

MANOTOK REALTY, INC., PETITIONER, VS. THE HON. COURT OF APPEALS AND FELIPE CARILLO, RESPONDENTS.

G.R. No. L-39044. January 31, 1985

Ponente: GUTIERREZ, JR., J.

Read online (full-text search, related cases, audio case brief): <https://batas.org/library/d4b2d5f6d668/>

GUTIERREZ, JR., J.:

In this petition for review, the petitioner asks that we reverse the decision of the Court of Appeals, now the Intermediate Appellate Court, which declared respondent Felipe Carillo a builder in good faith with the right to remain in the questioned premises, free of rent, until reimbursed by the petitioner for the necessary and useful expenses introduced on the land.

The dispositive portion of the Court of Appeals decision reads:

"WHEREFORE, the appealed judgment is hereby modified in the sense that the appellant being a builder in good faith is entitled to the right of retention of the lot introduced thereon, and he is not liable to pay rentals for the occupation thereof pending payment of the indemnity for such improvements. In all other respects, the appealed judgment is affirmed, without pronouncement as to costs."

The background facts of the case are found in the decision of the respondent court as follows:

"There is no dispute that herein appellee is the registered owner of a parcel of land covered by Tax Declaration Nos. 2455 and 2456 issued by the City Assessor's Office of Manila with a total assessed value of P3,059,180.00 and by TCT 55125 (Exh. A) and TCT No. 76130 of the Register of Deeds of the City of Manila. It acquired the aforementioned property from the Testate Estate of Clara Tambunting de Legarda, being the highest bidder in a sale conducted by the Probate Court (Exhs. C-7 & C-7-A).

"After having acquired said property, the appellee subdivided it, but could not take possession thereof because the whole area is occupied by several houses among which is the one belonging to the herein appellant Felipe Carillo, Lot 143, Block 2 of the subdivision plan (Exh. A-4 Carillo).

"Demands to vacate and to surrender possession of the property were made by the appellee verbally and by publication (Exhs. D, D-1 & D-2) and by circulars served to the appellant. In spite of such demands, the appellant continued to occupy the disputed lot and refused to surrender possession thereof to the appellee.

"On the other hand, appellant's evidence tends to show that he acquired the lot in dispute from a certain Delfin Dayrit on September 25, 1962, pursuant to a deed of assignment (Exh. 1-Carillo); that Dayrit in turn had acquired the property from the late Clara Tambunting by virtue of a Contract of Sale on Installment Basis (Exh. 2-Carillo); that Dayrit had religiously paid the monthly installments as they fell due, his last payment being on May 25, 1954, in the sum of P200.00, then leaving an unpaid balance of P1,306.00 when the said parcel was conveyed to defendant Carillo, for which receipts were duly issued (Exhs. 3-Carillo to 24--Carillo); that Dayrit could not continue paying the succeeding installments as they fell due because Vicente Legarda, the surviving spouse of Clara Tambunting, refused to receive any payment for the same and that it was only lately, more specifically on September 25, 1962, when Dayrit conveyed the lot to appellant Carillo."

After the petitioner failed in its attempts to take possession of the lot, it filed the reivindicatory action against the respondent.

The trial court decided the case in favor of the petitioner. The dispositive portion of its decision reads:

"In Civil Case No. 64578:

"(1) Ordering defendant Felipe Carillo to vacate and/or surrender possession to plaintiff Manotok Realty Inc. of the parcel of land subject matter of the complaint described in paragraph 2 thereof;

"(2) To pay plaintiff the sum of P75.50 per month from January 21, 1961 up to the time he actually surrenders possession of the said parcel to the plaintiff; and

"(3) To pay plaintiff the sum of P1,000.00 as attorney's fees and to pay costs."

On August 15, 1984, we required the parties to show whether or not the disputed lot falls within the area expropriated under P. D. No. 1669 and P. D. No. 1670. It appears that the expropriated portion of the Tambunting Estate is the area located at the east side adjacent to the Chinese Cemetery. The lot is on the unexpropriated and mainly commercial portion on the west side, across from Rizal Avenue.

In this petition, the petitioner maintains that the appellate court erred in considering the respondent a possessor and builder in good faith. It argues that at the time of the execution of the deed of assignment in favor of the respondent, the land was already registered in its name; and that if the respondent were really acting in good faith, he should have verified from the Register of Deeds of Manila who was the registered owner of the land in question.

We agree.

A possessor in good faith is one who is not aware that there exists in his title or mode of acquisition any flaw which invalidates it. (*Caram v. Laureta*, 103 SCRA 7, Art. 526, Civil Code). One who acquires real estate with knowledge of a defect or lack of title in his vendor cannot claim that he has acquired title thereto in good faith as against the true owner of the land or of an interest therein; and the same rule must be applied to one who has knowledge of facts which should put a reasonable man upon his guard, and then claims that he acted in good faith under the belief that there was no defect in the title of the vendor. (See *Leung Yee v. F.L. Strong Machinery Co.*, 37 Phil. 644).

The records show that when Dayrit executed the deed of assignment in favor of the respondent, the disputed lot was already registered and titled in the name of the petitioner. Such an act of registration served as a constructive notice to the whole world and the title issued in favor of petitioner made his ownership conclusive upon and against all persons including Dayrit and herein respondent, although no personal notice was served on either of the latter. (See *Garcia v. Bello*, 13 SCRA 769; *Demontano v. Court of Appeals*, 81 SCRA 286). Therefore, the presumption of good faith in favor of the respondent cannot apply because as far as the law is concerned, he had notice of the ownership by the petitioner over said lot. It is also unthinkable that in the big Tambunting Estate beset with one of the most serious squatter problems in Metro Manila, any tenant or prospective buyer would be unaware that the petitioner acquired the estate as highest bidder at the sale ordered by the probate court. Furthermore, the respondent did not even bother to inquire about the certificate of title covering the lot in question to verify who was the real owner thereof, despite the fact that his transferor, Dayrit, never showed him any title thereto; a circumstance which should have put him upon such inquiry or investigation. His failure to exercise that measure of precaution which was reasonably required of a prudent man in order to acquaint him with the defects in the title of his vendor precludes him from claiming possession in good faith.

We agree with the following observations of Justice Guillermo S. Santos in his separate concurring and dissenting

opinion:

"The issue now is whether appellant may be considered as a possessor in good faith of the property in question. Article 256 of the Civil Code defines a possessor in good faith as one who is not aware that there exists in his title or mode of acquisition any flaw which invalidates it.

"In this case, it was shown that under the contract of sale on installment basis, Delfin Dayrit had only paid a total of P4,917.30, leaving an unpaid balance of P3,860.20 as of August 9, 1954 (Dec. RA, p. 43). The said contract specifically provides that ' . . . if for some reason or other the purchaser cannot pay a certain installment on the date agreed upon, it is hereby agreed that said purchaser will be given a maximum limit of two months' grace in which to pay his arrears, after which the property will revert to the original owner hereof: the Clara Tambunting Subdivision, No. 50 Reina Regente St., Binondo, Manila, P.I.' The subsequent installment after August 9, 1954, not having been paid, the property, therefore, reverted to Clara Tambunting and therefore formed part of her estate, which was subsequently acquired by appellee. Thus, when appellant purchased the parcel of land in question from Dayrit on August 25, 1962--or eight (8) years after the default--the latter had no more right over the same.

"It was incumbent on appellant to inquire into the title of his vendor over the property. Had appellant demanded from his vendor, Dayrit, the certificate of his ownership of the property subject of the negotiation, he would have learned that the latter had no right, much less, title over the same because of his default in the payment of the monthly installments. A purchaser cannot close his eyes to facts which should put a reasonable man upon his guard and then claim that he acted in good faith under the belief that there was no defect in the title of the vendor (*Leung Yee v. Strong Machinery Co.*, 37 Phil. 644). Consequently, appellant cannot be deemed a possessor in good faith and is not, therefore, entitled to reimbursement for the improvements he had introduced in the property in question."

No installments and rentals have been paid for the lot since 1954 or for more than thirty (30) years. While Dayrit transferred to Carillo whatever rights he may have had to the lot and its improvements on September 25, 1962, the claim for back rentals was from March 20, 1959 while the trial court ordered payment as of January 21, 1961 or twenty four (24) years ago. Considering the facts, applicable law, and equities of this case, the decision of the trial court appears to be correct and is, therefore, reinstated.

WHEREFORE, the questioned decision of the Court of Appeals is hereby SET ASIDE and another one is entered AFFIRMING in toto the decision of the Court of First Instance of Manila in Civil Case No. 64578.

SO ORDERED.

Teehankee, Acting C.J., (Chairman), Melencio-Herrera, Plana, Relova, and De la Fuente, JJ., concur.
Alampay, J., no part.

ABOUT BATAS.ORG

Study smarter at BATAS.org

The Philippine bar review and law-school companion built around how your brain actually remembers.

The complete Philippine law library - free for everyone.

More than 100,000 Supreme Court decisions, Republic Acts, and executive issuances - full-text searchable, browsable by category and year, and always free. No paywall, no login. This PDF came from it.

Audio case-brief lectures.

Any decision becomes a podcast-style lecture - facts, issues, ruling, and doctrine - with read-along highlighting and a hands-free presentation mode. Study while commuting, working out, or resting your eyes.

Bar review built on the science of memory.

Complete, sequenced courses for all eight bar subjects, narrated like podcasts and reinforced with retrieval practice and spaced review - the study techniques with the strongest evidence behind them.

The full law-school curriculum.

One subscription unlocks the entire J.D. curriculum - every subject, every lesson, with your progress tracked down to the paragraph so you can pick up exactly where you left off, on any device.

Mock exams that tell you where you stand.

Timed multiple-choice exams graded instantly, with per-subject score breakdowns and focus suggestions that point you at your weakest topics first.

A study planner that keeps you on pace.

Set your schedule and BATAS tells you every day whether you are on track for bar day - and exactly which lesson to take next.

Start free at <https://batas.org>

The law library is free forever - and your first lesson is one click away.

The text of this document is an official public record and remains in the public domain. Formatting, presentation, and compilation © 2026 batas.org.

Downloaded free from the batas.org Law Library. Share it freely - the library is free for every law student, bar reviewee, and practitioner.