

Title:

****Oesmer vs. Paraiso Development Corporation: A Case on the Validity and Binding Effect of a Contract to Sell Among Co-Owners****

Facts:

The case involves petitioners, the heirs of Bibiano Oesmer and Encarnacion Durumpili, co-owners of two unregistered parcels of agricultural land in Cavite, who entered into a disputed Contract to Sell with respondent Paraiso Development Corporation, a real estate business. Ernesto Oesmer, one of the heirs, facilitated a meeting with the corporation's President to broker the sale. A Contract to Sell was subsequently drafted and signed by six of the eight siblings, with two abstaining. Despite an initial payment of PHP 100,000 as option money, the petitioners sought to rescind the contract, eventually leading to litigation in the Regional Trial Court (RTC) of Bacoor, Cavite, seeking declaration of nullity or annulment of the contract and damages. The RTC ruled the contract valid only to Ernesto Oesmer's share, prompting an appeal by the respondent to the Court of Appeals, which modified the decision, recognizing the contract's validity over the shares of the six signing siblings and directed the execution of a Deed of Absolute Sale correspondingly.

Issues:

1. Whether the Contract to Sell is binding upon the non-signatory co-owners.
2. Whether the absence of the respondent corporation's signature nullifies the Contract to Sell.
3. The effect of the petitioners' (co-owners') lack of written authorization for Ernesto Oesmer to sell their shares in the properties.
4. The nature and the effect of the PHP 100,000 termed as "option money" in the contract.

Court's Decision:

The Supreme Court denied the petition, affirming the decision of the Court of Appeals.

- It ruled that the Contract to Sell remains valid and binding on the petitioners who signed it, regardless of Ernesto's lack of written authority to sell on behalf of his siblings, as their signatures direct their agreement to sell directly.

- The court found that the contract was not a unilateral promise to sell but a binding agreement, with the partial performance by the respondent acknowledging its obligation.

- It rejected the petitioners' claim that the contract was not understood due to educational limitations, emphasizing the contract's simplicity and the active participation of some petitioners.

- It also clarified that co-owners could indeed sell their shares independently of each other's

consent.

Doctrine:

- The Supreme Court reiterated principles regarding the binding effect of contracts, co-ownership, and authority in sales transactions. Specifically, it highlighted Article 1874 of the Civil Code, requiring written authority for agents to sell real property, and established that co-owners could dispose of their undivided shares without unanimous consent from all co-owners.
- It differentiated between “earnest money” and “option money,” clarifying that the former, as part of the purchase price, indicates a binding agreement to sell.

Class Notes:

- **Article 1874 of the Civil Code** mandates that the authority of an agent to sell a piece of land must be in writing; otherwise, the sale is void.
- **Article 493 of the Civil Code** allows each co-owner full ownership of their part and its fruits, enabling them to alienate, assign, or mortgage it, with the effect of such acts limited to their share upon division after co-ownership ends.
- **Earnest Money vs. Option Money**: Earnest money is a part of the purchase price indicating a binding sale agreement, whereas option money is given for the exclusive right to buy, not obligating the giver to proceed with the purchase.

Historical Background:

This case reflects on the legal intricacies involved in real estate transactions among co-owners in the Philippines, emphasizing the importance of mutual consent, written authority, and the implications of partial performance in validating contracts to sell. It sheds light on how Philippine law navigates the intersection of family-held property rights and the formal requisites of contractual agreements in the context of real estate development.