

### Title:

**\*\*Encarnacion Teves vs. The People's Homesite and Housing Corporation, et al.\*\***

### Facts:

In October 1950, Encarnacion Teves and her late husband, Celestino Teves, began occupying a parcel of land in the Diliman Estate Subdivision, Quezon City, known as Lot 9, Block K-70. This property was owned by the People's Homesite and Housing Corporation (PHHC), a government entity. They constructed a residential house valued at P3,250. Unat the time, the area was not intended for subdivision. However, through concerted efforts by the occupants and following negotiations with PHHC's officials, Resolution No. 21, Fiscal Year 1951-52, was adopted on September 19, 1951, thereby allowing the sale of lots to actual occupants.

Celestino Teves was recognized as the occupant and deemed qualified to purchase the lot. However, after his death in March 1957, Encarnacion Teves filed a new application to purchase the lot in her name. Despite her repeated attempts to push her application forward, PHHC officials ignored her requests.

In February 1961, Melisenda L. Santos applied to purchase the same lot, and her application was approved with the influence of an undisclosed politician, leading to the issuance of a Transfer Certificate of Title No. 59796 to Santos. Teves argued that the sale was fraudulent, violated PHHC policies, and was done without her knowledge, depriving her of her legal right to the property.

Upon filing a complaint in the Court of First Instance of Quezon City (Civil Case No. Q-6904), seeking to nullify the sale and the title issued to Santos, the court dismissed the complaint stating Teves had no cause of action since she was not a party to the deed of sale. After a denied motion for reconsideration, Teves appealed directly to the Supreme Court on a question of law.

### Issues:

1. Whether the complaint states a cause of action despite Encarnacion Teves not being a party to the deed of sale.
2. Whether Teves, as a non-contracting party, has the right to challenge the validity of the contract due to her being prejudiced by its execution.

### Court's Decision:

The Supreme Court set aside the lower court's dismissal, ruling in favor of Encarnacion

Teves, finding that the complaint indeed states a cause of action. The Court clarified that a cause of action exists when there is a violation of the plaintiff's right by the defendant. It emphasized that being a non-party to a contract does not preclude someone from challenging its validity, especially if they are prejudiced by it. The Court found that Teves was prejudiced by the deed of sale between PHHC and Melisenda L. Santos, as her preferential right to purchase the lot, established through occupation and pursuant to PHHC's policy, was ignored. Therefore, Teves had a legal interest that was adversely affected, qualifying her to seek annulment of the contracts in question.

### ### Doctrine:

The doctrine established in this case is that a person who is not a party to a contract may nevertheless have the right to challenge its validity if they can demonstrate they have been prejudiced by its execution. This aligns with the broader principle that contracts must be made and executed within the bounds of public policy and in good faith, respecting the rights and interests of third parties.

### ### Class Notes:

#### Key Elements:

- **Cause of Action**: The violation of a legal right, paired with a corresponding obligation on the part of the defendant, and an act or omission by the defendant that violates such right.
- **Third Party Rights**: Legal standing to challenge contracts can extend to those not party to the contract if they can demonstrate prejudice to their rights or interests.
- **Resolution No. 21, Fiscal Year 1951-52**: Policy granting occupants the first chance to purchase lots should be considered in determining legal rights in real estate disputes.
- **Civil Code Provisions**: Articles 19, 21, and 24 (Human Relations) lay the groundwork for considering actions within the realm of justice, fairness, and those prejudicial to another.

### ### Historical Background:

The case underscores the significance of government policies aimed at land distribution and the importance of adhering to procedural fairness in handling applications for such purchases. It highlights tensions between individual rights and public policy objectives within the context of the Philippines' legal framework. The case is set against a backdrop of government efforts to allocate land to rightful occupants, reflecting broader themes of social justice and equity in land distribution practices.