

Title:

Erlinda Peñaloza vs. ARRA Realty Corporation, et al.

Facts:

The narrative begins with ARRA Realty Corporation (ARC), through its president Architect Carlos D. Arguelles, engaging Engineer Erlinda Peñaloza for a real estate development project in Makati City. On November 18, 1982, Peñaloza agreed to purchase a floor of the proposed five-story building for P3,105,838, with payments to be converted into ARC stock subscriptions. Despite partially fulfilling the payment terms, Peñaloza discovered in July 1984 that the property had been mortgaged to China Banking Corporation without her knowledge. This was after she had already taken possession of her chosen second floor and made significant payments. Efforts to negotiate with the bank and ARC were unsuccessful. Consequently, the property was foreclosed and auctioned to China Banking Corporation, then eventually acquired by Guarantee Development Corporation and Insurance Agency (GDCIA) in 1987 through redemption and a sale deed. Peñaloza filed a complaint in 1987 against ARC, GDCIA, and the Arguelles spouses seeking either specific performance or damages.

Procedural Posture:

The case traversed from the Regional Trial Court (RTC) of Makati, which rendered judgment in favor of Peñaloza against ARC and the Spouses Arguelles for monetary claims but dismissed her case for specific performance due to title issuance in GDCIA's favor. Both parties appealed to the Court of Appeals (CA), which affirmed the RTC's decision with modifications. The case escalated to the Supreme Court on several grounds, including the questioning of the contract's perfection and the bona fide purchaser status of GDCIA.

Issues:

1. Whether the contract of sale between Peñaloza and ARC was perfected.
2. Whether GDCIA is an innocent purchaser for value.
3. Whether ARC had a valid reason to rescind the conditional and absolute sale deeds executed with GDCIA.

Court's Decision:

1. The Supreme Court affirmed the contract of sale's perfection, noting the existence of essential elements and the subsequent conduct of the parties manifesting consent, thus transferring ownership to Peñaloza upon constructive delivery.
2. GDCIA was upheld as an innocent purchaser for value, having relied on the absence of

any annotation of encumbrance on the title and ARC's assurances of vacancy and unencumbered status at the point of the sale.

3. The Court rejected ARC's claim for the rescission of the sale deeds with GDCIA, highlighting the absence of a counterclaim and substantial evidence to prove bad faith on GDCIA's part.

Doctrine:

The Supreme Court reiterated the principles surrounding the perfection of contracts, emphasizing that a contract of sale is consensual and perfected by mere consent. It also highlighted the obligations of a seller to a buyer with regards to property possession and ownership transfer, irrespective of the seller's title at the time of contract perfection.

Class Notes:

- Essential elements of a contract of sale: consent, object, and price.
- Ownership transfers upon actual or constructive delivery.
- A buyer may suspend payment if there is reasonable fear of losing investment due to actions by the seller.
- The principle of innocence in purchasing: reliant on official titles and seller's representations at face value.
- A contract's rescission requires a judicial or notarial act unless otherwise stipulated.

Historical Background:

This case showcases the intricate property disputes that can arise from real estate transactions in the Philippines, where issues of bad faith, mortgage before title transfer, and third-party claims challenge the principles of contract law and property ownership.