

Title: Pilipinas Makro, Inc. vs. Coco Charcoal Philippines, Inc. and Lim Kim San

Facts:

Pilipinas Makro, Inc. (Makro), a domestic corporation, aimed to expand its business in Davao City in 1999 and identified suitable parcels of land for this purpose. On November 26, 1999, Makro purchased a lot from Coco Charcoal Philippines, Inc. (Coco Charcoal) and another from Lim Kim San (Lim) through notarized Deeds of Absolute Sale, each for the price of P8,500,000.00, covering parcels of land of 1,000 square meters each.

Following the purchases, Makro commissioned a resurvey of the lots, revealing that portions of both parcels were encroached upon by a Department of Public Works and Highways (DPWH) road widening project. Specifically, 131 square meters of the land bought from Coco Charcoal and 130 square meters of Lim's land were affected. This discovery led to demands for a refund from both sellers, which when unmet, resulted in Makro instituting separate complaints to recover the perceived loss in value.

The Regional Trial Court (RTC) ruled in favor of Makro, ordering refunds based on the encroachment. However, the Court of Appeals (CA) reversed this decision, citing Makro's awareness of the encroachment prior to the sale and equating the circumstance to the implied warranty against eviction, which mandates the buyer's good faith.

Issues:

The Supreme Court addressed two main issues:

1. Whether the CA erred in its procedural handling by denying extensions for the filing of a motion for reconsideration.
2. Whether Makro's prior knowledge of the DPWH project disqualifies its claim for a refund based on the breach of warranty.

Court's Decision:

The Supreme Court ruled in favor of Makro, overturning the CA's decision and setting aside both the decision and subsequent resolution. The Court held that extenuating circumstances justified Makro's requests for extensions to file a motion for reconsideration and that the procedural rules should have been relaxed in the interest of justice.

Substantively, the Court differentiated between express and implied warranties, clarifying that the sellers' obligations under the sales agreement constituted an express warranty for the properties to be free from encumbrances that would affect Makro's ownership and use. The Court further held that Makro's prior awareness of DPWH activities did not amount to

bad faith or negate the sellers' breach of warranty since the actual extent of the encroachment was only ascertainable upon professional surveying post-sale.

Doctrine:

This case establishes that awareness of peripheral activities that may affect a property does not equate to bad faith on the part of the buyer regarding seller warranties of freedom from encumbrances. Additionally, the decision highlights that express warranties in sales agreements are distinct from implied warranties and hold independently of the buyer's knowledge.

Class Notes:

- Express vs. Implied Warranties: Express warranties are specific commitments made by the seller within the contract, while implied warranties are those the law assumes based on the transaction.
- Good Faith Requirement: In warranty claims, the buyer's pre-sale knowledge or lack thereof impacts claims differently based on whether the warranty is express or implied.
- Professional Determination of Encroachments: Ocular inspection by the buyer does not replace the accuracy of a professional survey for determining property encroachments.
- Legal Remedies for Encroachments: Buyers may seek adjustments or refunds when a professional survey reveals encroachments not disclosed or apparent at the time of sale.
- Procedural Flexibility: Courts may relax procedural rules in the interest of justice, particularly when extenuating circumstances affect a litigant's ability to comply strictly.

Historical Background:

The legal distinction between express and implied warranties and their implications on property sales and litigation reflects evolving commercial practices and the need for clear legal standards to govern transactions. This case underscores the judiciary's role in adapting procedural and substantive law to ensure fairness and justice in a dynamic commercial environment, highlighting the importance of accurate property representation and the good faith of all parties in transactions.