

THIRD DIVISION

[G.R. No. 173454, October 06, 2008]

PHILIPPINE NATIONAL BANK, PETITIONER, VS. MEGA PRIME REALTY AND CHICO-NAZARIO, RESPONDENT.

G.R. NO. 173456

MEGA PRIME REALTY AND HOLDINGS CORPORATION, PETITIONER, VS. PROMULGATED: PHILIPPINE NATIONAL BANK, RESPONDENT.

DECISION

REYES, R.T., J.:

IN sales of realty, a breach in the warranties of the seller entitles the buyer to a proportionate reduction of the purchase price.

The principle is illustrated in these consolidated petitions for review on *certiorari* of the Decision^[1] and Resolution^[2] of the Court of Appeals (CA) in CA-G.R. CV No. 66759, which reversed and set aside that of the Regional Trial Court (RTC) in Malabon City. Earlier, the RTC invalidated the sale of shares of stock in PNB Management and Development Corporation (PNB-Madecor) by and between Mega Prime Realty Corporation (Mega Prime), as vendee, and the Philippine National Bank (PNB), as vendor.

The Facts

The facts, as summarized by the appellate court, are as follows:

Mega Prime filed a complaint for annulment of contract before the RTC of Malabon on November 28, 1997. An amended complaint was subsequently filed on February 17, 1998.

In its amended complaint, Mega Prime alleged, among others, that PNB operates a subsidiary by the name of PNB Management and Development Corporation. In line with PNB's privatization plan, it opted to sell or dispose of all its stockholdings over PNB-Madecor to Mega Prime. Thereafter, a deed of sale dated September 27, 1996 was executed between PNB (as vendor) and Mega Prime (as vendee) whereby PNB sold, transferred and conveyed to Mega Prime, on "As is where is" basis, all of its stockholdings in PNB-Madecor for the sum of Five Hundred Five Million Six Hundred Twenty Thousand Pesos (P505,620,000.00). The pertinent portions of the deed of sale are hereunder quoted as follows:

WHEREAS, PNB Management and Development Corporation (PNB-MADECOR), a corporation organized and existing under

the laws of the Republic of the Philippines, with principal office at PNB Financial Center, Roxas Boulevard, Pasay City, Metro Manila, is a wholly-owned subsidiary of the vendor;

WHEREAS, the Vendee has offered to buy all of the stockholdings of the Vendor in PNB-MADECOR with an authorized capital stock of P250,000,000.00 and the Vendor has accepted the said offer;

WHEREAS, the parties have previously agreed for the Vendee to pay the Vendor the purchase price of all the said stockholdings of the Vendor, as follows:

(i) P50,562,000.00 on or before July 18, 1996 which has been paid;

(ii) P50,562,000.00 on or before September 27, 1996; and

(iii) Balance of the purchase price through loan with the Vendor;

subject to the condition that if the Vendee fails to pay the second installment, the agreement to sell the said stockholdings will be cancelled and the initial 10% down payment will be forfeited in favor of the Vendor;

NOW, THEREFORE, for and in consideration of the foregoing premises and the sum of PHILIPPINE PESOS: FIVE HUNDRED FIVE MILLION SIX HUNDRED TWENTY (P505,620,000.00), receipt of which in full is hereby acknowledged, the Vendor hereby sells, transfers and conveys, on "As is where is" basis, unto and in favor of the Vendee, its assigns and successors-in-interest, all of the Vendor's stockholdings in PNB-MADECOR, free from any liens and encumbrances, as evidenced by the following Certificates of Stock (the "Certificates of Stock"):

<u>Number</u>	<u>No. of Shares</u>
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0010	313,871
0002	1
0003	1
0004	1
0005	1
0006	1
0007	1
0008	1
0009	1
0010	1
0011	1
0012	1

hereto attached as Annex "A," and any subscription rights thereto, subject to the following terms and conditions:

1. The sale of the above stockholdings of the Vendor is on a clean balance sheet, i.e. all assets and liabilities are squared, and no deposits, furniture, fixtures and equipment, including receivables shall be transferred to the Vendee, except real properties and improvements thereon of PNB-MADECOR in Quezon City containing an area of 19,080 sq. m., situated at the corner of Quezon Boulevard (presently Quezon Avenue) and Roosevelt Avenue covered by five (5) titles, namely: TCT Nos. 87881, 87882, 87883, 87884, and 160470, per Annexes "B," "C," "D," "E," and "F" hereof.

Leasehold rights of the Vendor on the Numancia property are excluded from this sale, however, lease of the Mandy Enterprises and sub-leases thereon shall be honored by the Vendor which shall become the sub-lessor of the said property.

x x x

Pursuant, therefore, to the terms of the above-quoted deed of sale, the parties also entered into a loan agreement on the same date (September 27, 1996) for P404,496,000.00 and Mega Prime executed in favor of PNB a promissory note for the P404,496,000.00.

Mega Prime further alleged that one of the principal inducements for it to purchase the stockholdings of defendant PNB in PNB-Madecor was to acquire assets of PNB-Madecor, specifically the 19,080 square-meter property located at the corner of Quezon Avenue and Roosevelt Avenue referred to as the Pantranco property.

Mega Prime then entered into a joint venture to develop the Pantranco property. However, Mega Prime's joint venture partner pulled out of the agreement when it learned that the property covered by Transfer Certificate of Title (TCT) No. 160470 was likewise the subject matter of another title registered in the name of the City Government of Quezon City (TCT No. RT-9987 [266573]). Moreover, the lot plan of the Pantranco property shows that TCT No. 160470 covers real property located right in the middle of the Pantranco property rendering nugatory the plans set up by Mega Prime for the said property.

Mega Prime sought the annulment of the deed of sale on ground that PNB misrepresented that among the assets to be acquired by Mega Prime from the sale of shares of stock was the property covered by TCT No. 160470. However, the subject property was outside the commerce of man, the same being a road owned by the Quezon City Government.

Mega Prime also sought reimbursement of the P150,000,000.00 plus legal interest incurred by Mega Prime as expenses for the development of the Pantranco property as actual damages and further sought moral and exemplary damages and attorney's fees.

In its answer to the amended complaint, PNB maintains that the subject matter of the deed of sale was PNB's shares of stock in PNB-Madecor which is a separate juridical entity, and not the properties owned by the latter as evidenced by the deed itself. The sale of PNB's shares of stock in PNB-Madecor to Mega Prime did not dissolve PNB-Madecor. PNB only transferred its control over PNB-Madecor to Mega Prime. The real properties of PNB-Madecor did not change ownership, but remained owned by PNB-Madecor. Moreover, PNB denied that it is liable for P150,000,000.00 allegedly incurred by Mega Prime for the development of the Pantranco property since Mega Prime itself alleged in its amended complaint that no such development could be undertaken.

According to PNB, Mega Prime's accusation that there was fraudulent misrepresentation on the former's part is without basis. The best evidence of their transaction is the subject deed of sale which clearly shows that what PNB sold to Mega Prime was PNB's stockholdings in PNB-Madecor.

As stockholder of PNB-Madecor, PNB did not know nor was it in a position to know, that the Quezon City Government was able to secure another title over the lot covered by TCT No. 160470. Mega Prime, as buyer, bought the shares of stock at its own risk under the *caveat emptor* rule, more so considering that the sale was made on an "as is where is" basis. Moreover, the fact that the Quezon City Government was able to secure a title over the same lot does not necessarily mean that PNB-Madecor's title to it is void or outside the commerce of man. Only a proper proceeding may determine which of the two (2) titles should prevail over the other. Mega Prime, now as the controlling stockholder of PNB-Madecor, should have instead filed action to quiet PNB-Madecor's title over the said lot.^[3]

RTC and CA Dispositions

On December 21, 1999, the RTC gave judgment in favor of Mega Prime and against PNB. The *falla* of the RTC decision states:

WHEREFORE, premises considered, judgment is hereby rendered in favor of plaintiff and against the defendant, as follows:

- (1) Declaring the Deed of Sale of 27 September 1996 as void and rescinded;
- (2) Ordering the defendant PNB to reimburse plaintiff the legal interest on the amount of ONE HUNDRED FIFTY MILLION PESOS (P150,000,000.00) loan intended by plaintiff in developing the Pantranco properties, as actual damages;
- (3) Ordering defendant PNB to pay plaintiff the sum of FIVE MILLION PESOS (P5,000,000.00) as exemplary damages;
- (4) Ordering defendant PNB to pay plaintiff the sum of ONE HUNDRED THOUSAND PESOS (P100,000.00) as attorney's fees;

(5) Ordering defendant to restore to plaintiff the sum of ONE HUNDRED ONE MILLION ONE HUNDRED TWENTY-FOUR THOUSAND PESOS (P101,124,000.00) representing the sum actually paid by plaintiff under the subject contract of sale with legal interest thereon reckoned from the date of extra judicial demand made by plaintiff;

(6) Ordering plaintiff to return the five properties covered by T.C.T. Nos. 87881, 87882, 87883, 87884 and 160470 in favor of the defendant under the principle of mutual restitution;

(7) Ordering plaintiff to return the stockholdings subject matter of the 27 September 1996 contract of sale in favor of defendant;

(8) Ordering defendant to pay the costs of suit.

SO ORDERED.^[4]

PNB elevated the matter to the CA via Rule 41 of the 1997 Rules of Civil Procedure. In its appeal, PNB contended, *inter alia*, that what was sold to Mega Prime were the bank's shares of stock in PNB-Madecor, a corporation separate and distinct from PNB; that the Pantranco property was never a consideration in the contract of sale; that Mega Prime is presumed to have undertaken due diligence in ascertaining the ownership of the disputed property, it being a reputable real estate company.

Further, PNB claimed that Mega Prime bought its shares of stock at its own risk under the *caveat emptor* rule, as the sale was on an "*as is where is*" basis. That the Quezon City Government was able to secure title over the same lot does not necessarily mean that PNB-Madecor's title to it was void or outside the commerce of man. According to PNB, Mega Prime's remedy, as the new controlling owner of PNB-Madecor, is to file an action for quieting of its title to the questioned lot.

On January 27, 2006, the CA reversed and nullified the RTC ruling, disposing as follows:

WHEREFORE, based on the above premises, the assailed Decision dated 21 December 1999 of the Regional Trial Court of Malabon, Metro Manila, Branch 72, is hereby REVERSED and SET ASIDE and a new one entered DISMISSING the complaint in Civil Case No. 2793-MN. The counterclaim of PNB is likewise DISMISSED.

SO ORDERED.^[5]

Both parties moved for reconsideration of the CA decision. Both motions were, however, denied with finality on July 5, 2006.^[6]

Hence, the present recourse by both PNB and Mega Prime.

PNB first filed its petition for review, docketed as G.R. No. 173454, assailing only the CA's dismissal of its counterclaim. In its separate petition for review, docketed as G.R. No. 173456, Mega Prime challenged the reversal by the CA of the RTC decision.