

Title: Serrano v. Caguiat (2005)

Facts:

In March 1990, Godofredo Caguiat expressed interest in purchasing a lot in Las Piñas, Metro Manila, from Spouses Onnie Serrano and Amparo Herrera. The agreed price was P1,500 per square meter. Caguiat made a partial payment of P100,000, for which he received a receipt. The receipt outlined an agreement that Caguiat would pay the remaining balance by March 23, 1990, at which point the final deed of sale would be executed. However, on April 4, 1990, the Serranos informed Caguiat of their decision to cancel the transaction and offered to return the earnest money. Dissatisfied, Caguiat filed a complaint with the Regional Trial Court (RTC) of Makati City for specific performance and damages, claiming a perfected contract of sale and seeking completion of the sale. The trial court ruled in favor of Caguiat, a decision affirmed by the Court of Appeals.

Issues:

1. Whether the “Receipt for Partial Payment” constitutes a contract to sell or a contract of sale.
2. The applicability of Article 1482 of the Civil Code regarding earnest money in determining the nature of the contract.

Court’s Decision:

The Supreme Court reversed the decision of the Court of Appeals, holding that the agreement was a contract to sell, not a contract of sale. The Court explained that in a contract to sell, the transfer of ownership from the seller to the buyer is conditional upon full payment of the purchase price, which did not occur in this case. The Court also differentiated between earnest money in a contract of sale, which bespeaks a perfected contract, and earnest money in a contract to sell, which does not automatically imply perfection. Since Caguiat did not fulfill the suspensive condition of paying the full price by the agreed date, the petitioners were within their rights to cancel the transaction.

Doctrine:

This case reiterates the difference between a contract of sale and a contract to sell. In a contract of sale, the ownership of the thing sold is transferred to the buyer upon delivery of the object of the sale. In contrast, a contract to sell is essentially a conditional sale where the transfer of ownership is contingent upon the fulfillment of a suspensive condition, typically the full payment of the purchase price.

Class Notes:

- **Contract of Sale vs. Contract to Sell**: Understand the nature of these agreements, particularly how ownership transfer is handled in each.
- **Contract of Sale**: Ownership passes to the buyer upon delivery.
- **Contract to Sell**: Ownership remains with the seller until the full payment of the price.
- **Earnest Money**: Its role differs between a contract to sell and a contract of sale. In the former, it does not signify a perfected contract but is part of the consideration if the sale goes through.
- **Suspensive Condition**: In contracts to sell, the fulfillment of such a condition (e.g., full payment) is critical for the obligation of the seller to transfer ownership to arise.

Historical Background:

This decision showcases the Philippine Supreme Court's stance on the crucial distinctions between types of contractual agreements concerning the sale and purchase of property. It underscores the importance of the fulfillment of agreed terms for the transfer of ownership and the legal interpretations applied to earnest money within these contexts, resonating with established principles under the Civil Code of the Philippines.