filing an action of ejectment.

We disagree. Fairfax cites Landa v. Century 21 Simmons & Co., Inc., 237 Va. 374, 377 S.E.2d 416 (1989), and Commonwealth Transportation Commissioner v. Windsor Industries, Inc., 272 Va. 64, 630 S.E.2d 514 (2006). In Landa, an executor, Peterson, was selling a parcel of land, a portion of which was subject to the Landas' right of first refusal.

After learning that the estate had received an offer from another purchaser, the Landas made their own offer but Peterson nevertheless contracted to sell to the other purchaser. The Landas and the other purchaser both commenced lawsuits against the various parties and this Court held that the circuit court was required to order Peterson and the estate's realty company to perform under the Landas' right of first refusal.

Id. at 380-84, 377 S.E.2d at 419-22. In Windsor, the Commonwealth acquired a parcel of land from 1314 West Main Corporation in 1977 in anticipation of building a state highway (Route 288). However, the parcel was never used and, in 2004, VDOT proposed to sell it by sealed bid. Windsor, 1314 West Main Corporation's successor in interest, sued to compel the Commonwealth to convey the parcel to it.

The circuit court determined that Code § 33.1-90(B) required that any parcel acquired by the Commonwealth in anticipation for use in a highway project be offered to its prior owner if not so used. We affirmed, ruling that the statute created a right of re-entry in the prior owner, and ordered the Commonwealth to convey the parcel to Windsor. Both Landa and Windsor are distinguishable from this case because the parties against whom specific performance was sought retained title to the parcel.

Here, Fairfax has sought specific performance by the Kapanis, who no longer hold title to the parcel. Accordingly, the circuit court's determination that it could not order the Kapanis to perform because it was impossible for them to offer the parcel to Fairfax was correct. *Cangiano v. LSH Bldg. Co.*, 271 Va. 171, 180, 623 S.E.2d 889, 895 (2006); *Shepherd v. Colton*, 237 Va. 537, 541, 378 S.E.2d 828, 830 (1989); *Fishburne v. Furguson*, 85 Va. 321, 328, 7 S.E.

361, 364-65 (1888). III. CONCLUSION For the reasons set forth above, we will *830 affirm the judgment of the circuit court.[4] Affirmed. NOTES [*] Justice Koontz presided and participated in the hearing and decision of this case prior to the effective date of his retirement on February 1, 2011; Justice Kinser was sworn in as Chief Justice on February 1, 2011.

[1] Additional claims in Fairfax's complaint were either abandoned or dismissed on demurrer and are not before us in this appeal. [2] Specifically, Fairfax cites *Preston v. Johnson*, 105 Va. 238, 53 S.E. 1 (1906), *Smith v. Woodward*, 122 Va. 356, 94 S.E. 916 (1918), *Tabet v. Goodman*, 136 Va. 526, 118 S.E. 230 (1923), *Dickerson v. McNulty*, 142 Va. 559, 129 S.E.

242 (1925), *Everette v. Woodward*, 162 Va. 419, 174 S.E. 864 (1934), *Wills v. Chesapeake Western Ry. Co.*, 178 Va. 314, 16 S.E.2d 649 (1941), *Turk v. Clark*, 193 Va. 744, 71 S.E.2d 172 (1952), *First Funding Corp. v. Birge*, 220 Va. 326, 257 S.E.2d 861 (1979), and *Business Bank v. Beavers*, 247 Va. 413, 442 S.E.2d 644 (1994).

[3] Moreover, many of these cases declare the deed following a trustees' sale void because the trustee had not advertised the sale, a requirement imposed by statute. Code § 55-59.1 (requiring notice to owner prior to sale); Former Code § 55-59(6) (Supp.1978) (same); Former Code § 5167 (1919); Former Code § 2442 (1887).

[4] Because we will affirm the judgment of the circuit court, we do not reach Riekse's assignments of cross-error challenging its decision to overrule the demurrer regarding the validity of the ROFR as a covenant running with the land.

