

Title: Parañaque Kings Enterprises, Incorporated vs. Court of Appeals, Catalina L. Santos, Represented by Her Attorney-in-Fact, Luz B. Protacio, and David A. Raymundo

Facts:

The case commenced when Parañaque Kings Enterprises, Incorporated (petitioner) filed a complaint against Catalina L. Santos (respondent) and David A. Raymundo (respondent), alleging violation of a contractual right of “first option or priority to buy” the leased property once Santos decided to sell. The complaint detailed a series of transactions beginning on November 28, 1977, when the property was initially leased, followed by assignments of lease rights, eventually to the petitioner, with the specific provision that the lessee would have the first option to buy should the property be sold. Despite this, Santos sold the property to Raymundo without first offering it to the petitioner, violating the lease agreement’s terms. The complaint alleged further attempts to sell the property to the petitioner at an increased price and concluded with a final sale to Raymundo at a lower price than first offered to the petitioner, without granting the petitioner their contractual right of first refusal.

The Regional Trial Court of Makati dismissed the case for lack of a valid cause of action, a decision affirmed by the Court of Appeals, leading to the petitioner’s appeal to the Supreme Court under Rule 45 of the Rules of Court.

Issues:

1. Does the complaint alleging a breach of the contractual right of “first option or priority to buy” state a valid cause of action?
2. Is the right of first refusal enforceable by an action for specific performance?

Court’s Decision:

The Supreme Court reversed the decisions of the lower courts and held that the complaint did state a valid cause of action for breach of the right of first refusal. The Court recognized the enforceability of the right of first refusal as stipulated in the contract between the parties. It clarified that for full compliance with the right of first refusal, the offer to sell the properties at P9 million (the price sold to Raymundo) should have first been extended to the petitioner. The case was remanded to the Regional Trial Court of Makati for further proceedings, rejecting the procedural issue related to the sufficiency of copies of petitioner’s brief based on equity jurisdiction.

Doctrine:

The principle established is that the basis of the right of the first refusal must be the current offer to sell of the seller or offer to purchase of any prospective buyer. Only after the grantee fails to exercise its right of first priority under the same terms and within the period contemplated can the owner validly offer to sell the property to a third person, again, under the same terms as offered to the grantee.

Class Notes:

- **Cause of Action**: Essential elements are (1) a legal right in favor of the plaintiff, (2) a correlative obligation of the defendant, and (3) an act or omission by the defendant in violation of said legal right.
- **Right of First Refusal**: A contractual right that requires the property owner to offer the property to the holder of the right before selling it to another party. This right is enforceable by specific performance, provided the terms and conditions under which the right must be exercised are clearly stipulated.
- **Presidential Decree No. 1517 (Urban Land Reform Law)**: Not directly applicable if the prerequisites for its implementation are not complied with by the petitioner.
- **Assignment of Lease Rights**: Includes the transfer of all specific rights contained in the lease contract unless specifically excluded.

Historical Background:

The relevance of the case stretches beyond the specific contractual dispute, touching upon broader issues related to real estate transactions, lease agreements, and the rights of lessees in the Philippines. It underscores the importance of the explicit terms of contracts and the legal enforceability of rights such as the right of first refusal, situating the dispute in the broader context of property law practice and jurisprudence in the Philippines.