IN THE COURT OF APPEALS OF IOWA

No. 2-1165 / 12-1030
Filed April 24, 2013

JOHN KNIGHT,
Plaintiff-Appellant,

vs.

CORY GROW, DARWIN GROW,
and PAMELA GROW,
Defendants-Appellees.

Appeal from the Iowa District Court for Greene County, William C. Ostlund, Judge.

A landlord appeals from a district court ruling denying declaratory relief with respect to his rights under various agricultural leases and rejecting his claims for breach of contract, holdover tenancy, and trespass. **AFFIRMED.**

Matthew J. Hemphill of Bergkamp, Hemphill & McClure, P.C., Adel, for appellant.

DuWayne Dalen of Finneseth, Dalen & Powell, P.L.C., Perry, for appellees.

Heard by Vaitheswaran, P.J., and Tabor and Mullins, JJ.

MULLINS, J.

John Knight, a landlord, appeals from a district court ruling denying declaratory relief with respect to his rights under various agricultural leases and rejecting claims for breach of contract, holdover tenancy, and trespass. John asserts the district court erred in (1) interpreting the 2010 lease as contingent, (2) denying his breach-of-contract claim, (3) failing to find Cory Grow was a holdover farm tenant, (4) failing to find Darwin and Pamela Grow were estopped by acquiescence from objecting to notice deficiencies, (5) failing to find Cory trespassed on John's land, and (6) holding the doctrine of res judicata applies to John's claims. We affirm.

I. Background Facts & Proceedings

This case arises out of a dispute over two agricultural leases in Greene County, Iowa. In 2003, John Knight and Debra Stream,[1] entered into an agricultural lease with Darwin Grow, Pamela Grow, and Cory Grow. The lease allowed the Grows to farm 126 acres of John and Debra's land at an annual rate of $115 per acre. Although the parties agreed to a start date, the lease did not include terms of duration or expiration. Rather, the agreement provided that the leasehold "shall continue until such time as the tenants no longer wish to rent the farm ground or until such time as they purchase the property from the landlords."

John and Debra subsequently dissolved their marriage. In the divorce proceedings, Debra received approximately 26 of the 126 acres of farmland subject to the lease. After the divorce, Debra wanted to sell her portion of the

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[1] Debra was formerly known as Debra Knight, but changed her name to Debra Stream when she remarried.

land. To that end, Debra served Darwin, Pamela, and Cory with notice of termination of farm tenancy. She then petitioned for declaratory relief requesting the district court find certain provisions of the farm lease unenforceable. John was not a party to this petition and took no part in Debra's subsequent judicial proceedings against the Grows.

In early 2009, the district court held a trial on Debra's declaratory action. The district court found the term allowing the lease "to continue until such time as the tenants no longer wish to rent the farm ground" was unconscionable. The court held that portion of the lease was unenforceable because the leasehold was perpetual and could only be terminated by the Grows. As a result, the court allowed Debra to terminate the lease. The Grows appealed the decision contending the district court should have reformed the lease to reflect a twenty-year term.[2]

At some point, the relationship between John and the Grows soured. While Debra's appeal concerning the 2003 lease was pending, John acted on the advice of counsel and served Cory with notice of termination effective March 1, 2010.

John and Cory then discussed reaching an agreement for the 2010 farming year. As John later explained, he believed the 2003 lease "was not valid anymore" and he needed a "lease to stabilize or make firm the 2010 season." Cory also explained his belief that the parties "needed to get something, an

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[2] For a detailed background of the proceedings and the issues on appeal, see *Stream v. Grow*, No. 09-1011, 2010 WL 1578233 (Iowa Ct. App. Apr. 10, 2010).

agreement, for the 2010 farming year." As a result, John drafted a "Farm Lease—Cash Rent." The document provided the following terms:

> This lease agreement is made March 1, 2010 between:
> John Knight—owner and Cory Grow—operator.
> . . . .
> For the following real estate[:]
> Lot 4 of N. Half of NE. Quarter; S. Half of NE. Quarter all in Section 24, (Greenbrier) Township 82 N. Range 31 West of the 5th P.M., Green County, Iowa.
> 93 total acres for a period of one year, from March 1[,] 2010 to March 1[,] 2011.
> RENT: the operator will pay the owner at the rate of $205 per acre the sum of $19,065.
> Total amount is to be pa[i]d either in 1 payment March 2010, or 2 payments of $9,532.50 pa[i]d 1st in March 2010 and 2nd in December 2010.

At some point prior to either party signing the document, Cory entered the following handwritten provision: "Rent for 2010 shall be no more than $19,065, paid in 2 payments and can be adjusted pending the outcome of court case #09-1011."[3] John and Cory then signed the document and had their signatures notarized.

In March 2010, Cory paid John $9,532.50—the first half of the cash rent. In April 2010, the Iowa Court of Appeals reversed the district court and held that the 2003 lease provides for a term that continues until the Grows no longer wish to rent the land or until the Grows purchase the land, but in either case no longer than a term of twenty years in accordance with article I, section 24 of the Iowa Constitution. *Stream v. Grow*, No. 09-1011, 2010 WL 1578233 (Iowa Ct. App.

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[3] The parties agree "court case #09-1011" was a reference to the pending appeal on Debra's declaratory action against the Grows. *See Stream v. Grow*, No. 09-1011, 2010 WL 1578233 (Iowa Ct. App. Apr. 10, 2010).

Apr. 10, 2010). The Iowa Supreme Court denied Debra's subsequent request for further review.

John and Cory did not discuss the Court of Appeals opinion concerning the validity of the 2003 lease. In August 2010, John sent Cory a notice of termination of farm tenancy. In December 2010, Cory sent John a check for $1,162.50 with the notation the check was for "2010 cash rent." For the 2010 season, Cory paid a total of $10,695 to John—the total due under the 2003 lease agreement.

John then sent a letter addressed to Cory asserting the pair "had no working relationship" and requesting Cory "[c]ease all investment in the farming of this 93 Acres." In turn, Cory's attorney sent a letter to John expressing Cory's intent "to farm the ground in accordance with the lease agreement which has been upheld by the Iowa Court of Appeals . . . ." John cashed Cory's $1,162.50 check.

In February 2011, Cory sent John a check for $10,695 with the notation the check was for "2011 cash rent 93 acres @ $115"—the amount due under the terms of the 2003 lease. John cashed the check. John then sent Cory a check for $2,325 with the notation "refund for 2010." John believed this was the difference between the February 2011 check and what he was owed under the terms of the 2010 agreement for the 2010 farming season. Throughout the 2011 season, Cory farmed the 93 acres.

In June 2011, John filed a petition for declaratory relief against Cory on claims of breach of contract and trespass. The same petition sought declaratory

relief against Darwin, Pamela, and Cory to declare the rights of the parties to the crop planted in 2011. In August 2011, John sent a notice of termination of farm tenancy to Darwin, Pamela, and Cory.

The district court held a trial on the declaratory action. The court found "the evidence and the behavior of the parties lead this Court to conclude that the 2010 lease entered into by the parties was merely a contingent lease pending the decision of the Court of Appeals." The district court denied John's claims, recognized the 2003 lease as valid, and ordered payments made pursuant to the 2003 lease. John appeals.

II. Standard of Review

We review declaratory actions tried at law for corrections of errors at law. Iowa R. App. P. 6.907. Unless the interpretation of a contract depends on extrinsic evidence, we review the district court's interpretation as a legal issue. *Fausel v. JRJ Enters., Inc.*, 603 N.W.2d 612, 617–18 (Iowa 1999). If the interpretation depends upon extrinsic evidence, the interpretation is a question of fact for the trier of fact, unless "the evidence is so clear that no reasonable person would determine the issue in any way but one." *Id.* at 618 (internal quotation marks and citation omitted). Our review of a court's construction of a contract is always a legal issue. *Id.*

III. Analysis

A. Termination of Prior Agricultural Lease

John contends his timely notice of termination to Cory in August 2009 terminated the 2003 lease. Iowa Code section 562.5 governs the termination of

farm tenancies. Section 562.5 provides the default rules for termination "unless otherwise agreed upon."

In this case, John had agreed in the 2003 lease to allow Cory, Darwin, and Pamela to "continue until such time as the tenants no longer wish to rent the farm ground." Without deciding whether res judicata controls the construction of the 2003 lease, we find the Court of Appeals reasoning set forth in *Grow*, 2010 WL 1578233 persuasive on this issue and expressly adopt that reasoning here. In accordance with article I, section 24 of the Iowa Constitution, we find the 2003 lease provides for a term that continues until the Grows no longer wish to rent the land or until the Grows purchase the land, but in either case no longer than a term of twenty years. The 2003 lease agreement did not allow John to unilaterally terminate the lease through the default notice provisions contained in section 562.5, or otherwise. As we find John's attempt to terminate the 2003 lease was without legal effect, we must interpret the meaning of the 2010 lease agreement.

B. Contract Interpretation

John argues the district court erred in finding the 2010 lease was contingent on the outcome of the appeal concerning the validity of the 2003 lease. In reviewing a contract, we may engage in interpretation or construction of contractual terms. Contract "[i]nterpretation involves ascertaining the meaning of contractual words; construction refers to deciding their legal effect." *Fashion Fabrics of Iowa, Inc. v. Retail Investors Corp.*, 266 N.W.2d 22, 25 (Iowa 1978). Where the contract "dispute centers on the meaning of certain lease terms, we

engage in the process of *interpretation*, rather than *construction*." *Walsh v. Nelson*, 622 N.W.2d 499, 503 (Iowa 2001) (citing *Fausel*, 603 N.W.2d at 618 (discussing the difference between interpretation and construction)). Here, we must decide the meaning of the handwritten provision on the 2010 lease and therefore engage in interpretation. *See id.*

We apply ordinary contract principles to leases "[b]ecause leases are contracts as well as conveyances of property." *Id.* Our "cardinal rule of contract interpretation is to determine what the intent of the parties was at the time they entered into the contract." *Pillsbury Co., Inc. v. Wells Dairy, Inc.*, 752 N.W.2d 430, 436 (Iowa 2008). We interpret words and other conduct "in the light of all the circumstances, and if the principal purpose of the parties is ascertainable it is given great weight." *Fausel*, 603 N.W.2d at 618 (quoting Restatement (Second) of Contracts § 202(5) (1979)). Another relevant rule of contract interpretation provides that "[w]herever reasonable, the manifestations of intention of the parties to a promise or agreement are interpreted as consistent with each other and with any relevant course of performance, course of dealing, or usage of trade." *Pillsbury*, 752 N.W.2d at 436 (quoting Restatement (Second) of Contracts § 202(5)).

The Iowa Supreme Court set forth a two-step analysis for contract interpretation as follows:

> First, from the words chosen, a court must determine what meanings are reasonably possible. In so doing, the court determines whether a disputed term is ambiguous. A term is not ambiguous merely because the parties disagree about its meaning. A term is ambiguous if, after all pertinent rules of interpretation have been considered, a genuine uncertainty exists concerning

> which of two reasonable interpretations is proper. Once an ambiguity is identified, the court must then choose among possible meanings. If the resolution of ambiguous language involves extrinsic evidence, a question of interpretation arises which is reserved for the trier of fact.

Walsh, 622 N.W.2d at 503 (internal quotation marks and citations omitted). Regardless of whether the language is ambiguous, “the disputed language and the parties’ conduct must be interpreted ‘in the light of all the circumstances.’” *Id.* (citing *Fausel*, 603 N.W.2d at 618).

In the present case, before either party signed the agreement, Cory Grow added the following handwritten provision: “Rent for 2010 shall be no more than $19,065, paid in 2 payments and can be adjusted pending the outcome of court case #09-1011.” The district court found “this was clearly a contingency plan to protect the tenant’s interest without sacrificing his original lease pending the outcome of the appeal.” The district court reasoned that “the evidence and the behavior of the parties lead this Court to conclude that the 2010 lease entered into by the parties [was] *merely* a contingent lease pending the decision of the Court of Appeals.” The district court further found that “Cory Grow, was merely making a prudent decision in continuing a lease temporarily under terms less satisfactory than the 2003 agreement but not sacrificing or conceding the validity of the 2003 lease based upon his expectation of prevailing with the Court of Appeals.” The court found “no other logical interpretation of the specific reference made by Grow in the *pro se* contract. In short, it is logical, reasonable, tactical, and coincides with the ‘*sole purpose of the appeal—to enforce the 2003 lease*.’”

John argues the district court erred in finding ambiguity in the contract and improperly considered extrinsic evidence. Whether or not the language in the lease is ambiguous, the words of the contract and the conduct of the parties must be interpreted "in the light of all the circumstances." *Id.* Generally, "the meaning of a contract can almost never be plain except in a context." *Fausel*, 603 N.W.2d at 618 (internal quotation marks and citation omitted). We recognize that while the court may consider extrinsic evidence, "the words of the agreement are still the most important evidence of the party's intentions at the time they entered into the contract." *Pillsbury*, 752 N.W.2d at 436.[4]

John and Cory disagree about the meaning of the handwritten provision. John argues Cory added the phrase "can be adjusted" to allow the Grows to renegotiate for a lower rent in the event the court of appeals affirmed the district court's decision finding the 2003 lease unenforceable. John testified that he knew the purpose of the appeal was to enforce the 2003 lease. Given the deteriorating relationship between the parties, if the Grows had lost on appeal, there would be no incentive for John to renegotiate the terms of the lease to lower the rent. While the parties disagree about the meaning of the words, the

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[4] In *Hamilton v. Wosepka*, 154 N.W.2d 164, 171–72 (Iowa 1967), the Iowa Supreme Court explained:

> The 'ambiguity-on-its-face rule' is a vestigial remain of a notion prevailing in 'primitive law.' The 'primitive law', says Wigmore, 'looked only at the expression.' The mark of primitive legal standards, throughout all, is formalism. Accordingly, it is regarded by many authorities as a fallacy that, in interpreting contractual language, a court may not consider the surrounding circumstances unless the language is patently ambiguous. Any such rule, like all rules of interpretation, must be taken as a guide, not a dictator. The text should always be read in its context.'

(Internal citations omitted).

district court considered the context of the agreement and found it was clear the parties created an agreement contingent on the outcome of the pending appeal. We find no error in the district court's interpretation.

C. Breach of Contract

John argues Cory breached the 2010 lease agreement because Cory failed to pay rent under the agreement. To prevail on a breach of contract claim, John was required to prove: "(1) the existence of a contract, (2) the terms and conditions of the contract, (3) that [plaintiff] has performed all the terms and conditions required under the contract, (4) the defendant's breach of the contract . . . and (5) that plaintiff has suffered damages as a result of defendant's breach." *Royal Indem. Co. v. Factory Mut. Ins. Co.*, 786 N.W.2d 839, 846 (Iowa 2010).

As previously discussed, we find no error in the district court decision finding the 2010 lease contingent upon the outcome of the appeal concerning the enforceability of the 2003 lease. Upon the happening of the contingency—the outcome of the pending appeal—the agreement reverted to the terms of the 2003 lease. Pursuant to the 2010 lease, Cory sent a check to John in the amount of $9,532.50 for the first half of rent for the 2010 farming season. After the court of appeals decision in 2010, Cory sent John a check for $1,162.50—the balance due under the 2003 lease agreement for that year. John accepted the payment. In February 2011, Cory sent John a check for $10,695—the full amount due under the terms of the 2003 lease. We find no breach of the 2003 lease agreement for failure to pay rent.

D. Holdover Tenancy

John further contends the court erred in failing to find Cory was a holdover tenant on John's land. A holdover tenant is tenant who willfully holds over after the term of the lease. *See* Iowa Code § 562.2. John's contention assumes the terms of the 2003 lease provide for his unilateral termination of the agreement. Under Iowa Code section 562.4 "[a] person in the possession of real estate, with the assent of the owner, is presumed to be a tenant at will until the contrary is shown." The parties can change the default presumption of at will tenancy through agreement. *See id.* §§ 562.4, .6. In this case, the 2003 lease provided the leasehold "shall continue until such time as the tenants no longer wish to rent the farm ground or until such time as they purchase the property from the landlords." As previously discussed, John's notice of termination of farm tenancy to Cory and subsequent notices to Darwin and Pamela did not terminate the 2003 lease agreement. Thus, we find no error in the district court's decision finding the lease was not "subject to termination by the Plaintiff, John Knight" and rejecting the holdover tenancy claim.[5]

E. Trespass

John claims the district court erred in denying his claim for trespass against Cory. The essence "of a claim for trespass on land is the wrongful interference with one's possessory rights in the property." *Robert's River Rides,*

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[5] As we find John cannot unilaterally terminate the 2003 lease agreement, we need not address the question of whether estoppel by acquiescence precludes Darwin and Pamela from claiming John failed to provide notice of termination. *See* Iowa Code § 562.4 (setting forth the default requirements for proper notice to terminate); *Markey v. Carney*, 705 N.W.2d 13, 21 (Iowa 2005) (setting forth the elements of estoppel by acquiescence).

Inc. v. Steamboat Dev. Corp., 520 N.W.2d 294, 301 (Iowa 1994), *abrogated on other grounds by Barreca v. Nickolas*, 683 N.W.2d 111 (Iowa 2004). A person "is subject to liability to another for trespass, irrespective of whether he thereby causes harm to any legally protected interest of the other, if he intentionally . . . remains on the land." *Id.* Here, Cory's presence on John's land was lawful pursuant to the 2003 lease agreement. We find no error in the district court's denial of the trespass claim.

F. Res Judicata

John argues the district court erred in holding the doctrine of res judicata applies because he was not a party to Debra's action against the Grows and he seeks declaratory relief based upon an issue distinct from Debra's action. As we find our foregoing analysis dispositive to the issues on appeal, we need not reach a decision as to whether or not res judicata would apply in this case.

IV. Conclusion

We find John could not unilaterally terminate the 2003 lease agreement. We find no error in the district court's interpretation of the 2010 lease agreement, and no error in the court rejecting claims for breach of contract, holdover tenancy, and trespass. Accordingly, we affirm.

AFFIRMED.