

****Title**:** San Lorenzo Development Corporation vs. Court of Appeals, Pablo S. Babasanta, and Spouses Miguel Lu and Pacita Zavalla Lu

****Facts**:**

The Spouses Miguel and Pacita Zavalla Lu owned two parcels of land in Santa Rosa, Laguna, covered by TCT Nos. T-39022 and T-39023. On August 20, 1986, they supposedly sold these lands to Pablo Babasanta at fifteen pesos per square meter, and Babasanta made down payments totaling P200,000.

In May 1989, Babasanta demanded the final deed of sale and was informed another sale had been made. He filed a Complaint for Specific Performance and Damages against the Spouses Lu at the RTC of San Pedro, Laguna, alleging a failure to execute the deed of sale.

The Spouses Lu, in their Answer, claimed the transactions were loans and later converted into a verbal contract to sell, which Babasanta rescinded in 1987. They later acquired a check for P200,000 to repay Babasanta.

In an Amended Complaint in January 1990, Babasanta included the Register of Deeds as a party and requested a preliminary injunction to prevent further sales.

San Lorenzo Development Corporation (SLDC) filed a Motion for Intervention in January 1990, claiming to have bought the land on May 3, 1989. SLDC asserted it was a buyer in good faith. The RTC granted the motion to intervene and issued a preliminary injunction for Babasanta.

SLDC presented an Option to Buy dated February 11, 1989, and a Deed of Absolute Sale with Mortgage dated May 3, 1989, supporting its claim. The RTC ruled in favor of SLDC, stating it was the first possessor in good faith. Babasanta's appeal to the Court of Appeals argued SLDC was not in good faith and the sale should be upheld in his favor.

The Court of Appeals reversed the RTC decision, ruling that Babasanta had a valid and subsisting sale with the Spouses Lu, and SLDC was in bad faith.

****Issues**:**

1. Whether SLDC was a purchaser in good faith.
2. Whether the sale to Babasanta or SLDC should prevail under Article 1544 of the Civil Code.
3. Whether the agreement between Babasanta and the Spouses Lu was a contract to sell or

a contract of sale.

Court's Decision:

1. **Purchaser in Good Faith:** The Supreme Court ruled SLDC was a purchaser in good faith. SLDC had no knowledge of Babasanta's prior claim when it executed the Deed of Sale. SLDC's possession and payment were made in good faith, and the subsequent notice of lis pendens didn't negate this good faith.
2. **Application of Article 1544:** The Court held Article 1544 did not apply to Babasanta's contract because it was a contract to sell, not a contract of sale. In double sales, the registered or first possessor in good faith prevails. Since Babasanta neither possessed nor registered his claim and SLDC took possession first in good faith, SLDC had the superior right.
3. **Contract Nature:** The Supreme Court determined the agreement between Babasanta and the Spouses Lu was a contract to sell based on the lack of complete payment as a condition for the transfer of ownership. Babasanta's failure to tender full payment and consignment resulted in non-fulfillment of the condition.

Doctrine:

1. **Contract to Sell vs. Contract of Sale:** In a contract to sell, ownership is retained by the vendor until the full payment of the price, and non-payment prevents the obligation of the vendor to convey title from taking effect.
2. **Article 1544 of the Civil Code:** In double sales of immovable property, the registration by a purchaser in good faith confers ownership. Good faith must be maintained from the time of execution until the registration of the deed.

Class Notes:

- **Contract to Sell:** Ownership remains with the seller until full price payment;
- **Article 1544:** Priority given to the earliest registration of ownership in good faith in double sales;
- **Good Faith in Property Transactions:** Defined by absence of knowledge about any claims or defects concerning the property;
- **Consignation:** A legal procedure to tender payment when the creditor unjustly refuses to accept it or prevents the debtor from performing their obligation.

Historical Background:

This decision emphasizes the importance of good faith in property transactions in the

Philippines and underscores the criteria for resolving competing claims in double sales. It clarifies the legal distinctions between different types of property transactions and ensures orderly registration and transfer of property ownership.