

### Title:

**\*\*Communities Cagayan, Inc. vs. Spouses Nanol: A Case on the Validity of a Contract and Rights to Improvements on Property\*\***

### Facts:

In 1994, Spouses Arsenio (now deceased) and Angeles Nanol entered into a Contract to Sell with Communities Cagayan, Inc. (formerly Masterplan Properties, Inc.) for a house and two lots in Camella Homes Subdivision, priced at P368,000.00. Declining the in-house financing due to high interest, the Nanols obtained a bank loan, resulting in a simulated sale and title transfer to facilitate loan processing. The bank's collapse derailed the loan release, leading to a second Contract to Sell in 1997 under in-house financing. By 2000, a new three-story house was constructed by Arsenio Nanol. After his death in 2001, Angeles encountered difficulties with monthly payments.

In September 2003, a Notice of Delinquency was issued by Communities Cagayan, escalating to an unlawful detainer action filed in December 2003, which was dismissed upon realizing the titles were already in the Nanols' names. In July 2005, Communities Cagayan initiated a complaint for Cancellation of Title, Recovery of Possession, Reconveyance, and Damages against the Nanols in the RTC of Cagayan de Oro, asserting the title transfer was purely for loan application purposes and citing unpaid amortizations.

Angeles Nanol, in her defense, claimed the Deed of Absolute Sale was valid and disputed the plaintiff's standing, touching off a series of legal maneuverings, including a failed attempt at mediation and a motion for summary judgment by Angeles. Eventually, both parties agreed to submit the case for decision based on existing pleadings and exhibits.

### Issues:

1. Whether the Regional Trial Court (RTC) erred in nullifying the Deed of Absolute Sale and ordering cancellation of the titles due to lack of consideration.
2. Whether the RTC properly applied the law in directing Communities Cagayan, Inc. to reimburse the Nanols for their total monthly installments and the value of the new house, considering alleged bad faith in improving the property.
3. Applicability of the Maceda Law regarding the rights of defaulting buyers in real estate transactions.

### Court's Decision:

The Supreme Court partly granted the petition, validating the RTC's order with

modifications. It emphasized that the Maceda Law should govern the transaction, entitling the Nanols to 50% of their total payments as cash surrender value. Moreover, it recognized the presumption of good faith in the Nanols' improvements on the property, applying Article 448 of the Civil Code despite the contractual relationship.

1. The Court corrected the RTC's procedure in cancellation, underscoring the necessity for notarized notice and refund of cash surrender value as prerequisites.
2. Regarding the improvements, the Court held that the Nanols, presumed builders in good faith, were entitled to reimbursement, assuming costs not opposed by Communities Cagayan and potentially under the subdivision developer's implicit consent.
3. Communities Cagayan was given two options under Article 448: to appropriate the new house by paying its value minus the old house's cost or allow the Nanols to pay current fair value for the lots.

### ### Doctrine:

The case reinforced the Maceda Law's application in installment sales of real estate, clarifying rights to refund and possession under default conditions. It also affirmed the principles under Article 448 of the Civil Code regarding improvements made in good faith on another's land, providing options for compensation or acquisition.

### ### Class Notes:

- **Maceda Law (RA 6552):** Protects buyers of real estate on installment against onerous foreclosure practices, entitling them to either grace periods or refunds depending on the amount already paid.
- **Article 448, Civil Code:** Deals with the rights of landowners and builders in good faith, offering the former the choice to appropriate the building after payment of indemnity or compel the builder to purchase the land or pay rent.
- **Doctrine of Good Faith in Improvements:** Presumption of good faith in the absence of contrary evidence, requiring compensation for improvements when made with the landowner's consent or without opposition.

### ### Historical Background:

This case illustrates the tension between contractual rights and established property law principles, especially in the context of real estate transactions involving installment payments and subsequent improvements on the property. It underscores the Philippine judiciary's effort to balance these interests fairly, guided by both statutory law and equitable considerations.