

MANOLO P. SAMSON, PETITIONER, VS. COURT OF APPEALS, SANTOS & SONS, INC., AND ANGEL SANTOS, RESPONDENTS.

G.R. No. 108245. November 25, 1994

Ponente: PUNO, J.

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PUNO, J.:

Petitioner MANOLO P. SAMSON prays for the reversal of the Decision of the Court of Appeals, dated November 27, 1992,[1] modifying the decision of the Regional Trial Court of Pasig, Branch 157, dated November 29, 1990, and absolving private respondent Angel Santos from liability for the damages sustained by petitioner.

The antecedent facts, as borne by the records, are as follows:

The subject matter of this case is a commercial unit at the Madrigal Building, located at Claro M. Recto Avenue, Sta. Cruz, Manila. The building is owned by Susana Realty Corporation and the subject premises was leased to private respondent Angel Santos. The lessee's haberdashery store, Santos & Sons, Inc., occupied the premises for almost twenty (20) years on a yearly basis.[2] Thus, the lease contract in force between the parties in the year 1983 provided that the term of the lease shall be one (1) year, starting on August 1, 1983 until July 31, 1984.[3]

On June 28, 1984, the lessor Susana Realty Corporation, through its representative Mr. Jes Gal R. Sarmiento, Jr., informed respondents that the lease contract which was to expire on July 31, 1984 would not be renewed.[4]

Nonetheless, private respondent's lease contract was extended until December 31, 1984.[5] Private respondent also continued to occupy the leased premises beyond the extended term.

On February 5, 1985, private respondent received a letter[6] from the lessor, through its Real Estate Accountant Jane F. Bartolome, informing him of the increase in rentals, retroactive to January 1985, pending renewal of his contract until the arrival of Ms. Ma. Rosa Madrigal (one of the owners of Susana Realty).

Four days later or on February 9, 1985, petitioner Manolo Samson saw private respondent in the latter's house and offered to buy the store of Santos & Sons and his right to lease the subject premises.[7] Petitioner was advised to return after a week.

On February 15, 1985, petitioner returned to private respondent's house to confirm his offer. On said occasion, private respondent presented petitioner with a letter containing his counter proposal, thus:

"MANOLO SAMSON

Marikina, Metro Manila

Sir:

In line with our negotiation to sell our rights in the Madrigal building at Recto, Rizal Avenue, I propose the following:

1. The lease contract between Santos and Sons, Inc. and Madrigal was impliedly renewed. It will be formally

renewed this monthly (sic) when Tanya Madrigal arrives.

2. To avoid breach of contract with Madrigal, I suggest that you acquire all our shares in Santos and Sons, Inc.

3. I will answer and pay all obligations of Santos and Sons, Inc. as of February 28, 1985.

Very truly yours,

Angel C. Santos"

Petitioner affixed his signature on the letter-proposal signifying his acceptance.[8] They agreed that the consideration for the sale of the store and leasehold right of Santos & Sons, Inc. shall be P300,000.00.

On February 20, 1985, petitioner paid P150,000.00 to private respondent representing the value of existing improvements in the Santos & Sons store. The parties agreed that the balance of P150,000.00 shall be paid upon the formal renewal of the lease contract between private respondent and Susana Realty. It was also a condition precedent to the transfer of the leasehold right of private respondent to petitioner.[9]

In March 1985, petitioner began to occupy the Santos & Sons store. He utilized the store for the sale of his own goods.[10]

All went well for a few months. In July 1985, however, petitioner received a notice from Susana Realty, addressed to Santos & Sons, Inc., directing the latter to vacate the leased premises on or before July 15, 1985.[11] Private respondent failed to renew his lease over the premises and petitioner was forced to vacate the same on July 16, 1985.

Petitioner then filed an action for damages against private respondent. He imputed fraud and bad faith against private respondent when the latter stated in his letter-proposal that his lease contract with Susana Realty has been impliedly renewed. Petitioner claimed that this misrepresentation induced him to purchase the store of Santos & Sons and the leasehold right of private respondent.

In defense, respondent alleged that their agreement was to the effect that the consideration for the sale was P300,000.00, broken down as follows: P150,000.00 shall be for the improvements in the store, and the balance of P150,000.00 shall be for the sale of the leasehold right of Santos & Sons over the subject premises. The balance shall be paid only after the formal renewal of the lease contract and its actual transfer to petitioner.

Trial on the merits ensued. On November 29, 1990, the trial court rendered a decision[12] in favor of petitioner. The dispositive portion reads:

"WHEREFORE, AND IN VIEW OF ALL THE FOREGOING, judgment is hereby rendered in favor of plaintiff Manolo P. Samson and against defendants Santos and Sons, Inc., and Angel C. Santos, ordering the said defendants to pay jointly and severally unto the plaintiff:

"1. The sum of P150,000.00, representing the cash advance payment for the store and the right to occupy its leased premises subject matter of the sale involved; with interest thereon at the legal rate from the filing of the complaint on November 5, 1985 until the same is fully paid;

"2. The sum of P70,000.00 representing the cost of additional improvements of the store sold, also with legal interest from November 5, 1985 until the full payment thereof;

"3. The sum of P150,000.00, representing the loss that the plaintiff suffered from the sale at bargain prices of the goods taken out of the store, with legal interest thereon from the (d)ate of this decision until the same is fully paid;

“4. The sum of P100,000.00 representing the profits which plaintiff failed to realize from the sale of the goods referred to above, with legal interest thereon from the date of the decision until said amount is fully paid;

“5. The amounts of P100,000.00 and P50,000.00 as moral and exemplary damages, respectively, also with legal interest thereon, from the date of this judgment until fully paid; and

“6. The sum of P45,000.00 as and for attorney’s fees and expenses of litigation, in addition to judicial costs.

"On the defendants' counterclaim, the plaintiff is ordered to return to the defendants the latter's steel filing cabinet, adding machine, typewriter and all its unused sales invoices, receipts and blank checks, if the plaintiff still has any of the said papers or documents.

"SO ORDERED." [13]

Private respondent appealed to the Court of Appeals. In a Decision dated November 27, 1992, [14] the appellate court modified the decision of the trial court after finding that private respondent did not exercise fraud or bad faith in its dealings with petitioner. The dispositive portion of the impugned decision reads:

"WHEREFORE, the appealed decision is hereby MODIFIED by reducing the amounts the trial court awarded to appellee Manolo P. Samson in that appellants Santos & Sons, Inc. and Angel C. Santos are ordered to pay appellee, by way of reimbursement, the P150,000.00 which the latter gave appellants as advance payment for their store and lease right with legal interest to be reckoned from the promulgation date of this decision; and AFFIRMED with respect to the trial court's judgment ordering appellee to return to appellants the latter's filing cabinet, adding machine, typewriter, and all their unused sales invoices, receipts and blank checks, if appellee still has any of these documents. No costs.

"SO ORDERED." [15]

Hence this petition for review with the following assigned errors:

I

WHETHER OR NOT THE COURT OF APPEALS ERRED IN DISREGARDING THE FOLLOWING FACTUAL FINDINGS OF THE TRIAL COURT:

1. THAT RESPONDENTS DELIBERATELY AND FRAUDULENTLY CONCEALED FROM THE PETITIONER THE FACT THAT THE LEASE ON THE SUBJECT STORE PREMISES HAD ALREADY EXPIRED AND WOULD NO LONGER BE RENEWED BY THE LESSOR.
2. THAT SOLELY BY REASON OF RESPONDENTS' FRAUDULENT CONDUCT AND BAD FAITH, PETITIONER EXERCISING THE DILIGENCE REQUIRED UNDER THE CIRCUMSTANCES, THE LATTER INCURRED DAMAGES AND LOSSES.

II

WHETHER OR NOT THE COURT OF APPEALS ERRED IN HOLDING RESPONDENTS FREE FROM LIABILITY TO PETITIONER FOR THE DAMAGES THE LATTER HAD INCURRED ON ACCOUNT OF THE RESPONDENTS' BAD FAITH.

The pivotal issue in the case at bench is whether or not private respondent Angel Santos committed fraud or bad faith in representing to petitioner that his contract of lease over the subject premises has been impliedly renewed by Susana Realty. Undoubtedly, it was this representation which induced petitioner to enter into the subject contract with private respondent.

We find the petition devoid of merit.

Bad faith is essentially a state of mind affirmatively operating with furtive design or with some motive of ill-will.[16] It does not simply connote bad judgment or negligence. It imports a dishonest purpose or some moral obliquity and conscious doing of wrong.[17] Bad faith is thus synonymous with fraud and involves a design to mislead or deceive another, not prompted by an honest mistake as to one's rights or duties, but by some interested or sinister motive.[18]

In contracts, the kind of fraud that will vitiate consent is one where, through insidious words or machinations of one of the contracting parties, the other is induced to enter into a contract which, without them, he would not have agreed to.[19] This is known as *dolo causante* or causal fraud which is basically a deception employed by one party prior to or simultaneous to the contract in order to secure the consent of the other.

Petitioner claims that their agreement was that the amount of P300,000.00 is the consideration for the transfer of private respondent's leasehold right to him and he paid P150,000.00 as downpayment therefor. He insists that private respondent acted in bad faith in assuring him that his lease contract with Susana Realty has been impliedly renewed and would be formally renewed upon the arrival of Tanya Madrigal (representative of Susana Realty). As evidence of private respondent's bad faith, petitioner stresses that private respondent himself admitted that prior to February 15, 1985, he was informed by his lawyer that he could not yet sell his lease right to petitioner for his lease over the premises has not been renewed by Susana Realty Corporation.

After carefully examining the records, we sustain the finding of private respondent Court of Appeals that private respondent was neither guilty of fraud nor bad faith in claiming that there was implied renewal of his contract of lease with Susana Realty. The records will bear that the original contract of lease between the lessor Susana Realty and the lessee private respondent was for a period of one year, commencing on August 1, 1983 until July 31, 1984. Subsequently, however, private respondent's lease was extended until December 31, 1984. At this point, it was clear that the lessor had no intention to renew the lease contract of private respondent for another year. However, on February 5, 1985, the lessor, thru its Real Estate Accountant, sent petitioner a letter[20] of even date, worded as follows:

"February 5, 1985

Mr. Angel Santos

1609-1613 C.M. Recto Avenue

Sta. Cruz, Manila

Dear Mr. Santos:

This is to notify you that the rentals for the 1609-1613 C.M. Recto Avenue, Sta. Cruz, Manila, which you are leasing with (sic) us has been increased from P77.81 to P100.00 per square meter retroactive January 1985 (as you have not vacated the place) pending renewal of your contract until the arrival of Miss Ma. Rosa A.S. Madrigal.

Thus, your new rate will be PESOS: FOURTEEN THOUSAND TWO HUNDRED FIFTY ONLY (P14, 250.00) since you are occupying One Hundred Forty Two and 50/100 square meters.

Please note that we are charging the same for everybody and they all agreed to pay the new rate.

We do expect your full cooperation with regards (sic) to this matter.

Very truly yours,

(Sgd) JANE F. BARTOLOME

Accountant-Real Estate"

Clearly, this letter led private respondent to believe and conclude that his lease contract was impliedly renewed and that formal renewal thereof would be made upon the arrival of Tanya Madrigal. This much was admitted by petitioner himself when he testified during cross-examination that private respondent initially told him of the fact that his lease contract with Susana Realty has already expired but he was anticipating its formal renewal upon the arrival of Madrigal.[21] Thus, from the start, it was known to both parties that, insofar as the agreement regarding the transfer of private respondent's leasehold right to petitioner was concerned, the object thereof relates to a future right.[22] It is a conditional contract recognized in civil law,[23] the efficacy of which depends upon an expectancy -- the formal renewal of the lease contract between private respondent and Susana Realty.

The records would also reveal that private respondent's lawyer informed him that he could sell the improvements within the store for he already owned them but the sale of his leasehold right over the store could not as yet be made for his lease contract had not been actually renewed by Susana Realty. Indeed, it was precisely pursuant to this advice that private respondent and petitioner agreed that the improvements in the store shall be sold to petitioner for P150,000.00[24] while the leasehold right shall be sold for the same amount of P150,000.00, payable only upon the formal renewal of the lease contract and the actual transfer of the leasehold right to petitioner.[25] The efficacy of the contract between the parties was thus made dependent upon the happening of this suspensive condition.

Moreover, public respondent Court of Appeals was correct when it faulted petitioner for failing to exercise sufficient diligence in verifying first the status of private respondent's lease. We thus quote with approval the decision of the Court of Appeals when it ruled, thus:

"When appellant Angel C. Santos said that the lease contract had expired but that it was impliedly renewed, that representation should have put appellee on guard. To protect his interest, appellee should have checked with the lessor whether that was so, and this he failed to do; or he would have simply deferred his decision on the proposed sale until Miss Madrigal's arrival, and this appellee also failed to do. In short, as a buyer of the store and lease right in question -- or as a buyer of any object of commerce for that matter -- appellee was charged with the obligation of caution aptly expressed in the universal maxim *caveat emptor*." [26]

Indeed, petitioner had every opportunity to verify the status of the lease contract of private respondent with Susana Realty. As held by this Court in the case of *Caram, Jr. v. Laureta*, [27] the rule *caveat emptor* requires the purchaser to be aware of the supposed title of the vendor and he who buys without checking the vendor's title takes all the risks and losses consequent to such failure. In the case at bench, the means of verifying for himself the status of private respondent's lease contract with Susana Realty was open to petitioner. Nonetheless, no effort was exerted by petitioner to confirm the status of the subject lease right.[28] He cannot now claim that he has been deceived.

In sum, we hold that under the facts proved, private respondent cannot be held guilty of fraud or bad faith when he entered into the subject contract with petitioner. Causal fraud or bad faith on the part of one of the contracting parties which allegedly induced the other to enter into a contract must be proved by clear and convincing evidence. This petitioner failed to do.

IN VIEW WHEREOF, the appealed decision is hereby **AFFIRMED** in toto. Costs against petitioner.

SO ORDERED.

Narvasa, C.J., (Chairman), Regalado, and Mendoza, JJ., concur.

[1] Penned by Associate Justice Jesus M. Elbinias and concurred in by Associate Justices Nathanael P. De Pano, Jr. and Angelina S. Gutierrez.

[2] TSN, November 21, 1988, pp. 4-5.

[3] See lease contract, Exhibit "H", Original Records, p. 110.

[4] Exhibit "J", Original Records, p. 112.

[5] See letter of Ms. Ma. Rosa Madrigal, dated November 8, 1984, Exhibit "I", Original Records, p. 111.

[6] Exhibit "1", Original Records, p. 169.

[7] TSN, November 21, 1988, pp. 14-15.

[8] TSN, December 1, 1987, pp. 45-50.

[9] *id.*, pp. 52-57.

[10] TSN, November 21, 1988, pp. 31 & 36.

[11] It appears that on July 2, 1985, the lessor Susana Realty Incorporation sold its rights over the entire Madrigal Building to Eduardo Litonjua. The contract of sale between the parties provided that the building should be cleared of all tenants before delivery thereof to the new owners.

[12] Penned by Judge Domingo R. Garcia, presiding judge, Regional Trial Court, Pasig, Metro Manila, Branch 157; Original Records, pp. 184-198.

[13] *id.*, at p. 198.

[14] Rollo, pp. 37-43.

[15] *id.*, at p. 42.

[16] *Air France v. Carrascoso*, L-21438, September 28, 1966, 18 SCRA 166.

[17] *Board of Liquidators v. Kalaw*, No. L-18805, August 14, 1967, 20 SCRA 1007.

[18] *Black's Law Dictionary*, 4th edition, p. 176.

[19] Article 1338, New Civil Code.

[20] Exhibit "1", Original Records, p. 169.

[21] TSN, December 1, 1987, pp. 35-41.

[22] This agreement is sanctioned under Art. 1347 of the New Civil Code which, in part, provides:

"All things which are not outside the commerce of men, including future things, may be the object of a contract. x x x"

[23] Art. 1461 of the New Civil Code provides:

"Things having a potential existence may be the object of a contract of sale.

The efficacy of a sale of a mere hope or expectancy is deemed subject to the condition that the thing will come into existence."

[24] See receipt issued by private respondent to petitioner, dated February 20, 1985 (Exh. "B-1", Rollo, p. 104), evidencing payment by the latter of P150,000, representing the "cash advance for the improvement of Santos & Sons."

[25] TSN, March 6, 1989, pp. 8-10.

[26] Rollo, at p. 41.

[27] No. L-28740, February 24, 1981, 103 SCRA 7.

[28] In fact, it clearly appears from the record that there was collusion between petitioner and private respondent for both were aware at the time they entered into the contract that there was an existing stipulation in the original contract of lease prohibiting private respondent lessee from sub-leasing the property. They nevertheless entered into the contract and petitioner in fact occupied the store of the lessee Santos & Sons from March to July 1985 and paid for the rentals thereof without the knowledge and consent of the lessor-owner, Susana Realty; see also TSN, November 21, 1988, pp. 36-39.

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