

Title:

Orduña vs. Fuentebella, Marcos Cid, Benjamin Cid, Banta, and Gabriel Jr. (636 Phil. 151)

Facts:

This case revolves around a residential lot located in Baguio City, originally owned by Armando Gabriel, Sr. (Gabriel Sr.). Gabriel Sr. sold the lot to Antonita Orduña (Antonita) in 1996 through an oral agreement, with payments made in installments. Despite the absence of a formal deed of sale, Antonita and her sons Anthony and Dennis Orduña occupied the lot, constructed a house, declared it for tax purposes, and paid real property taxes.

After Gabriel Sr.'s death, his son Gabriel Jr. continued accepting payments from the Orduñas. However, Gabriel Jr. eventually sold the lot to Bernard Banta due to financial troubles and a subsequent loan default, which led to a Deed of Sale dated June 30, 1999. Bernard resold the lot to respondents Marcos and Benjamin Cid, who later conveyed it to Eduardo Fuentebella. Each transfer was registered, and respective titles were issued.

Petitioners sought to annul Eduardo's title, claiming a prior right to purchase and alleging fraud in subsequent sales. Gabriel Jr.'s estranged wife, Teresita, indicated her intent to honor the verbal agreement between Antonita and Gabriel Sr. Petitioners filed a suit for annulment of title, reconveyance, and damages in the RTC.

Procedural Posture:

1. **RTC Decision**: The Regional Trial Court (RTC) dismissed the petitioners' complaint, ruling in favor of the respondents. It held that:
 - Eduardo was a purchaser in good faith under Article 1544 of the Civil Code.
 - The verbal contract of the sale was unenforceable for non-compliance with Articles 1356 and 1358 of the Civil Code.
 - The contract lacked adequate consideration.
 - The right to assail Eduardo's title had prescribed.

Petitioners were ordered to pay damages to the respondents.

2. **CA Decision**: The Court of Appeals (CA) affirmed the RTC's decision on December 4, 2006.
3. **Supreme Court Petition**: Petitioners filed a Petition for Review under Rule 45 asserting errors of law by the CA.

Issues:

1. Whether the sale between Gabriel Sr. and Antonita is unenforceable under the Statute of Frauds.
2. Whether the sale lacked adequate consideration.
3. Whether the action to annul the title has prescribed.
4. Whether the respondents are purchasers in good faith.
5. Whether the lower court correctly awarded damages and attorney's fees to the respondents.

Court's Decision:

The Supreme Court reversed the CA and RTC decisions. The Court held:

1. Statute of Frauds:

The sale between Gabriel Sr. and Antonita, though verbal, is enforceable due to partial execution—payments had been made, petitioners took possession, and Gabriel Jr. acknowledged payments. The contract is outside the scope of the Statute of Frauds since it was partially executed. Article 1403 (2) of the Civil Code applies only to executory contracts.

2. Adequate Consideration:

The sale was found to have adequate consideration. Gabriel Sr. and later Gabriel Jr. accepted payments from petitioners. The agreed price was higher than what Gabriel Jr. later sold the property for, suggesting the consideration was appropriate.

3. Prescription:

The action for reconveyance is imprescriptible as petitioners were in possession of the lot since 1979. An action for annulment based on fraud does not prescribe if the plaintiff is in possession of the property.

4. Purchasers in Good Faith:

Respondents were not purchasers in good faith:

- Gabriel Jr. and subsequent sellers were not in possession of the lot.
- Petitioners had occupied the property since 1979.
- The duty to investigate the rights of those in possession was not fulfilled by Bernard, Marcos and Benjamin, or Eduardo.

5. Award of Damages and Attorney's Fees:

The award of moral and exemplary damages, and attorney's fees to respondents was set aside, as the legal basis no longer existed.

Doctrine:

1. **Statute of Frauds Application**: The statute applies only to executory contracts. Partly executed contracts are excluded (Art. 1403, par. 2).
2. **Good Faith in Purchases**: A buyer of immovable property must investigate the rights of those in possession; failure to do so nullifies claims to good faith.

Class Notes:

- **Statute of Frauds**: Affects only executory contracts; partially executed sales are enforceable.
- **Prescription of Actions**: Reconveyance is imprescriptible if the possessor has never lost possession.
- **Good Faith**: Defined in real property transactions; a purchaser is not in good faith if they fail to investigate the rights of those in possession.

Relevant Statutory Provisions:

- **Article 1544**: Preference rules in double sales.
- **Article 1403**: Contracts encompassing Statute of Frauds.
- **Article 1356, 1358**: Formal requisites for contracts concerning real property.

Historical Background:

This case is set within the historical context of property rights in Baguio City and illustrates common issues in land transactions involving purported verbal agreements, successive sales, and registration of titles. It highlights crucial jurisprudence regarding the application of the Statute of Frauds and the importance of good faith in property purchases.