

Title: Ricardo Cheng vs. Ramon B. Genato and Spouses Da Jose, Supreme Court of the Philippines, G.R. No. 130489

Facts:

1. Ramon B. Genato owned two parcels of land in Paradise Farms, San Jose Del Monte, Bulacan.
2. On September 6, 1989, Genato entered into a Contract to Sell with Spouses Ernesto R. Da Jose and Socorro B. Da Jose for P80 per square meter.
  - The Da Jose spouses paid an initial down payment of P50,000.
  - The complete down payment of P950,000 was to be made within 30 days, after further verification of the titles.
3. On October 4, 1989, the Da Jose spouses requested, and were granted, a 30-day extension by Genato to complete the payment.
4. On October 13, 1989, Genato executed an Affidavit to Annul the Contract to Sell due to non-payment within the original deadline but did not immediately annotate it.
5. On October 24, 1989, Ricardo Cheng visited Genato, was shown the affidavit, and expressed interest in buying the land.
  - Cheng issued a check for P50,000 as partial payment.
6. On October 25, 1989, Cheng called Genato reminding him to register the affidavit. The next day, Genato registered the affidavit.
7. On October 27, 1989, Spouses Da Jose discovered the affidavit and protested. They convinced Genato to continue their contract and completed the down payment.
8. Genato informed Cheng of this change and returned his P50,000 check. Cheng refused, claiming they had a perfected contract.
9. On November 2, 1989, Cheng executed an affidavit of adverse claim and had it annotated on the titles.
10. On December 8, 1989, Cheng filed a complaint for specific performance against Genato for the sale execution and damages.

Procedural Posture:

1. The Regional Trial Court (RTC) ruled in favor of Cheng, declaring the contract with the Da Jose spouses rescinded and ordering the sale to Cheng.
2. Genato and the Da Jose spouses appealed to the Court of Appeals (CA).
3. The CA reversed the RTC decision, upholding that the Da Jose Contract to Sell was valid, not rescinded, and that Cheng's contract was invalid and he acted in bad faith.
4. Cheng filed a petition for review with the Supreme Court.

Issues:

1. Whether the Contract to Sell with the Da Jose spouses had been validly rescinded.
2. Whether the agreement between Cheng and Genato constituted a valid and enforceable contract to sell or a conditional contract of sale.
3. Whether Cheng is entitled to damages for specific performance.

Court's Decision:

1. **Validity of Rescission of Contract to Sell with the Da Jose spouses:**
  - The Court held that the rescission of the contract with the Da Jose spouses was invalid since the 30-day extension period had not expired and no default could be ascribed to them.
  - The Court emphasized that the payment was a suspensive condition and there was no breach, only non-fulfillment, which does not necessitate rescission under Article 1191 of the Civil Code.
2. **Nature of Agreement between Cheng and Genato:**
  - The Court found that the agreement between Cheng and Genato was a Contract to Sell, not a conditional contract of sale.
  - The receipt issued to Cheng was for an option-bid deposit, not earnest money, and it was subject to the cancellation of the prior contract with the Da Jose spouses, a condition that was unmet.
3. **Cheng's Entitlement to Damages:**
  - The Court agreed with the CA's finding of bad faith on Cheng's part as he knowingly pursued a deal with the existing Contract to Sell annotated on the titles.
  - It ruled that Cheng's interference with the contractual relations between Genato and the Da Jose spouses, and his subsequent suit for specific performance, justified the damages awarded by the CA.

Doctrine:

- **Suspensive Condition in Contract to Sell:** The obligation to sell and transfer ownership does not arise until the suspensive condition of payment is fulfilled. Failure to meet this condition does not constitute a breach but simply means the contract does not take effect.
- **Double Sale Principle (Article 1544 of the Civil Code):** Holds that ownership is prioritized based on registration in good faith. However, this applies only if the transactions are valid sales, not merely contracts to sell.

Class Notes:

- **Contract to Sell vs. Contract of Sale:** A contract to sell is subject to suspensive conditions, non-fulfillment of which means the seller has no obligation. In contrast, a contract of sale transfers ownership upon agreement.
- **Article 1191, Civil Code:** Establishes the right to rescind reciprocal obligations, but it applies only to breaches of existing obligations, not unmet conditions.
- **Good Faith in Transactions (Article 1544, Civil Code):** Double sales are resolved by registration priority in good faith unless the second buyer knew of the first sale, which taints the registration.

Historical Background:

- The case illustrates longstanding principles in Philippine Contract Law, especially regarding the distinctions between different types of sales agreements and the effect of suspensive conditions. It reinforces market participants' understanding to adhere to fair dealings and prioritize transparency and good faith in executing property transactions.