

Title: Equatorial Realty Development, Inc. vs. Mayfair Theater, Inc.: A Legal Analysis on the Rescission of Contracts and Ownership Transfer

Facts:

The intricate case between Equatorial Realty Development, Inc. (Equatorial) and Mayfair Theater, Inc. (Mayfair) revolves around a dispute concerning ownership, entitlement to civil fruits (rentals), and the consequences of rescission under Philippine law. The sequence begins with Carmelo & Bauermann, Inc. (Carmelo), owning a parcel of land and two-storey buildings in Manila, leasing certain parts to Mayfair for movie theaters named Maxim and Miramar under agreements granting Mayfair a right of first refusal for purchase. Contravening these lease agreements, Carmelo sold the properties to Equatorial on July 30, 1978, without offering Mayfair the opportunity to purchase, leading Mayfair to seek judicial relief for annulment of the sale, specific performance, and damages.

The legal journey saw the case escalate through various levels of the Philippine judicial system, culminating in a Supreme Court decision (GR No. 106063) on November 21, 1996, that deemed the sale between Carmelo and Equatorial rescinded and directed various actions to return the properties to Carmelo and allow Mayfair to purchase them. Despite this ruling, consequent transactions to execute the Court's decision, and a subsequent case questioning the execution method, Equatorial filed an action in 1997 (Civil Case No. 97-85141) against Mayfair claiming rentals for the period after the lease expiration to when Mayfair deposited the purchase amount with the court.

Issues:

1. Whether Equatorial acquired ownership of the subject property from Carmelo through the sale, thus entitling it to rentals or reasonable compensation from Mayfair.
2. The effect of rescission on the rights and obligations of the contracting parties, particularly in relation to the collection of rentals or compensation by Equatorial from Mayfair.
3. The procedural and substantive implications of the lower court's dismissal of Equatorial's claim for back rentals based on the rescission and alleged non-transfer of ownership.

Court's Decision:

The Supreme Court denied Equatorial's Petition for Review, holding that:

1. Under the peculiar facts of the case, no right of ownership was transferred from Carmelo to Equatorial due to the absence of actual delivery of the property to Equatorial, a legally effective impediment being Mayfair's timely objection to the sale and continued actual

possession.

2. Even assuming delivery and ownership transfer, Equatorial's bad faith in purchasing the property, knowing Mayfair's prior rights, barred it from claiming the civil fruits of ownership, such as rentals.

3. The lower court properly dismissed Civil Case No. 97-85141 on grounds of lack of ownership and entitlement by Equatorial, albeit it erred in equating the rescission with voiding the sale ab initio. The dismissal was justified under the principle of res judicata, given the final and executory nature of the Supreme Court's earlier decision.

Doctrine:

The Supreme Court reiterates the doctrine that ownership of property sold is transferred not merely by agreement but by actual delivery. Furthermore, it stressed that rescission of a contract deemed valid until rescinded does not automatically negate the effects of what would have been considered valid acts if not for the rescission.

Class Notes:

- The case illustrates the importance of actual delivery in the transfer of ownership and the necessity for good faith in contractual dealings.
- Rescissibility of a contract and its effects: A rescissible contract remains valid until formally rescinded by the courts, and parties may be required to return to their original positions pre-contract, including the return of benefits received.
- The principle of res judicata applies to prevent re-litigation of issues already settled by a competent court in a final and executory decision.
- Legal distinction between rescissible contracts and void/voidable contracts, emphasizing the initial validity of the former and the immediate nullity of the latter.

Historical Background:

This case underscores the complexities in the law of contracts, specifically regarding lease agreements with right of first refusal clauses, the sale of leased properties without honoring such rights, and the resultant legal battles for rights restoration, rescission consequences, and entitlements to profits or compensations. It reflects the dynamic interplay between contract law principles and property rights within the Philippine legal context, highlighting the judiciary's role in interpreting and enforcing rights and obligations arising from disputes therein.