

SECOND DIVISION

[G.R. NO. 124242, January 21, 2005]

**SAN LORENZO DEVELOPMENT CORPORATION, PETITIONER, VS.
COURT OF APPEALS, PABLO S. BABASANTA, SPS. MIGUEL LU
AND PACITA ZAVALLA LU, RESPONDENTS.**

DECISION

TINGA, J.:

From a coaptation of the records of this case, it appears that respondents Miguel Lu and Pacita Zavalla, (hereinafter, the Spouses Lu) owned two (2) parcels of land situated in Sta. Rosa, Laguna covered by TCT No. T-39022 and TCT No. T-39023 both measuring 15,808 square meters or a total of 3.1616 hectares.

On 20 August 1986, the Spouses Lu purportedly sold the two parcels of land to respondent Pablo Babasanta, (hereinafter, Babasanta) for the price of fifteen pesos (P15.00) per square meter. Babasanta made a downpayment of fifty thousand pesos (P50,000.00) as evidenced by a memorandum receipt issued by Pacita Lu of the same date. Several other payments totaling two hundred thousand pesos (P200,000.00) were made by Babasanta.

Sometime in May 1989, Babasanta wrote a letter to Pacita Lu to demand the execution of a final deed of sale in his favor so that he could effect full payment of the purchase price. In the same letter, Babasanta notified the spouses about having received information that the spouses sold the same property to another without his knowledge and consent. He demanded that the second sale be cancelled and that a final deed of sale be issued in his favor.

In response, Pacita Lu wrote a letter to Babasanta wherein she acknowledged having agreed to sell the property to him at fifteen pesos (P15.00) per square meter. She, however, reminded Babasanta that when the balance of the purchase price became due, he requested for a reduction of the price and when she refused, Babasanta backed out of the sale. Pacita added that she returned the sum of fifty thousand pesos (P50,000.00) to Babasanta through Eugenio Oya.

On 2 June 1989, respondent Babasanta, as plaintiff, filed before the Regional Trial Court (RTC), Branch 31, of San Pedro, Laguna, a *Complaint for Specific Performance and Damages*^[1] against his co-respondents herein, the Spouses Lu. Babasanta alleged that the lands covered by TCT No. T- 39022 and T-39023 had been sold to him by the spouses at fifteen pesos (P15.00) per square meter. Despite his repeated demands for the execution of a final deed of sale in his favor, respondents allegedly refused.

In their *Answer*,^[2] the Spouses Lu alleged that Pacita Lu obtained loans from Babasanta and when the total advances of Pacita reached fifty thousand pesos

(P50,000.00), the latter and Babasanta, without the knowledge and consent of Miguel Lu, had verbally agreed to transform the transaction into a contract to sell the two parcels of land to Babasanta with the fifty thousand pesos (P50,000.00) to be considered as the downpayment for the property and the balance to be paid on or before 31 December 1987. Respondents Lu added that as of November 1987, total payments made by Babasanta amounted to only two hundred thousand pesos (P200,000.00) and the latter allegedly failed to pay the balance of two hundred sixty thousand pesos (P260,000.00) despite repeated demands. Babasanta had purportedly asked Pacita for a reduction of the price from fifteen pesos (P15.00) to twelve pesos (P12.00) per square meter and when the Spouses Lu refused to grant Babasanta's request, the latter rescinded the contract to sell and declared that the original loan transaction just be carried out in that the spouses would be indebted to him in the amount of two hundred thousand pesos (P200,000.00). Accordingly, on 6 July 1989, they purchased Interbank Manager's Check No. 05020269 in the amount of two hundred thousand pesos (P200,000.00) in the name of Babasanta to show that she was able and willing to pay the balance of her loan obligation.

Babasanta later filed an *Amended Complaint* dated 17 January 1990^[3] wherein he prayed for the issuance of a writ of preliminary injunction with temporary restraining order and the inclusion of the Register of Deeds of Calamba, Laguna as party defendant. He contended that the issuance of a preliminary injunction was necessary to restrain the transfer or conveyance by the Spouses Lu of the subject property to other persons.

The Spouses Lu filed their *Opposition*^[4] to the amended complaint contending that it raised new matters which seriously affect their substantive rights under the original complaint. However, the trial court in its Order dated 17 January 1990^[5] admitted the amended complaint.

On 19 January 1990, herein petitioner San Lorenzo Development Corporation (SLDC) filed a *Motion for Intervention*^[6] before the trial court. SLDC alleged that it had legal interest in the subject matter under litigation because on 3 May 1989, the two parcels of land involved, namely Lot 1764-A and 1764-B, had been sold to it in a *Deed of Absolute Sale with Mortgage*.^[7] It alleged that it was a buyer in good faith and for value and therefore it had a better right over the property in litigation.

In his Opposition to SLDC's motion for intervention,^[8] respondent Babasanta demurred and argued that the latter had no legal interest in the case because the two parcels of land involved herein had already been conveyed to him by the Spouses Lu and hence, the vendors were without legal capacity to transfer or dispose of the two parcels of land to the intervenor.

Meanwhile, the trial court in its Order dated 21 March 1990 allowed SLDC to intervene. SLDC filed its *Complaint-in-Intervention* on 19 April 1990.^[9] Respondent Babasanta's motion for the issuance of a preliminary injunction was likewise granted by the trial court in its *Order* dated 11 January 1991^[10] conditioned upon his filing of a bond in the amount of fifty thousand pesos (P50,000.00).

SLDC in its *Complaint-in-Intervention* alleged that on 11 February 1989, the Spouses Lu executed in its favor an *Option to Buy* the lots subject of the complaint.

Accordingly, it paid an option money in the amount of three hundred sixteen thousand one hundred sixty pesos (P316,160.00) out of the total consideration for the purchase of the two lots of one million two hundred sixty-four thousand six hundred forty pesos (P1,264,640.00). After the Spouses Lu received a total amount of six hundred thirty-two thousand three hundred twenty pesos (P632,320.00) they executed on 3 May 1989 a *Deed of Absolute Sale with Mortgage* in its favor. SLDC added that the certificates of title over the property were delivered to it by the spouses clean and free from any adverse claims and/or notice of *lis pendens*. SLDC further alleged that it only learned of the filing of the complaint sometime in the early part of January 1990 which prompted it to file the motion to intervene without delay. Claiming that it was a buyer in good faith, SLDC argued that it had no obligation to look beyond the titles submitted to it by the Spouses Lu particularly because Babasanta's claims were not annotated on the certificates of title at the time the lands were sold to it.

After a protracted trial, the RTC rendered its Decision on 30 July 1993 upholding the sale of the property to SLDC. It ordered the Spouses Lu to pay Babasanta the sum of two hundred thousand pesos (P200,000.00) with legal interest plus the further sum of fifty thousand pesos (P50,000.00) as and for attorney's fees. On the complaint-in-intervention, the trial court ordered the Register of Deeds of Laguna, Calamba Branch to cancel the notice of *lis pendens* annotated on the original of the TCT No. T-39022 (T-7218) and No. T-39023 (T-7219).

Applying Article 1544 of the Civil Code, the trial court ruled that since both Babasanta and SLDC did not register the respective sales in their favor, ownership of the property should pertain to the buyer who first acquired possession of the property. The trial court equated the execution of a public instrument in favor of SLDC as sufficient delivery of the property to the latter. It concluded that symbolic possession could be considered to have been first transferred to SLDC and consequently ownership of the property pertained to SLDC who purchased the property in good faith.

Respondent Babasanta appealed the trial court's decision to the Court of Appeals alleging in the main that the trial court erred in concluding that SLDC is a purchaser in good faith and in upholding the validity of the sale made by the Spouses Lu in favor of SLDC.

Respondent spouses likewise filed an appeal to the Court of Appeals. They contended that the trial court erred in failing to consider that the contract to sell between them and Babasanta had been novated when the latter abandoned the verbal contract of sale and declared that the original loan transaction just be carried out. The Spouses Lu argued that since the properties involved were conjugal, the trial court should have declared the verbal contract to sell between Pacita Lu and Pablo Babasanta null and void *ab initio* for lack of knowledge and consent of Miguel Lu. They further averred that the trial court erred in not dismissing the complaint filed by Babasanta; in awarding damages in his favor and in refusing to grant the reliefs prayed for in their answer.

On 4 October 1995, the Court of Appeals rendered its *Decision*^[11] which set aside the judgment of the trial court. It declared that the sale between Babasanta and the Spouses Lu was valid and subsisting and ordered the spouses to execute the necessary deed of conveyance in favor of Babasanta, and the latter to pay the

balance of the purchase price in the amount of two hundred sixty thousand pesos (P260,000.00). The appellate court ruled that the *Absolute Deed of Sale with Mortgage* in favor of SLDC was null and void on the ground that SLDC was a purchaser in bad faith. The Spouses Lu were further ordered to return all payments made by SLDC with legal interest and to pay attorney's fees to Babasanta.

SLDC and the Spouses Lu filed separate motions for reconsideration with the appellate court.^[12] However, in a *Manifestation* dated 20 December 1995,^[13] the Spouses Lu informed the appellate court that they are no longer contesting the decision dated 4 October 1995.

In its *Resolution* dated 11 March 1996,^[14] the appellate court considered as withdrawn the motion for reconsideration filed by the Spouses Lu in view of their manifestation of 20 December 1995. The appellate court denied SLDC's motion for reconsideration on the ground that no new or substantial arguments were raised therein which would warrant modification or reversal of the court's decision dated 4 October 1995.

Hence, this petition.

SLDC assigns the following errors allegedly committed by the appellate court:

THE COURT OF APPEALS ERRED IN HOLDING THAT SAN LORENZO WAS NOT A BUYER IN GOOD FAITH BECAUSE WHEN THE SELLER PACITA ZAVALLA LU OBTAINED FROM IT THE CASH ADVANCE OF P200,000.00, SAN LORENZO WAS PUT ON INQUIRY OF A PRIOR TRANSACTION ON THE PROPERTY.

THE COURT OF APPEALS ERRED IN FAILING TO APPRECIATE THE ESTABLISHED FACT THAT THE ALLEGED FIRST BUYER, RESPONDENT BABASANTA, WAS NOT IN POSSESSION OF THE DISPUTED PROPERTY WHEN SAN LORENZO BOUGHT AND TOOK POSSESSION OF THE PROPERTY AND NO ADVERSE CLAIM, LIEN, ENCUMBRANCE OR LIS PENDENS WAS ANNOTATED ON THE TITLES.

THE COURT OF APPEALS ERRED IN FAILING TO APPRECIATE THE FACT THAT RESPONDENT BABASANTA HAS SUBMITTED NO EVIDENCE SHOWING THAT SAN LORENZO WAS AWARE OF HIS RIGHTS OR INTERESTS IN THE DISPUTED PROPERTY.

THE COURT OF APPEALS ERRED IN HOLDING THAT NOTWITHSTANDING ITS FULL CONCURRENCE ON THE FINDINGS OF FACT OF THE TRIAL COURT, IT REVERSED AND SET ASIDE THE DECISION OF THE TRIAL COURT UPHOLDING THE TITLE OF SAN LORENZO AS A BUYER AND FIRST POSSESSOR IN GOOD FAITH. ^[15]

SLDC contended that the appellate court erred in concluding that it had prior notice of Babasanta's claim over the property merely on the basis of its having advanced the amount of two hundred thousand pesos (P200,000.00) to Pacita Lu upon the latter's representation that she needed the money to pay her obligation to Babasanta. It argued that it had no reason to suspect that Pacita was not telling the truth that the money would be used to pay her indebtedness to Babasanta. At any

rate, SLDC averred that the amount of two hundred thousand pesos (P200,000.00) which it advanced to Pacita Lu would be deducted from the balance of the purchase price still due from it and should not be construed as notice of the prior sale of the land to Babasanta. It added that at no instance did Pacita Lu inform it that the lands had been previously sold to Babasanta.

Moreover, SLDC stressed that after the execution of the sale in its favor it immediately took possession of the property and asserted its rights as new owner as opposed to Babasanta who has never exercised acts of ownership. Since the titles bore no adverse claim, encumbrance, or lien at the time it was sold to it, SLDC argued that it had every reason to rely on the correctness of the certificate of title and it was not obliged to go beyond the certificate to determine the condition of the property. Invoking the presumption of good faith, it added that the burden rests on Babasanta to prove that it was aware of the prior sale to him but the latter failed to do so. SLDC pointed out that the notice of *lis pendens* was annotated only on 2 June 1989 long after the sale of the property to it was consummated on 3 May 1989.

Meanwhile, in an *Urgent Ex-Parte Manifestation* dated 27 August 1999, the Spouses Lu informed the Court that due to financial constraints they have no more interest to pursue their rights in the instant case and submit themselves to the decision of the Court of Appeals.^[16]

On the other hand, respondent Babasanta argued that SLDC could not have acquired ownership of the property because it failed to comply with the requirement of registration of the sale in good faith. He emphasized that at the time SLDC registered the sale in its favor on 30 June 1990, there was already a notice of *lis pendens* annotated on the titles of the property made as early as 2 June 1989. Hence, petitioner's registration of the sale did not confer upon it any right. Babasanta further asserted that petitioner's bad faith in the acquisition of the property is evident from the fact that it failed to make necessary inquiry regarding the purpose of the issuance of the two hundred thousand pesos (P200,000.00) manager's check in his favor.

The core issue presented for resolution in the instant petition is who between SLDC and Babasanta has a better right over the two parcels of land subject of the instant case in view of the successive transactions executed by the Spouses Lu.

To prove the perfection of the contract of sale in his favor, Babasanta presented a document signed by Pacita Lu acknowledging receipt of the sum of fifty thousand pesos (P50,000.00) as partial payment for 3.6 hectares of farm lot situated at Barangay Pulong, Sta. Cruz, Sta. Rosa, Laguna.^[17] While the receipt signed by Pacita did not mention the price for which the property was being sold, this deficiency was supplied by Pacita Lu's letter dated 29 May 1989^[18] wherein she admitted that she agreed to sell the 3.6 hectares of land to Babasanta for fifteen pesos (P15.00) per square meter.

An analysis of the facts obtaining in this case, as well as the evidence presented by the parties, irresistibly leads to the conclusion that the agreement between Babasanta and the Spouses Lu is a contract to sell and not a contract of sale.