

Title

****Riviera Filipina, Inc. vs. Court of Appeals et al., G.R. No. 115349, June 6, 1994****

Facts

1. ****Nov. 23, 1982****: Juan L. Reyes (Reyes) leases a 1,018 sq. m. land along EDSA, Quezon City to Riviera Filipina, Inc. (Riviera) with a clause granting Riviera the right of first refusal if the property is to be sold during the lease term. Reyes later mortgages the property to Prudential Bank.
2. ****Mortgage Default and Foreclosure****: Reyes fails to pay the loan, leading to Prudential Bank foreclosing the property and emerging as the highest bidder. The redemption period expires on March 7, 1989.
3. ****Negotiations****:
 - Reyes offers to sell the property to Riviera for P5,000/sq. m.
 - Riviera counters with P3,500/sq. m. which Reyes declines.
 - Oct. 1988: Riviera increases the offer to P4,000/sq. m. but Reyes insists on P6,000/sq. m.
 - Nov. 2, 1988: Atty. Irineo S. Juan (Reyes' counsel) gives Riviera 10 days to exercise its right of first refusal at P6,000/sq. m.
 - Riviera offers P5,000/sq. m., Reyes declines, proposing P5,300/sq. m.
 - Riviera sticks to P5,000/sq. m.
4. ****Dec. 4, 1988****: Reyes begins discussions with Rolando Traballo of Cypress, who offers P5,300/sq. m. Reyes accepts but Traballo needs a partner.
5. ****Feb. 4, 1989****: Reyes seeks Riviera's interest again, but Riviera maintains its P5,000/sq. m. offer with installment payments.
6. ****May 1, 1989****: Reyes sells the property to Cypress and Cornhill for P5,395,400.00 (P5,300/sq. m.). Cypress and Cornhill mortgage it to Urban Development Bank.
7. ****Complaint****: Riviera files a suit to compel the transfer of the title to Riviera upon its payment of the amount paid by Cypress and Cornhill.
8. ****Trial Court Ruling****: The Regional Trial Court dismisses Riviera's complaint, counterclaims, and cross-claims, holding that Riviera forfeited its right of first refusal by not matching or exceeding the P5,300/sq. m. offered by Cypress and Cornhill.

Issues

1. ****Did Riviera lose its right of first refusal by not matching the P5,300/sq. m. offer?*****
2. ****Was Riviera deceived or misled by Reyes?*****
3. ****Was the Court of Appeals' decision rendered null and void due to the death of Reyes and lack of proper party substitution?*****

Court's Decision

1. **Right of First Refusal**: The Court held Riviera lost its right of first refusal. Reyes negotiated in good faith and offered the property for Riviera's right of first refusal, which Riviera failed to meet by sticking rigidly to its P5,000/sq. m. offer.
2. **Deception Claim**: No substantial evidence showed deception by Reyes. Riviera acted in a manner indicating unwillingness to pay more than P5,000/sq. m., thus forfeiting its right.
3. **Substitution of Parties**: The Court found the proceedings valid. Even though the substitution process was delayed, it complied with procedural requirements, and the case's substantive issues were not affected by Reyes' death.

Doctrine

Right of First Refusal: In contracts granting a right of first refusal, the party holding the right must match the terms of any third-party offer to exercise the right. Failure to do so forfeits that right, and the property may be validly sold to the third party.

Class Notes

- **Right of First Refusal**: Lessee's pre-emptive right to purchase property must be matched to third-party offers.
- **Equity Considerations**: Rigorous adherence to formal terms, showing no willingness to negotiate, may result in forfeiting rights.
- **Substitution of Deceased Party**: Rule 3 of the Civil Procedure prescribes the process and consequences of substitution.

Historical Background

In the 1980s Philippines, real estate values in prime areas such as EDSA, Quezon City, were escalating, leading to intense legal battles over property agreements and sales. The late 20th century saw significant judicial interpretation regarding the rights of lessees with first refusal clauses, accentuated by economic pressures on distressed property owners during mortgage crises. This case clarifies legal obligations and interpretations pertinent to right of first refusal in contracts.