

Title:

Guzman, Bocaling & Co. vs. Raoul S.V. Bonnevie: A Case on the Right of First Priority to Purchase and Rescission of Sale

Facts:

The case revolves around a property dispute concerning the execution of a lease agreement and a subsequent sale that allegedly breached the lessees' right of first priority to purchase the leased property. The sequence of events began when Raoul S.V. Bonnevie and Christopher Bonnevie entered into a lease agreement with Africa Valdez de Reynoso, administratrix of the Intestate Estate of Jose L. Reynoso, for a property in Malate, Manila. This lease, starting on August 8, 1976, included a clause granting the lessees the first priority to purchase should the lessor decide to sell the property.

Africa Reynoso notified the Bonnevies via a letter dated November 3, 1976, of her intention to sell the property, offering terms for purchase. The Bonnevies, not having received the letter, failed to exercise their first priority right. Reynoso then proceeded to sell the property to Guzman, Bocaling & Co. on March 7, 1977, under terms more favorable than those offered to the Bonnevies. Following failed eviction attempts and ensuing legal battles over rental payments, the Bonnevies filed an action for annulment of the sale to Guzman, Bocaling & Co., alleging a breach of their right of first priority. The legal tussle saw the case move from the City Court of Manila to the Court of First Instance, culminating in an appeal to the Supreme Court after the Court of Appeals favored the Bonnevies.

Issues:

1. Whether the grant of first priority to purchase by the judicial administratrix required probate court authority.
2. Whether the Contract of Sale to Guzman, Bocaling & Co. was voidable or rescissible.
3. If the petitioner, Guzman, Bocaling & Co., could be considered a buyer in bad faith.
4. Whether Reynoso was obliged to execute a deed of sale in favor of the Bonnevies, observing their right of first priority under the lease contract.

Court's Decision:

The Supreme Court denied the petition, affirming the decisions of the lower courts in favor of Raoul Bonnevie. The Court clarified that:

- The grant of first priority to purchase did not require probate court authority as it did not involve alienation of estate property beyond the lease term.
- The contract was rescissible under Articles 1380 to 1381(3) of the Civil Code due to injury

to third persons, in this case, the Bonnevis, who had a substantial interest.

- Guzman, Bocaling & Co. was considered a buyer in bad faith as it had knowledge of the lease and the lessees' occupant status, failing to investigate the terms that directly impacted its purchase.
- The compromise agreement which had set aside the Bonnevis' right to first priority was invalid as the parties agreed to its termination, restoring the original rights under the lease.

Doctrine:

This case reiterates the doctrine of rescission of contracts due to injury to third parties and underlines the obligations between lessors and lessees regarding the right of first priority to purchase. It also emphasizes the requirement for buyers to exercise due diligence and good faith in purchasing properties subject to existing lease agreements.

Class Notes:

- Rescission (Civil Code, Articles 1380-1381(3)): A contract valid at its inception may still be rescinded if it causes injury to third parties.
- Good Faith in Purchases: A purchaser in good faith is one who buys property without notice of any other party's claim or interest in such property and pays a fair price before having notice of another's interest.
- Right of First Priority: Lease agreements may include clauses that give lessees the right of first refusal in case of sale, which must be honored under terms and conditions identical for all interested parties.

Historical Background:

This case reflects the complexities of real estate transactions involving leased properties under Philippine law, particularly the balance of interests between lessors, lessees, and subsequent purchasers. It illustrates the judiciary's role in interpreting contractual clauses related to sale and lease, and underscores the importance of good faith and due diligence in property dealings.