

SUPREME COURT OF TENNESSEE

R. Douglas Hughes v. New Life Development Corporation

387 S.W.3d 453 (Tenn. 2012) · No. M2010-00579-SC-R11-CV · Decided November 19, 2012

SUMMARY

The Tennessee Supreme Court reviewed the validity and effect of amendments to restrictive covenants and to the charter and bylaws of a homeowners' association serving the Cooley's Rift residential development. The Court held that the amendments were properly adopted and that neither a general plan of development nor the subdivision plat created implied restrictive covenants applicable to the successor developer's surrounding property.

CASE DETAILS

COURT	Supreme Court of Tennessee
WRITING FOR THE COURT	William C. Koch, Jr.; Gary R. Wade, C.J.; Janice M. Holder; Cornelia A. Clark; Sharon G. Lee
JURISDICTION	Tennessee
DECIDED	November 19, 2012
DOCKET	M2010-00579-SC-R11-CV
DISPOSITION	reversed_and_remanded
PROCEDURAL POSTURE	Permission appeal under Tennessee Rule of Appellate Procedure 11 from the Tennessee Court of Appeals in consolidated actions concerning restrictive covenants, homeowners-association governance, and implied restrictions arising from a subdivision plat.
STANDARD OF REVIEW	Questions concerning interpretation of contracts, deeds, corporate charters, bylaws, and restrictive covenants are reviewed de novo as questions of law. Summary judgment is reviewed de novo without a presumption of correctness, with the evidence viewed in the light most favorable to the nonmoving party.
PRECEDENTIAL VALUE	Published Tennessee Supreme Court opinion; binding statewide precedent.
PARTIES	New Life Development Corporation, Robby McGee, Jeffrey M. Dunkle, B.J. Cline v. R. Douglas Hughes, M. Lynne Hughes, Louise Hubbs, Guy Hubbs

TOPICS

covenants and restrictions

real estate

corporate governance

standard of review

appellate procedure

PRACTICE AREAS

real estate

corporate law

appellate procedure

QUESTIONS PRESENTED

1. Whether New Life acquired Raoul Land Development's rights and interests as the Developer under the purchase agreement, deed, declaration, charter, and bylaws.
2. Whether the association's amendments to its charter and declaration were validly adopted and subject to judicial review under a reasonableness standard or an arbitrary-and-capricious standard.
3. Whether the homeowners had standing to bring derivative claims on behalf of the homeowners' association.
4. Whether the amended declaration supported implied restrictive covenants based on a general plan or scheme of development affecting New Life's property outside the platted lots.
5. Whether the 2002 plat provided a basis for implied restrictive covenants concerning purported East and West forest preserves.

HOLDINGS

1. New Life acquired Raoul Land Development's rights and interests as the Developer of Cooley's Rift under the purchase and sale agreement, deed, declaration, charter, and bylaws.
2. Uniform amendments to the declaration adopted in conformity with the declaration's 75% super-majority procedure are valid and are subject principally to judicial review under an arbitrary-and-capricious standard, not the reasonableness test adopted by the Court of Appeals.
3. The homeowners lacked standing to bring derivative claims because they held less than the required 5% of the association's voting power.
4. The amended declaration did not support implied restrictive covenants, based on a general plan or scheme, affecting New Life's property outside the platted lots.
5. The 2002 plat did not create implied restrictive covenants concerning the purported East and West forest preserves because it contained no clear, legible designation of those preserves and did not place New Life on inquiry notice of them.

KEY QUOTATIONS

"When a purchaser buys into such a community, the purchaser buys not only subject to the express covenants in the declaration, but also subject to the amendment provisions of the declaration." (at 470)

"Accordingly, we hold that the amendments to the Declaration in this case, uniform in application and adopted in conformance with the 75% super-majority procedures of the Declaration and the Bylaws, are subject to judicial review principally under an arbitrary and capricious standard." (at 473)

“Absent a clear reference to the forest preserves on the 2002 plat, we conclude that New Life was not put on inquiry notice of the dedication and acreage of an East Preserve and a West Preserve.” (at 481)

FACTUAL BACKGROUND

Raoul Land Development created Cooley’s Rift, recorded a subdivision plat and declaration of covenants, and established a homeowners’ association. New Life later purchased eleven platted lots and approximately 1,400 acres of surrounding undeveloped land, together with development-related documents and interests. New Life proposed substantially expanding the development, including a golf course and additional homesites, prompting homeowners to assert that the surrounding land was subject to express or implied restrictions preserving wilderness areas. The association subsequently amended its charter and declaration by the required 75% super-majority to clarify and modify the development restrictions.

PROCEDURAL HISTORY

The homeowners initially sued New Life alleging that its proposed development violated express and implied restrictive covenants. The trial court granted judgment on the pleadings; the Court of Appeals affirmed in part and remanded for consideration of implied restrictions arising from a general development plan or plat. After the homeowners’ association amended its charter and declaration, the cases were consolidated, and the trial court granted summary judgment on all claims while entering a limited injunction against New Life. The Court of Appeals upheld the amendment procedure but remanded for a reasonableness review of the amendments and further inquiry into the plat. The Tennessee Supreme Court granted New Life’s application for permission to appeal.

DISPOSITION

reversed_and_remanded

REMAND INSTRUCTIONS

Remand to the Chancery Court for Franklin County to dismiss the homeowners’ complaints. The trial court’s injunction prohibiting New Life from engaging in activity prohibited under its corporate charter was vacated. The Court of Appeals’ remands for reasonableness review of the amendments and further consideration of implied restrictive covenants were vacated.

CASES CITED

- State v. Lawson, 291 S.W.3d 864, 869-70 (Tenn. 2009)
- Hughes v. New Life Dev. Corp., No. M2008-00290-COA-R3-CV, 2009 WL 400635 (Tenn. Ct. App. Feb. 17, 2009)
- Hughes v. New Life Dev. Corp., No. M2010-00579-COA-R3-CV, 2011 WL 1661605 (Tenn. Ct. App. Apr. 29, 2011)
- Jennings v. Sewell-Allen Piggly Wiggly, 173 S.W.3d 710, 713 (Tenn. 2005)
- Jones v. LeMoyné-Owen Coll., 308 S.W.3d 894, 902 (Tenn. Ct. App. 2009)

- Estate of Darnell v. Fenn, 303 S.W.3d 269, 275-77 (Tenn. Ct. App. 2010)
- Covington v. Robinson, 723 S.W.2d 643, 645-46 (Tenn. Ct. App. 1986)
- Guiliano v. Cleo, Inc., 995 S.W.2d 88, 95 (Tenn. 1999)
- Bob Pearsall Motors, Inc. v. Regal Chrysler-Plymouth, Inc., 521 S.W.2d 578, 580 (Tenn. 1975)
- Whitehaven Cmty. Baptist Church v. Holloway, 973 S.W.2d 592, 596 (Tenn. 1998)
- Penske Truck Leasing Co. v. Huddleston, 795 S.W.2d 669, 671 (Tenn. 1990)
- Hamblen Cnty. v. City of Morristown, 656 S.W.2d 331, 335-36 (Tenn. 1983)
- Griffis v. Davidson Cnty. Metro. Gov't, 164 S.W.3d 267, 274 (Tenn. 2005)
- Frierson v. International Agric. Corp., 24 Tenn. App. 616, 632, 148 S.W.2d 27, 37 (1940)
- Gautreaux v. Internal Med. Educ. Found., Inc., 336 S.W.3d 526, 531 (Tenn. 2011)
- Fletcher v. State, 951 S.W.2d 378, 382 (Tenn. 1997)
- Turner v. Eslick, 146 Tenn. 236, 247, 240 S.W. 786, 789 (1922)
- Cumulus Broad., Inc. v. Shim, 226 S.W.3d 366, 374 (Tenn. 2007)
- Green v. Green, 293 S.W.3d 493, 513 (Tenn. 2009)
- Eskin v. Bartee, 262 S.W.3d 727, 732 (Tenn. 2008)
- Stracener v. Bailey, 737 S.W.2d 536, 539 (Tenn. Ct. App. 1986)
- Maples Homeowners Ass'n v. T & R Nashville Ltd. P'ship, 993 S.W.2d 36, 38-39 (Tenn. Ct. App. 1998)
- Williams v. Fox, 219 S.W.3d 319, 324 (Tenn. 2007)
- Blevins v. Johnson Cnty., 746 S.W.2d 678, 683 (Tenn. 1988)
- Texas Co. v. Aycock, 190 Tenn. 16, 27, 227 S.W.2d 41, 46 (1950)