

FIRST DIVISION

[G.R. No. 215820, March 20, 2017]

**ERLINDA DINGLASAN DELOS SANTOS AND HER DAUGHTERS,
NAMELY, VIRGINIA, AUREA, AND BINGBING, ALL SURNAMED
DELOS SANTOS, PETITIONERS, VS. ALBERTO ABEJON AND THE
ESTATE OF TERESITA DINGLASAN ABEJON, RESPONDENTS.**

D E C I S I O N

PERLAS-BERNABE, J.:

Assailed in this petition for review on *certiorari*^[1] are the Decision^[2] dated March 19, 2014 and the Resolution^[3] dated December 11, 2014 of the Court of Appeals (CA) in CA-G.R. CV No. 96884, which affirmed with modification the Decision^[4] dated August 25, 2010 of the Regional Trial Court of Makati City, Branch 132 (RTC), and accordingly, ordered petitioners Erlinda Dinglasan-Delos Santos (Erlinda) and her daughters, Virginia, Aurea, and Bingbing, all surnamed Delos Santos (petitioners), to pay respondents Alberto Abejon and the estate of his spouse, Teresita Dinglasan-Abejon (Teresita; collectively, respondents) the aggregate amount of P2,200,000.00 plus legal interest, among others.

The Facts

The instant case arose from a Complaint for Cancellation of Title with collection of sum of money^[5] filed by respondents against petitioners before the RTC. The complaint alleged that Erlinda and her late husband Pedro Delos Santos (Pedro) borrowed the amount of P100,000.00 from the former's sister, Teresita, as evidenced by a Promissory Note dated April 8, 1998. As security for the loan, Erlinda and Pedro mortgaged their property consisting of 43.50 square meters situated at 2986 Gen. Del Pilar Street, Bangkal, Makati City covered by Transfer Certificate of Title (TCT) No. 131753 (subject land) which mortgage was annotated on the title. After Pedro died, Erlinda ended up being unable to pay the loan, and as such, agreed to sell the subject land to Teresita for P150,000.00, or for the amount of the loan plus an additional P50,000.00. On July 8, 1992, they executed a Deed of Sale and a Release of Mortgage, and eventually, TCT No. 131753 was cancelled and TCT No. 180286 was issued in the name of "Teresita, Abejon[,] married to Alberto S. Abejon." Thereafter, respondents constructed a three (3)-storey building worth P2,000,000.00 on the subject land. Despite the foregoing, petitioners refused to acknowledge the sale, pointing out that since Pedro died in 1989, his signature in the Deed of Sale executed in 1992 was definitely forged. As such, respondents demanded from petitioners the amounts of P150,000.00 representing the consideration for the sale of the subject land and P2,000,000.00 representing the construction cost of the three (3)-storey building, but to no avail. Thus, respondents filed the instant case.^[6]

In defense, petitioners denied any participation relative to the spurious Deed of Sale, and instead, maintained that it was Teresita who fabricated the same and caused its registration before the Register of Deeds of Makati City. They likewise asserted that Erlinda and Pedro never sold the subject land to Teresita for P150,000.00 and that they did not receive any demand for the payment of P100,000.00 representing the loan, as well as the P2,000,000.00 representing the construction cost of the building. Finally, they claimed that the improvements introduced by Teresita on the subject land were all voluntary on her part.^[7]

During the pre-trial proceedings, the parties admitted and/or stipulated that: (a) the subject land was previously covered by TCT No. 131753 in the name of Erlinda and Pedro, but such title was cancelled and replaced by TCT No. 180286 in the name of Teresita; (b) the Deed of Sale and Release of Mortgage executed on July 8, 1992 were forged, and thus, should be cancelled; (c) in view of said cancellations, TCT No. 180286 should likewise be cancelled and TCT No. 131753 should be reinstated; (d) from the time when the spurious Deed of Sale was executed until the present, petitioners have been the actual occupants of the subject land as well as all improvements therein, including the three (3)-storey building constructed by respondents; and (e) the P100,000.00 loan still subsists and that respondents paid for the improvements being currently occupied by petitioners, *i.e.*, the three (3)-storey building. **In view of the foregoing stipulations and admissions, the RTC limited the issue as to who among the parties should be held liable for damages and attorney's fees.**^[8]

The RTC Ruling

In a Decision^[9] dated August 25, 2010, the RTC: (a) declared the Deed of Sale null and void; (b) ordered the cancellation of TCT No. 180286 and the reinstatement of TCT No. 131753; and (c) ordered petitioners to pay respondents the following amounts: (1) P100,000.00 plus twelve percent (12%) per annum computed from July 8, 1992 until fully paid representing the loan obligation plus legal interest; (2) P2,000,000.00 representing the construction cost of the three (3)-storey building; and (3) another P100,000.00 as attorney's fees and litigation expenses.^[10]

The RTC ruled that respondents should be reimbursed for the amount of the loan, as well as the expenses incurred for the construction of the three (3)-storey building in view of petitioners' categorical admission of their indebtedness to her, as well as the construction of the building from which they derived benefit being the actual occupants of the property.^[11] Finally, it found that respondents are entitled to attorney's fees for being forced to litigate.^[12]

Aggrieved, petitioners appealed to the CA.^[13]

The CA Ruling

In a Decision^[14] dated March 19, 2014, the CA affirmed the RTC ruling with modifications: (a) cancelling the Release of Mortgage; (b) adjusting the twelve percent (12%) per annum interest imposed on the loan obligation, in that it should be computed from November 25, 1997, or from the filing of the instant complaint; and (c) imposing a six percent (6%) interest per annum on the construction cost of

the three (3)-storey building from the finality of the decision until its full satisfaction.^[15]

Anent the loan obligation, the CA ruled that since petitioners admitted their indebtedness to Teresita during the pre-trial proceedings, respondents should be allowed to recover the amount representing the same, including the appropriate interest. In this relation, the CA opined that while it is true that the loan obligation was contracted by Erlinda and Pedro and not by their children, the children (who joined Erlinda in this case as petitioners) may still be held liable for such obligation having inherited the same from Pedro upon the latter's death.^[16]

As to the construction cost of the three (3)-storey building, the CA held that in view of petitioners' admission that they knew of and allowed said construction of the building, and thereafter, started occupying the same for more than two (2) decades up to the present, it is only proper that they reimburse respondents of the cost of such building.^[17]

Undaunted, petitioners moved for reconsideration,^[18] which was, however, denied in a Resolution^[19] dated December 11, 2014; hence, this petition.

The Issue Before the Court

The core issue for the Court's resolution is whether or not the CA correctly held that petitioners should be held liable to respondents in the aggregate amount of P2,200,000.00, consisting of the loan obligation of P100,000.00, the construction cost of the three (3)-storey building in the amount of P2,000,000.00, and attorney's fees and costs of suit amounting to P100,000.00.

The Court's Ruling

The petition is partly meritorious.

At the outset, it must be emphasized that a pre-trial is a procedural device intended to clarify and limit the basic issues raised by the parties and to take the trial of cases out of the realm of surprise and maneuvering. More significantly, a pre-trial has been institutionalized as the answer to the clarion call for the speedy disposition of cases. Hailed as the most important procedural innovation in Anglo-Saxon justice in the nineteenth century, it paves the way for a less cluttered trial and resolution of the case. It is, thus, mandatory for the trial court to conduct pre-trial in civil cases in order to realize the paramount objective of simplifying, abbreviating, and expediting trial.^[20]

In the case at bar, it must be reiterated that during the pre-trial proceedings, the parties agreed/stipulated that: (a) the subject land was previously covered by TCT No. 131753 in the name of Erlinda and Pedro, but such title was cancelled and replaced by TCT No. 180286 in the name of Teresita; (b) the Deed of Sale and Release of Mortgage both executed on July 8, 1992 were forged, and thus, should be cancelled; (c) in view of said cancellations, TCT No. 180286 should likewise be cancelled and TCT No. 131753 should be reinstated; (d) from the time when the spurious deed of sale was executed until the present, petitioners have been the actual occupants of the subject land as well as all improvements therein, including

the three (3)-storey building constructed by respondents; and (e) the P100,000.00 loan still subsists and that respondents paid for the improvements being currently occupied by petitioners, *i.e.*, the three (3)-storey building.^[21] As such, the parties in this case are bound to honor the admissions and/or stipulations they made during the pre-trial.^[22]

Thus, in view of the foregoing admissions and/or stipulations, there is now a need to properly determine to whom the following liabilities should devolve: (a) the P100,000.00 loan obligation; (b) the P50,000.00 extra consideration Teresita paid for the sale of the subject land, which was already declared void - a matter which the RTC and the CA completely failed to resolve; and (c) the P2,000,000.00 construction cost of the three (3)-storey building that was built on the subject land.

I.

While petitioners admitted the existence of the P100,000.00 loan obligation as well as respondents' right to collect on the same, it does not necessarily follow that respondents should collect the loan amount from petitioners, as concluded by both the RTC and the CA. It must be pointed out that such loan was contracted by Erlinda, who is only one (1) out of the four (4) herein petitioners, and her deceased husband, Pedro, during the latter's lifetime and while their marriage was still subsisting.^[23] As they were married before the effectivity of the Family Code of the Philippines^[24] and absent any showing of any pre-nuptial agreement between Erlinda and Pedro, it is safe to conclude that their property relations were governed by the system of conjugal partnership of gains. Hence, pursuant to Article 121^[25] of the Family Code, the P100,000.00 loan obligation, including interest, if any, is chargeable to Erlinda and Pedro's conjugal partnership as it was a debt contracted by the both of them during their marriage; and should the conjugal partnership be insufficient to cover the same, then Erlinda and Pedro (more particularly, his estate as he is already deceased) shall be solidarity liable for the unpaid balance with their separate properties. While the portion attributable to Pedro was not considered extinguished by his death, it is merely passed on to his estate; and thus, his heirs, *i.e.*, herein petitioners, could not be held directly answerable for the same, contrary to the CA's conclusion.^[26] In sum, both the RTC and the CA erred in holding petitioners liable to respondents for the loan obligation in the amount of P100,000.00.

Alternative to the collection of the said sum, respondents may also choose to foreclose the mortgage on the subject land as the same was duly constituted to secure the P100,000.00 loan obligation. In other words, respondents have the option to either file a personal action for collection of sum of money or institute a real action to foreclose on the mortgage security. The aforesaid remedies are alternative, meaning the choice of one will operate to preclude the other.^[27]

II.

It is settled that "the declaration of nullity of a contract which is void *ab initio* operates to restore things to the state and condition in which they were found before the execution thereof."^[28] Pursuant to this rule, since the Deed of Sale involving the subject land stands to be nullified in view of the parties' stipulation to

this effect, it is incumbent upon the parties to return what they have received from said sale. Accordingly, Erlinda and the rest of petitioners (as Pedro's heirs) are entitled to the return of the subject land as stipulated during the pre-trial. To effect the same, the Register of Deeds of Makati City should cancel TCT No. 180286 issued in the name of Teresita, and thereafter, reinstate TCT No. 131753 in the name of Pedro and Erlinda and, restore the same to its previous state before its cancellation, *i.e.*, with the mortgage executed by the parties annotated thereon. On the other hand, respondents, as Teresita's successors-in-interest, are entitled to the refund of the additional P50,000.00 consideration she paid for such sale. However, it should be clarified that the liability for the said amount will not fall on all petitioners, but only on Erlinda, as she was the only one among the petitioners who was involved in the said sale. Pursuant to *Nacar v. Gallery Frames*,^[29] the amount of P50,000.00 shall be subjected to legal interest of six percent (6%) per annum from the finality of this Decision until fully paid.^[30]

III.

As correctly argued by petitioners, it is more accurate to apply^[31] the rules on accession with respect to immovable property, specifically with regard to builders, planters, and sowers,^[32] as this case involves a situation where the landowner (petitioners) is different from the owner of the improvement built therein, *i.e.*, the three (3)-storey building (respondents). Thus, there is a need to determine whether petitioners as landowners on the one hand, and respondents on the other, are in good faith or bad faith.

The terms builder, planter, or sower in good faith as used in reference to Article 448 of the Civil Code, refers to one who, not being the owner of the land, builds, plants, or sows on that land believing himself to be its owner and unaware of the defect in his title or mode of acquisition. "The essence of good faith lies in an honest belief in the validity of one's right, ignorance of a superior claim, and absence of intention to overreach another."^[33] On the other hand, bad faith may only be attributed to a landowner when the act of building, planting, or sowing was done with his knowledge and without opposition on his part.^[34]

In this case, it bears stressing that the execution of the Deed of Sale involving the subject land was done in 1992. However, and as keenly pointed out by Justice Alfredo Benjamin S. Caguioa during the deliberations of this case, Teresita was apprised of Pedro's death as early as 1990 when she went on a vacation in the Philippines.^[35] As such, she knew all along that the aforesaid Deed of Sale which contained a signature purportedly belonging to Pedro, who died in 1989, or three (3) years prior to its execution - was void and would not have operated to transfer any rights over the subject land to her name. Despite such awareness of the defect in their title to the subject land, respondents still proceeded in constructing a three (3)-storey building thereon. Indubitably, they should be deemed as builders in bad faith.

On the other hand, petitioners knew of the defect in the execution of the Deed of Sale from the start, but nonetheless, still acquiesced to the construction of the three (3)-storey building thereon. Hence, they should likewise be considered as landowners in bad faith.