

****Title:****

San Lorenzo Development Corporation vs. Court of Appeals, Pablo S. Babasanta, Sps. Miguel Lu and Pacita Zavalla Lu

****Facts:****

1. The Spouses Lu owned two parcels of land in Sta. Rosa, Laguna, covered by TCT No. T-39022 and TCT No. T-39023.
2. On August 20, 1986, they allegedly sold this land to Pablo Babasanta for P15.00 per square meter, with a P50,000.00 downpayment evidenced by a memorandum receipt. Subsequent payments brought the total to P200,000.00.
3. In May 1989, Babasanta demanded a final deed of sale, stating he was ready to complete the payment, but learned the properties had been resold.
4. Pacita Lu responded, claiming Babasanta backed out of the sale after asking for a price reduction, and that she had returned the P50,000.00 downpayment.
5. Babasanta filed a Complaint for Specific Performance and Damages on June 2, 1989, at the RTC of San Pedro, Laguna, asserting his right to the properties.
6. The Spouses Lu countered that a loan arrangement converted to a sale, with Babasanta failing to pay the balance despite demands.
7. On January 19, 1990, San Lorenzo Development Corporation (SLDC) intervened, claiming an interest in the property based on a May 3, 1989 deed of sale with mortgage.
8. SLDC alleged it was a good faith buyer, unaware of Babasanta's claims, and presented payments totaling P632,320.00.
9. The RTC upheld SLDC's sale but ordered the Spouses Lu to reimburse Babasanta P200,000.00 with interest plus P50,000.00 in attorney's fees.
10. Babasanta appealed, and the Court of Appeals reversed the RTC decision, declaring Babasanta's sale valid and SLDC's sale void due to bad faith.
11. SLDC filed for reconsideration, which was denied; only SLDC pursued further judicial remedies after the Spouses Lu withdrew.

****Issues:****

1. Whether SLDC was a purchaser in good faith and entitled to the property.
2. Whether Babasanta's agreement constituted a valid and enforceable sale.
3. Application of Article 1544 of the Civil Code on double sales.
4. Significance of the possession and registration of the sale.
5. If SLDC's registration of the sale post-annotation of the notice of lis pendens affected its validity.

Court's Decision:

1. **Good Faith of SLDC:**

- The Court held that SLDC was a buyer in good faith. It noted that the option and eventual sale to SLDC happened without knowledge of Babasanta's claims, constituting good faith at the transaction time.
- Since the Spouses Lu were in possession and held unencumbered titles during SLDC's purchase, SLDC had no reason to suspect an adverse claim.

2. **Validity of Babasanta's Agreement:**

- The Court determined the arrangement between Babasanta and the Spouses Lu was a contract to sell, not a contract of sale. Ownership was not to transfer until the full payment of the purchase price.
- Babasanta's failure to complete payment or formally consign the remaining balance meant the obligation to transfer ownership did not arise.

3. **Application of Article 1544:**

- The primary criteria for resolving double sales under Article 1544 were examined. Since SLDC, despite registering after Babasanta's notice of lis pendens, acted in good faith and took possession first, it had a superior claim.

4. **Significance of Possession and Registration:**

- Constructive and actual delivery of possession occurred before SLDC knew of Babasanta's claims. Since SLDC took possession in good faith and without knowledge of the previous sale, it was favored.

5. **Impact of Notice of Lis Pendens:**

- The notice of lis pendens, filed after SLDC's purchase, did not retroactively affect SLDC's good faith purchase.

Doctrine:

- **Doctrine of Double Sale (Article 1544 of the Civil Code):** In double sales involving immovable property, ownership transfers to the buyer who first registers the sale in good faith. If registration is tainted by bad faith, possession and the earliest title become determining factors.
- **Contract to Sell vs. Contract of Sale:** Ownership in a contract to sell does not transfer until the full payment of the price, unlike a contract of sale where delivery is crucial for transfer of ownership.

****Class Notes:****

Key Elements:

1. ****Double Sale Rules:**** First to register in good faith prevails; if unregistered, first in possession or earliest title in good faith.
 - **** (Art. 1544, Civil Code):**** “Should it be immovable property, the ownership shall belong to the person acquiring it who in good faith first recorded it in the Registry of Property...”
2. ****Contracts Distinction:****
 - ****Contract of Sale:**** Ownership transfers on delivery.
 - ****Contract to Sell:**** Ownership transfers upon full payment.
3. ****Good Faith Principle in Registrations:**** Purchasers relying on registered titles without noted defects or encumbrances are typically protected barring evidence of bad faith.

****Historical Background:****

This case reflects typical issues in property transactions within the Philippine jurisdiction, emphasizing the importance of proper documentation, registration, and the impact of good faith in property disputes. The decision clarifies the legal stance on double sales and supports registered transactions, reinforcing the reliability of the Torrens Title System in the Philippines.