

## EN BANC

[ G.R. No. 133879, November 21, 2001 ]

**EQUATORIAL REALTY DEVELOPMENT, INC., PETITIONER, VS.  
MAYFAIR THEATER, INC., RESPONDENT.**

### **DECISION**

#### **PANGANIBAN, J.:**

General propositions do not decide specific cases. Rather, laws are interpreted in the context of the peculiar factual situation of each proceeding. Each case has its own flesh and blood and cannot be ruled upon on the basis of isolated clinical classroom principles.

While we agree with the general proposition that a contract of sale is valid until rescinded, it is equally true that ownership of the thing sold is not acquired by mere agreement, but by tradition or delivery. The peculiar facts of the present controversy as found by this Court in an earlier relevant Decision show that delivery was not actually effected; in fact, it was prevented by a legally effective impediment. Not having been the owner, petitioner cannot be entitled to the civil fruits of ownership like rentals of the thing sold. Furthermore, petitioner's bad faith, as again demonstrated by the specific factual milieu of said Decision, bars the grant of such benefits. Otherwise, bad faith would be rewarded instead of punished.

#### **The Case**

Filed before this Court is a Petition for Review<sup>[1]</sup> under Rule 45 of the Rules of Court, challenging the March 11, 1998 Order<sup>[2]</sup> of the Regional Trial Court of Manila (RTC), Branch 8, in Civil Case No. 97-85141. The dispositive portion of the assailed Order reads as follows:

"WHEREFORE, the motion to dismiss filed by defendant Mayfair is hereby GRANTED, and the complaint filed by plaintiff Equatorial is hereby DISMISSED."<sup>[3]</sup>

Also questioned is the May 29, 1998 RTC Order<sup>[4]</sup> denying petitioner's Motion for Reconsideration.

#### **The Facts**

The main factual antecedents of the present Petition are matters of record, because it arose out of an earlier case decided by this Court on November 21, 1996, entitled *Equatorial Realty Development, Inc. v. Mayfair Theater, Inc.*<sup>[5]</sup> (henceforth referred to as the "mother case"), docketed as GR No. 106063.

Carmelo & Bauermann, Inc. ("Carmelo") used to own a parcel of land, together with

two 2-storey buildings constructed thereon, located at Claro M. Recto Avenue, Manila, and covered by TCT No. 18529 issued in its name by the Register of Deeds of Manila.

On June 1, 1967, Carmelo entered into a Contract of Lease with Mayfair Theater Inc. ("Mayfair") for a period of 20 years. The lease covered a portion of the second floor and mezzanine of a two-storey building with about 1,610 square meters of floor area, which respondent used as a movie house known as Maxim Theater.

Two years later, on March 31, 1969, Mayfair entered into a second Contract of Lease with Carmelo for the lease of another portion of the latter's property -- namely, a part of the second floor of the two-storey building, with a floor area of about 1,064 square meters; and two store spaces on the ground floor and the mezzanine, with a combined floor area of about 300 square meters. In that space, Mayfair put up another movie house known as Miramar Theater. The Contract of Lease was likewise for a period of 20 years.

Both leases contained a provision granting Mayfair a right of first refusal to purchase the subject properties. However, on July 30, 1978 - within the 20-year-lease term -- the subject properties were sold by Carmelo to Equatorial Realty Development, Inc. ("Equatorial") for the total sum of P11,300,000, without their first being offered to Mayfair.

As a result of the sale of the subject properties to Equatorial, Mayfair filed a Complaint before the Regional Trial Court of Manila (Branch 7) for (a) the annulment of the Deed of Absolute Sale between Carmelo and Equatorial, (b) specific performance, and (c) damages. After trial on the merits, the lower court rendered a Decision in favor of Carmelo and Equatorial. This case, entitled "Mayfair Theater, Inc. v. Carmelo and Bauermann, Inc., et al.," was docketed as Civil Case No. 118019.

On appeal (docketed as CA-GR CV No. 32918), the Court of Appeals (CA) completely reversed and set aside the judgment of the lower court.

The controversy reached this Court via GR No. 106063. In this mother case, it denied the Petition for Review in this wise:

"WHEREFORE, the petition for review of the decision of the Court of Appeals, dated June 23, 1992, in CA-G.R. CV No. 32918, is HEREBY DENIED. The Deed of Absolute Sale between petitioners Equatorial Realty Development, Inc. and Carmelo & Bauermann, Inc. is hereby deemed rescinded; Carmelo & Bauermann is ordered to return to petitioner Equatorial Realty Development the purchase price. The latter is directed to execute the deeds and documents necessary to return ownership to Carmelo & Bauermann of the disputed lots. Carmelo & Bauermann is ordered to allow Mayfair Theater, Inc. to buy the aforesaid lots for P11,300,000.00."<sup>[6]</sup>

The foregoing Decision of this Court became final and executory on March 17, 1997. On April 25, 1997, Mayfair filed a Motion for Execution, which the trial court granted.

However, Carmelo could no longer be located. Thus, following the order of execution

of the trial court, Mayfair deposited with the clerk of court *a quo* its payment to Carmelo in the sum of P11,300,000 less P847,000 as withholding tax. The lower court issued a Deed of Reconveyance in favor of Carmelo and a Deed of Sale in favor of Mayfair. On the basis of these documents, the Registry of Deeds of Manila cancelled Equatorial's titles and issued new Certificates of Title<sup>[7]</sup> in the name of Mayfair.

Ruling on Equatorial's Petition for *Certiorari* and Prohibition contesting the foregoing manner of execution, the CA in its Resolution of November 20, 1998, explained that Mayfair had no right to deduct the P847,000 as withholding tax. Since Carmelo could no longer be located, the appellate court ordered Mayfair to deposit the said sum with the Office of the Clerk of Court, Manila, to complete the full amount of P11,300,000 to be turned over to Equatorial.

Equatorial questioned the legality of the above CA ruling before this Court in GR No. 136221 entitled "Equatorial Realty Development, Inc. v. Mayfair Theater, Inc." In a Decision promulgated on May 12, 2000,<sup>[8]</sup> this Court directed the trial court to follow strictly the Decision in GR No. 106063, the mother case. It explained its ruling in these words:

"We agree that Carmelo and Bauermann is obliged to return the entire amount of eleven million three hundred thousand pesos (P11,300,000.00) to Equatorial. On the other hand, Mayfair may not deduct from the purchase price the amount of eight hundred forty-seven thousand pesos (P847,000.00) as withholding tax. The duty to withhold taxes due, if any, is imposed on the seller, Carmelo and Bauermann, Inc."  
<sup>[9]</sup>

Meanwhile, on September 18, 1997 -- barely five months after Mayfair had submitted its Motion for Execution before the RTC of Manila, Branch 7 -- Equatorial filed with the Regional Trial Court of Manila, Branch 8, an action for the collection of a sum of money against Mayfair, claiming payment of rentals or reasonable compensation for the defendant's use of the subject premises *after* its lease contracts had expired. This action was the progenitor of the present case.

In its Complaint, Equatorial alleged among other things that the Lease Contract covering the premises occupied by Maxim Theater expired on May 31, 1987, while the Lease Contract covering the premises occupied by Miramar Theater lapsed on March 31, 1989.<sup>[10]</sup> Representing itself as the owner of the subject premises by reason of the Contract of Sale on July 30, 1978, it claimed rentals arising from Mayfair's occupation thereof.

### **Ruling of the RTC Manila, Branch 8**

As earlier stated, the trial court dismissed the Complaint via the herein assailed Order and denied the Motion for Reconsideration filed by Equatorial.<sup>[11]</sup>

The lower court debunked the claim of petitioner for unpaid back rentals, holding that the rescission of the Deed of Absolute Sale in the mother case did not confer on Equatorial any vested or residual proprietary rights, even in expectancy.

In granting the Motion to Dismiss, the court *a quo* held that the critical issue was

whether Equatorial was the owner of the subject property and could thus enjoy the fruits or rentals therefrom. It declared the rescinded Deed of Absolute Sale as "void at its inception as though it did not happen."

The trial court ratiocinated as follows:

"The meaning of rescind in the aforequoted decision is to set aside. In the case of **Ocampo v. Court of Appeals**, G.R. No. 97442, June 30, 1994, the Supreme Court held that, 'to rescind is to declare a contract void in its inception and to put an end as though it never were. It is not merely to terminate it and release parties from further obligations to each other but to abrogate it from the beginning and restore parties to relative positions which they would have occupied had no contract ever been made.'

"Relative to the foregoing definition, the Deed of Absolute Sale between Equatorial and Carmelo dated July 31, 1978 is **void** at its inception as though it did not happen.

"The argument of Equatorial that this complaint for backrentals as 'reasonable compensation for use of the subject property **after expiration of the lease contracts** presumes that the Deed of Absolute Sale dated July 30, 1978 from whence the fountain of Equatorial's alleged property rights flows is still valid and existing.

xxx xxx xxx

"The subject Deed of Absolute Sale having been rescinded by the Supreme Court, Equatorial is not the owner and does not have any right to demand backrentals from the subject property. x x x."<sup>[12]</sup>

The trial court added: "The Supreme Court in the **Equatorial** case, G.R. No. 106063, has categorically stated that the Deed of Absolute Sale dated July 31, 1978 has been rescinded subjecting the present complaint to **res judicata**."<sup>[13]</sup>

Hence, the present recourse.<sup>[14]</sup>

### **Issues**

Petitioner submits, for the consideration of this Court, the following issues:<sup>[15]</sup>

"A.

The basis of the dismissal of the Complaint by the Regional Trial Court not only disregards basic concepts and principles in the law on contracts and in civil law, especially those on rescission and its corresponding legal effects, but also ignores the dispositive portion of the Decision of the Supreme Court in G.R. No. 106063 entitled 'Equatorial Realty Development, Inc. & Carmelo & Bauermann, Inc. vs. Mayfair Theater, Inc.'

"B.

The Regional Trial Court erred in holding that the Deed of Absolute Sale in favor of petitioner by Carmelo & Bauermann, Inc., dated July 31, 1978, over the premises used and occupied by respondent, having been 'deemed rescinded' by the Supreme Court in G.R. No. 106063, is 'void at its inception as though it did not happen.'

"C.

The Regional Trial Court likewise erred in holding that the aforesaid Deed of Absolute Sale, dated July 31, 1978, having been 'deemed rescinded' by the Supreme Court in G.R. No. 106063, petitioner 'is not the owner and does not have any right to demand backrentals from the subject property,' and that the rescission of the Deed of Absolute Sale by the Supreme Court does not confer to petitioner 'any vested right nor any residual proprietary rights even in expectancy.'

"D.

The issue upon which the Regional Trial Court dismissed the civil case, as stated in its Order of March 11, 1998, was not raised by respondent in its Motion to Dismiss.

"E.

The sole ground upon which the Regional Trial Court dismissed Civil Case No. 97-85141 is not one of the grounds of a Motion to Dismiss under Sec. 1 of Rule 16 of the 1997 Rules of Civil Procedure."

Basically, the issues can be summarized into two: (1) the substantive issue of whether Equatorial is entitled to back rentals; and (2) the procedural issue of whether the court *a quo*'s dismissal of Civil Case No. 97-85141 was based on one of the grounds raised by respondent in its Motion to Dismiss and covered by Rule 16 of the Rules of Court.

### **This Court's Ruling**

The Petition is not meritorious.

### **First Issue:** **Ownership of Subject Properties**

We hold that under the peculiar facts and circumstances of the case at bar, as found by this Court en banc in its Decision promulgated in 1996 in the mother case, no right of ownership was transferred from Carmelo to Equatorial in view of a patent failure to deliver the property to the buyer.

### **Rental - a Civil Fruit of Ownership**

To better understand the peculiarity of the instant case, let us begin with some basic parameters. Rent is a civil fruit<sup>[16]</sup> that belongs to the owner of the property producing it<sup>[17]</sup> by right of accession.<sup>[18]</sup> Consequently and ordinarily, the rentals