

Title: Davao Saw Mill Co., Inc. vs. Aproniano G. Castillo and Davao Light & Power Co., Inc.

Facts:

The Davao Saw Mill Co., Inc. (plaintiff and appellant) had a lumber concession and operated a sawmill on land owned by another individual. On this land, the company constructed a building without land ownership and installed machinery on cement foundations, some of which were undisputedly personal property. A pivotal clause in the lease agreement declared that upon the end of the lease, all improvements and buildings would pass to the landowner without compensation, but explicitly excluded machinery and accessories.

Davao Light & Power Co., Inc. (defendant and appellee) filed a separate action against Davao Saw Mill Co., winning a judgment, which led to a writ of execution. The machinery in dispute was considered personal property and sold at auction without protest or third-party claim from Davao Saw Mill, which later challenged the characterisation of the machinery as immovable property. The case reached the Supreme Court after Davao Saw Mill were dissatisfied with the trial court's decision deeming the machinery as personal property.

Issues:

1. Whether the machinery installed by the plaintiff on the leased land should be considered real property or personal property.
2. Whether the plaintiff has the right to object to the seizure and sale of the machinery after failing to protest during the auction.

Court's Decision:

The Supreme Court affirmed the trial court's decision that the machinery was personal property. It emphasized that the appellant's previous actions, such as characterizing the machinery as chattels in chattel mortgages, determined the nature of the property. Reference was made to the *Standard Oil Co. of New York vs. Jaramillo* case, which influenced this view.

The Court relied upon Article 334 of the Civil Code, distinguishing the machinery as immovable only if owned by the landowner and tailored for the industry conducted on-site. As the machinery was installed by a lessee, which was Davao Saw Mill, for its own use and in accordance with the lease to revert to the lessee upon lease termination, it remained personal property.

The Court rejected the need for Davao Saw Mill to register its protest during the auction as decisive and pointed to the lease provisions and past conduct by the plaintiff as indicative of

the intent to treat the machinery as personalty.

Doctrine:

The case established that machinery installed by a lessee on leased land for its use without intent to pass it on the landowner is personal property notwithstanding attachment to the land. It reiterated that the intent of the parties involved and their contractual agreements are critical in determining the nature of property.

Class Notes:

- Real Property: Land, buildings, roads, and constructions adhering to the soil, etc. (Art. 334, Civil Code)
- Personal Property: Generally, property not classified as real property; includes machinery used in business not attached to land or building (Chattel).
- Relevant Statutes: Art. 334, Civil Code (defines real property and conditions for immovability of machinery).
- Doctrine of Immobilization: Machinery installed on land by a lessee remains personal property unless the lessee acts as an agent for the owner, indicating intent to permanently improve the landowner's property.

Historical Background:

The decision reflects the civil law tradition of the Philippines derived from the Spanish Civil Code, concerning the classification of property as real or personal (immovable or movable). It highlights the dynamics of property law and rights in leased premises, themes prevalent in developing nations with growing industries and leased facilities. The case disseminated principles from U.S. Supreme Court jurisprudence and the Code Napoleon on the characterization of property and the significance of the parties' intentions in their agreements.