

Title: Tanay Recreation Center and Development Corp. vs. Catalina Matienzo Fausto and Anunciacion Fausto Pacunayen

Facts: Tanay Recreation Center and Development Corp. (TRCDC) was the lessee of a property owned by Catalina Matienzo Fausto in Tanay, Rizal, where it operated the Tanay Coliseum Cockpit. The lease agreement, executed on August 1, 1971, included a 20-year term with an option to renew and a “priority right” for the lessee to purchase the property upon the lessor’s decision to sell. Prior to the lease’s expiration, TRCDC expressed its intention to renew. However, they were informed by Fausto’s daughter, Anunciacion Pacunayen, of her ownership of the property following its sale to her by Fausto on August 8, 1990. TRCDC filed an Amended Complaint for Annulment of Deed of Sale, Specific Performance with Damages, and Injunction, but the trial court rendered judgment only extending the lease for seven years and dismissing the claim for damages. The appellate court affirmed with the modifications ordering TRCDC to vacate, effect accounting of deposits, and pay monthly rental from August 1, 1998, till they vacate the property. The decision rested on distinctions in the interpretation of the priority right granted to TRCDC, limiting it to sales to strangers and not Fausto’s relatives. The Supreme Court, upon review, emphasized the parameter of the priority right and overruled the CA’s interpretation.

Issues: The issues before the Supreme Court were: (1) the proper interpretation of the “priority right” to purchase; (2) the validity of the sale to Pacunayen in light of this priority right; (3) the applicability of the right of first refusal after the lessor’s death; (4) the consequences of an estoppel claim by the respondents; and (5) entitlement to damages by the petitioner.

Court’s Decision: The Supreme Court held that the “priority right” was not exercised by TRCDC due to the lack of a qualifying offer from Fausto and that the sale to Pacunayen was in violation of the right, rendering the sale rescissible. The court determined that said right survived Fausto’s death and that her heirs, including Pacunayen, were bound to respect TRCDC’s priority right. The question of estoppel was dismissed, as the court found TRCDC’s actions were not an intentional abandonment of its right. TRCDC’s claim for actual damages was partially granted, awarding P20,000 for lost income, with legal interest. However, claims for lost goodwill, moral, and exemplary damages were denied. It received P10,000 for attorney’s fees and costs of the suit.

Doctrine: Established or reiterated doctrines include: (1) the binding nature of the right of first refusal as part of a lease contract; (2) the obligations and rights of the contract passing

to the lessor's heirs; and (3) the validity, yet rescindability, of a sale in violation of a right of first refusal.

Class Notes:

- Right of first refusal: must be distinguished from a pre-emptive right and is interpreted as an integral part of a lease contract.
- Sale in violation of right of first refusal: valid, yet rescissible, sale must be made to the holder of the right under identical terms.
- Heirs' obligation: heirs, including those acquiring property through succession, are bound by the terms of contracts affecting the property.
- Doctrine of estoppel: requires evidence of conduct suggesting intentional and unequivocal abandonment of a known right.
- Damages: the need for concrete proof of actual damages suffered, and the lack of automatic entitlement to moral and exemplary damages for a corporation.

Historical Background: In the context of the local property law and contractual obligations in the Philippines, the case showcases a nuanced interplay of contractual rights and the principle of succession, reaffirming the binding rights of lessees codified under Philippine civil law. It reflects the judiciary's position in upholding contractual stipulations against modifications in ownership due to intra-familial conveyances and through succession.