

MINERVA C. GUERRERO, ET AL., PETITIONERS, VS. COURT OF APPEALS AND NORTHERN THEATRICAL ENTERPRISES, INC., RESPONDENTS.

G.R. No. L-35250. November 29, 1983

Ponente: GUTIERREZ, JR., J.

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GUTIERREZ, JR., J.:

This is a petition for review on certiorari of the respondent Court of Appeals' decision affirming the decision of the Court of First Instance of Ilocos Norte, Second Judicial District which dismissed the petitioners' complaint for reconveyance of real property and/or damages.

Plaintiff Pablo D. Castro filed against the Northern Theatrical Enterprises, Inc., Civil Case No. 3602-III alleging the fraudulent registration of the land in question in the name of La Sociedad Filantropica Progresiva de Laoag and that because the respondent corporation and its predecessors-in-interests obtained their respective titles over the controverted land by means of fraud, they held title to said land in trust for the petitioners.

In its answer, Northern Theatrical Enterprises, Inc., alleged inter alia that - (1) the plaintiffs had long absolutely lost any right to the land in question because of their failure to file their cor-responding claim when the lot was brought under the operation of the Cadastral Law; (2) defendant Northern Theatrical Enterprises, Inc., is an innocent pur-chaser for value; and (3) it had acquired the same by prescription.

The parties submitted to the court below the following stipulation of facts, to wit:

“1. That the land in suit is Lot 9316 of Cadastral Case No. 51, LRC, Cad. Record No. 1212, of the Court of First Instance of Ilocos Norte, and, as des-cribed in the Amended Complaint, has an area of 910 square meters, and is assessed at P4,720.00 as per Tax Nos. 050572 and 59720;

“2. That in the aforementioned Cadastral Case, a certain Ignacio Flores, as 'Presidente de la Sociedad Filantropica Progresiva', filed on November 17, 1933 an answer copy of which is hereto attached as Annex 'I', of this stipulation, in behalf of said association;

“3. That, as the lot in question was an uncontested lot, the Justice of the Peace Court — acted in the hearing of the same and adjudicated said Lot No. 9316 to the 'La Sociedad Filantropica Progresiva de Laoag' in a decision rendered in June, 1934, copy of which is attached as Annex II hereof; on the basis of Decree No. 610127, Original Certifi-cate of Title No. 7019, copy of which is attached as Annex II-A hereof, was issued in the name of 'La Sociedad Filan-tropica Progresiva de Laoag' on November 28, 1936;

“4. That subsequently the afore-named 'Sociedad' was judicially dis-solved in Civil Case No. 3939 of the Court of First Instance of Ilocos Norte; and in the order declaring the society insolvent, Froilan E. Samonte was ap-pointed receiver-liquidator, who, in effect, took custody of the assets and effected the liquidation of the same;

“5. That Lot No. 9316, which was then covered by OCT No. 7019, was sold to a certain Baltazara Pre for the

amount of P5,500.00, and as a consequence, Transfer Certificate of Title No. 600 in the name of said Baltazara Pre was issued on March 7, 1936; subsequently, the defendant Northern Theatrical Enterprises took possession of the entire lot, acquiring it by 'purchase' from the aforementioned Baltazara Pre, and obtained in its name on April 16, 1938, Transfer Certificate of Title No. 606;

"6. That in the year 1939, the defendant corporation constructed on the lot in question a concrete three-storey building; since the construction of the building, which occupies the entire lot, the defendant had been occupying it, leasing the spaces thereof, except that used by the Life Theater, to different entities, among which are the Concepcion Drug Store, the Ilocos Hardware, the People's Bazar, the Fonacier Engineering and Electrical Office, the Corporate Offices of the People's Mutual Fund Branch, the DZJC Radio Station, at one time or another, and using the rear portion as ice bodega of the Laoag Electric Company; that, as alleged in Paragraph 24 of the Amended Complaint, the defendant entity has been in 'the exclusive possession and enjoyment of the rents of the lot in question... since May, 1939, up to the present;

"7. That the parties herein agree as to the personal circumstances of the plaintiffs as set forth in the Amended Complaint, as well as on the relationship of said plaintiffs to the late ANDRES CASTRO who married twice; his wife in the first marriage, which was dissolved by her death, was Alejandra Madamba, while his wife in the second marriage was Modesta Dancel: all the heirs of the late Andres Castro and Alejandra Madamba as well as of Modesta Dancel, who had interest in the lot did not file any answer to the lot in question; the plaintiff Pablo D. Castro, the only original plaintiff in this case, was absent from Ilocos Norte, his absence dating as early as 1908, up to the later part of 1957, and that he obtained the age of majority on January 15, 1912, he having been born on January 15, 1891;

"8. That the parties are at liberty to present as their documentary evidence copies of such titles and documents as are referred to in the preceding paragraphs of this stipulation of facts, save those which are already attached; and, further, to adduce evidence on such issues as are not covered by this agreed statement of facts."

In addition to the above stipulation of facts, the plaintiffs also adduced the following evidence:

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"x x x that the lot in question originally belonged to the late Andres Castro and his deceased first wife Alejandra Madamba; that out of this marital union two children were born, Esteban and Clara; that after the death of Alejandra Madamba some-time in 1891, Andres Castro became the sole owner and possessor of the said land; that sometime afterwards, Andres Castro married his second wife, with whom he begot six children, namely, Pablo, Alfredo, Mercedes, Jose, Sabas and Andres, who died earlier; that after the death of Andres Castro on August 15, 1902, his widow Modesta Dancel initiated before the Court of First Instance of Ilocos Norte Sp. Proc. No. 420 to settle the intestate estate of the said decedent; that one of the incidents of this special proceeding was the project of partition prepared and submitted to the court below by Modesta Dancel, in representation as the duly appointed guardian of her minor children, and Esteban Castro and Clara Castro, children of Andres Castro with his first wife, who were both of majority age, which project of partition was approved by the court; that among the properties that the heirs of Andres Castro adjudicated to themselves was Lot 9316, the land now in dispute; that when Pablo Castro left Ilocos Norte in 1908, his brothers and sisters, both of the full and half blood were living in a house adjacent to the lot in question; that at that time a concrete building was already existing on the said land in dispute which was being rented by a Chinese; that in 1920, a strong typhoon destroyed the roof of that building and because the heirs of Andres Castro had no money, the 'Sociedad Filantropica Progresiva' volunteered to rehabilitate the building after which it occupied the same as lessee thereof, paying rentals to the heirs of Andres Castro; that later on, Esteban Castro sold his undivided share in the said building consisting of 11/36 of its entire value to the Sociedad as shown in Exhibit 'G'; that Pablo Castro returned to Ilocos Norte in 1957 and in June 1959, he discovered what happened with Lot 9316; and that on account of this, he undertook the necessary steps to recover his share therein, which culminated in his commencement of the present court suit." (Decision, pp. 7-8; Rollo, pp. 46-47)

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Respondent Northern Theatrical Enterprises, Inc., accepts the foregoing summary as substantially correct but adds that:

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"x x x when plaintiff Pablo Castro left Ilocos Norte in 1908, a number of his relatives, who lived not far from the site of the land now in dispute, remained in Laoag and these relatives, particularly his brothers and sisters, could have protected Pablo's interest, as well as theirs if they had any, when the Sociedad Filantropica Progresiva claimed the lot in question during the cadastral proceeding but not one of the children or other descendants of Andres Castro appeared in the cadastral court to claim any interest in the lot in question; that when the defendant acquired the land in question and constructed the present building existing thereon nobody opposed against the said construction; that plaintiff Pablo Castro, a man of varied talents and well traveled, never bothered to know what happened to the controverted land except in June 1959," (Decision, p. 9; Rollo, p. 48)

As earlier stated, the lower court rendered a decision dismissing the complaint. The dispositive portion of the decision reads:

WHEREFORE, the Court hereby renders judgment dismissing plaintiffs' complaint, and on the defendant's counterclaim, and under paragraph 4 of Article 2208 of the Civil Code, the plaintiffs are ordered to pay to the defendant, jointly and severally, the sum of P1,000.00 for and as attorney's fees

"Costs against the plaintiffs."

In due course, the petitioners appealed to the Court of Appeals which affirmed in toto the decision of the lower court.

The petitioners now raise the following assignments of errors in this petition for review:

I

"THE COURT OF APPEALS ERRED IN CONCLUDING THAT UNDER THE PLEADINGS OF THE PARTIES AND THE PROVEN FACTS OF THE CASE, PETITIONERS' ACTION FOR THE RECONVEYANCE OF THE PROPERTY IN QUESTION IS BARRED BY LACHES ON THE PART OF PETITIONERS. (Note: The question as to whether or not the conclusion drawn by the Court of Appeals from proven facts is correct, is a question of law [Cunanan v. Lazatin, 74 Phil 719]),

II

THE COURT OF APPEALS ERRED IN RULING THAT, UNDER THE FACTS FOUND AND STATED IN ITS DECISION, THE SALE OF THE PROPERTY TO RESPONDENT CORPORATION IS NOT FRAUDULENT, SIMULATED AND FICTITIOUS.

III

THE COURT OF APPEALS ERRED IN RULING THAT, UNDER THE FACTS FOUND AND STATED IN ITS DECISION, RESPONDENT IS A PURCHASER IN GOOD FAITH AND FOR VALUE.

IV

THE COURT OF APPEALS ERRED IN NOT DISREGARDING THE CORPORATE PERSONALITY OF DEFENDANT CONSIDERING THE FACTS AS STATED IN ITS DECISION.

Relative to the first assignment of error, petitioners argue that it was only in June 1959 that they discovered for the first time the fraudulent manner by which the respondent corporation and its predecessors-in-interests registered and obtained title over the land in question and that soon after the discovery of the fraudulent registration Pablo Castro immediately asked the respondent for the reconveyance of the property and when his demand was refused, the complaint for reconveyance was filed within a period of only three years from the discovery of the fraud.

Respondent on the other hand argues that a final judgment in a cadastral proceeding, a proceeding in rem — is binding and conclusive upon the whole world, and that public policy and public order demand not only that litigations must terminate at some definite period but also that titles over lands under the torrens system should be given stability for on them greatly depends the stability of the country's economy; that being a proceeding in rem, the title issued pursuant thereto, after the lapse of one year cannot be attacked by a person of age or of absence or because of his own laches or negligence; and that assuming arguendo that a constructive trust was created, still the action to enforce the same prescribed, ten years after the issuance of the title in 1936.

We agree with the respondent.

Petitioners overlook the settled rule that an action to enforce an implied trust may be barred not only by prescription for ten (10) years but also by laches. In *Perez v. Ong Chua* (116 SCRA 732) we held that:

"x x x in a constructive trust, which is exclusively created by law, laches constitutes the bar to an action to enforce the trust, and repudiation is not required, unless there is concealment of the facts giving rise to the trust. Thus, in *Mejia de Lucas v. Gampona* this Court held that while a person may not acquire title to a registered property through continuing adverse possession in derogation of the title of the original registered owner, nevertheless, such owner or his heirs, by their inaction and neglect over a long period of time, may lose the right to recover the possession of the property and the title thereto from the defendants."

In *Rafols v. Barba* (119 SCRA 146) and *Yusingco v. Ong Hing Lian* (42 SCRA 589), this Court spelled out the four elements of the equitable defense of laches, to wit:

"x x x (1) conduct on the part of the defendant, or one under whom he claims, giving rise to the situation that led to the complaint and for which the complaint seeks a remedy; (2) delay in asserting the complainant's rights, the complainant having had knowledge or notice of the defendant's conduct and having been afforded an opportunity to institute a suit; (3) lack of knowledge or notice on the part of the defendant that the complainant would assert the right on which he bases his suit; and (4) injury or prejudice to the defendant in the event relief is accorded to the complainant or the suit is not held barred."

In the case at bar, these four elements are present. After the lot was adjudicated by the cadastral court to the La Sociedad Filantropica Progresiva de Laoag in June 1934, which obtained Original Certificate of Title in its name and after the La Sociedad was dissolved, the property was sold to Baltazara Pre for P5,500.00. As a consequence, Transfer Certificate of Title No. 600 in the name of Baltazara Pre was issued on March 7, 1936. Subsequently, the respondent Northern Theatrical Enterprises, Inc. took possession of the entire lot, having acquired it by purchase from Baltazara Pre for P10,000.00, and obtained Transfer Certificate of Title No. 608 in its name on April 16, 1938.

The brothers and sisters, both full blood and half blood of Pablo Castro lived in a house adjacent to the disputed

property. The petitioners allowed twenty-four (24) years from the issuance of Transfer Certificate of Title No. 608 in the name of the respondent corporation and twenty-eight years from the cadastral decision to lapse before taking any remedial action despite knowledge and notice of such sale. They watched while a building was constructed by the respondent corporation on their supposed lot. They had all the opportunity within that period of time to take action to set aside or annul the sale in favor of the respondent. The respondent was never appraised of any intention on the part of the petitioners to annul the sale until this action was filed. Because of the heirs' inaction during this entire period, and relying on the title based on the court's decision, the respondent was made to feel secure in its belief that there were no flaws in its acquisition of the lot in question. It was thus induced to spend time and money in introducing improvements and paying taxes thereon. Finally, the respondent corporation stands to lose the property in question if the suit filed against it by the petitioners shall not be deemed barred.

It is well-settled that the negligence or omission to assert a right within a reasonable time warrants not only a presumption that the party entitled to assert it either had abandoned it or declined to assert it (*Heirs of Pedro Guminpin v. Court of Appeals*, 120 SCRA 687) but also casts doubt on the validity of the claim of ownership (*Masagandanga v. Argamora*, 109 SCRA 53). Such neglect to assert a right taken in conjunction with the lapse of time, more or less great, and other circumstances causing prejudice to the adverse party, operates as a bar in a court of equity. (*Heirs of Pedro Guminpin v. Court of Appeals*, supra).

Furthermore, an action for reconveyance of real property resulting from fraud may be barred by the statute of limitations, which requires that the action shall be filed within four (4) years from the discovery of the fraud (*Balbin v. Medalla*, 108 SCRA 666; *Alarcon v. Bidin*, 120 SCRA 390). Under the circumstances of this case, such discovery must be deemed to have taken place when the respondent was issued Transfer Certificate of Title No. 608 on April 16, 1938 because the registration of the deed of sale is considered a constructive notice to the whole world of its contents, and all interests, legal and equitable, included therein. (*Ramos v. Court of Appeals*, 112 SCRA 542). The petitioners waited more than twenty-four (24) years from the date of the issuance of the transfer certificate of title.

As will be pointed out later, the petitioners failed to sustain their allegations that Northern Theatrical Enterprises, Inc. perpetuated fraud in having the title registered in its name. But granting *arguendo* that fraud was committed and an implied trust was created, the petitioners' action for the reconveyance of the land would still have prescribed. It is settled that an action for the reconveyance of land based on implied trust prescribes within ten (10) years.

In *Amansec v. Melendez* (98 SCRA 639), quoting *Gerona v. De Guzman* (11 SCRA 153), and *Dela Cerna v. Dela Cerna*, (72 SCRA 514), this Court held that:

"It is idle to bother as to whether the action here is one founded exclusively on fraud which prescribes in four (4) years or one based on constructive trust which is barred after ten years, there being no question that the appellees secured their title more than twenty years before the filing of the complaint, and it is from the date of the issuance of such title that the effective assertion of adverse title for purposes of the statute of limitations is counted. (*Gerona v. De Guzman*, 11 SCRA 153). (*De la Cerna v. De la Cerna*, 72 SCRA 514, 518.)"

In their second and third assignments of errors, the petitioners argue that the respondent corporation acquired the property in bad faith and without true and valuable consideration.

The petitioners argue that the sale of the lot by the sociedad to Baltazara Pre, an elder half-blood sister of one of the biggest sociedad stockholders was a clear badge of fraud. The petitioners point out that Pre, who purchased the lot for P5,500.00 was able to sell it to the respondent corporation for P10,000.00 worth of stocks only over one month later. We agree with the trial court and the appellate court that there is nothing unusual in these

transactions. The sociedad had been judicially dissolved and a receiver-liquidator was appointed by the court to liquidate its assets. Pre had faith in the respondent corporation and wanted to be a stockholder therein. The payment in shares of stocks does not make the sale fictitious or simulated. The deed of sale from Pre to the respondent corporation is a notarized document wherein the vendee solemnly acknowledged that she received P10,000.00 as consideration for the sale of the lot. The courts cannot disregard, much less contradict, this recital on the basis of the petitioners' speculative assertions.

Relative to the fourth assignment of error, the petitioners argue that since the members and stock-holders of the "Sociedad" were practically and substantially the same individuals as the incorporators and stockholders of the respondent corporation, the Court of Appeals erred in refusing to "pierce the veil of corporate fiction" which shielded the respondent corporation from the effects of the fraud committed upon petitioners.

The Sociedad was judicially dissolved in Civil Case No. 3939. Justice of the Peace Froilan Samonte was appointed to take custody of the society's assets and to effect their liquidation. The sale of the lot to Pre was pursuant to orders of the court. Some of the members of the Sociedad decided to group together in a new corporation. The corporation bought the lot from Pre. The petitioners fail to show how, under such circumstances, the veil of corporate fiction must be pierced to show fraud in the sale of the lot by the registered owner to Pre and by Pre to the respondent corporation.

It is true that the privilege of being treated as an entity distinct and separate from the stock-holders is confined to legitimate purposes and is subject to certain limitations to prevent its being used for fraudulent purposes. The preponderance of evidence in this case, however, shows that the respondent corporation and its predecessors-in-interest did not commit any fraud or act in bad faith in the acquisition of the disputed land. Therefore, there is no legal ground to pierce the veil of respondent corporation's personality.

WHEREFORE, the instant petition is DISMISSED for lack of merit. The decision of the Court of Appeals is AFFIRMED with costs against the petitioners.

SO ORDERED.

Teehankee, (Chairman), Melencio-Herrera, Plana, and Relova, JJ., concur.

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