

DKC HOLDINGS CORPORATION, PETITIONER, VS. COURT OF APPEALS, VICTOR U. BARTOLOME AND REGISTER OF DEEDS FOR METRO MANILA, DISTRICT III, RESPONDENTS.

G.R. No. 118248. April 05, 2000

Ponente: YNARES-SANTIAGO, J.

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YNARES-SANTIAGO, J.:

This is a petition for review on certiorari seeking the reversal of the December 5, 1994 Decision of the Court of Appeals in CA-G.R. CV No. 40849 entitled "DKC Holdings Corporation vs. Victor U. Bartolome, et al.",^[1] affirming in toto the January 4, 1993 Decision of the Regional Trial Court of Valenzuela, Branch 172,^[2] which dismissed Civil Case No. 3337-V-90 and ordered petitioner to pay P30,000.00 as attorney's fees.

The subject of the controversy is a 14,021 square meter parcel of land located in Malinta, Valenzuela, Metro Manila which was originally owned by private respondent Victor U. Bartolome's deceased mother, Encarnacion Bartolome, under Transfer Certificate of Title No. B-37615 of the Register of Deeds of Metro Manila, District III. This lot was in front of one of the textile plants of petitioner and, as such, was seen by the latter as a potential warehouse site.

On March 16, 1988, petitioner entered into a Contract of Lease with Option to Buy with Encarnacion Bartolome, whereby petitioner was given the option to lease or lease with purchase the subject land, which option must be exercised within a period of two years counted from the signing of the Contract. In turn, petitioner undertook to pay P3,000.00 a month as consideration for the reservation of its option. Within the two-year period, petitioner shall serve formal written notice upon the lessor Encarnacion Bartolome of its desire to exercise its option. The contract also provided that in case petitioner chose to lease the property, it may take actual possession of the premises. In such an event, the lease shall be for a period of six years, renewable for another six years, and the monthly rental fee shall be P15,000.00 for the first six years and P18,000.00 for the next six years, in case of renewal.

Petitioner regularly paid the monthly P3,000.00 provided for by the Contract to Encarnacion until her death in January 1990. Thereafter, petitioner coursed its payment to private respondent Victor Bartolome, being the sole heir of Encarnacion. Victor, however, refused to accept these payments.

Meanwhile, on January 10, 1990, Victor executed an Affidavit of Self-Adjudication over all the properties of Encarnacion, including the subject lot. Accordingly, respondent Register of Deeds cancelled Transfer Certificate of Title No. B-37615 and issued Transfer Certificate of Title No. V-14249 in the name of Victor Bartolome.

On March 14, 1990, petitioner served upon Victor, via registered mail, notice that it was exercising its option to lease the property, tendering the amount of P15,000.00 as rent for the month of March. Again, Victor refused to accept the tendered rental fee and to surrender possession of the property to petitioner.

Petitioner thus opened Savings Account No. 1-04-02558-I-1 with the China Banking Corporation, Cubao Branch,

in the name of Victor Bartolome and deposited therein the P15,000.00 rental fee for March as well as P6,000.00 reservation fees for the months of February and March.

Petitioner also tried to register and annotate the Contract on the title of Victor to the property. Although respondent Register of Deeds accepted the required fees, he nevertheless refused to register or annotate the same or even enter it in the day book or primary register.

Thus, on April 23, 1990, petitioner filed a complaint for specific performance and damages against Victor and the Register of Deeds,[3] docketed as Civil Case No. 3337-V-90 which was raffled off to Branch 171 of the Regional Trial Court of Valenzuela. Petitioner prayed for the surrender and delivery of possession of the subject land in accordance with the Contract terms; the surrender of title for registration and annotation thereon of the Contract; and the payment of P500,000.00 as actual damages, P500,000.00 as moral damages, P500,000.00 as exemplary damages and P300,000.00 as attorney's fees.

Meanwhile, on May 8, 1990, a Motion for Intervention with Motion to Dismiss[4] was filed by one Andres Lanozo, who claimed that he was and has been a tenant-tiller of the subject property, which was agricultural riceland, for forty-five years. He questioned the jurisdiction of the lower court over the property and invoked the Comprehensive Agrarian Reform Law to protect his rights that would be affected by the dispute between the original parties to the case.

On May 18, 1990, the lower court issued an Order[5] referring the case to the Department of Agrarian Reform for preliminary determination and certification as to whether it was proper for trial by said court.

On July 4, 1990, the lower court issued another Order[6] referring the case to Branch 172 of the RTC of Valenzuela which was designated to hear cases involving agrarian land, after the Department of Agrarian Reform issued a letter-certification stating that referral to it for preliminary determination is no longer required.

On July 16, 1990, the lower court issued an Order denying the Motion to Intervene,[7] holding that Lanozo's rights may well be ventilated in another proceeding in due time.

After trial on the merits, the RTC of Valenzuela, branch 172 rendered its Decision on January 4, 1993, dismissing the Complaint and ordering petitioner to pay Victor P30,000.00 as attorney's fees. On appeal to the CA, the Decision was affirmed in toto.

Hence, the instant Petition assigning the following errors:

(A)

FIRST ASSIGNMENT OF ERROR

THE HONORABLE COURT OF APPEALS ERRED IN RULING THAT THE PROVISION ON THE NOTICE TO EXERCISE OPTION WAS NOT TRANSMISSIBLE.

(B)

SECOND ASSIGNMENT OF ERROR

THE HONORABLE COURT OF APPEALS ERRED IN RULING THAT THE NOTICE OF OPTION MUST BE SERVED BY DKC UPON ENCARNACION BARTOLOME PERSONALLY.

(C)

THIRD ASSIGNMENT OF ERROR

THE HONORABLE COURT OF APPEALS ERRED IN RULING THAT THE CONTRACT WAS

ONE-SIDED AND ONEROUS IN FAVOR OF DKC.

(D)

FOURTH ASSIGNMENT OF ERROR

THE HONORABLE COURT OF APPEALS ERRED IN RULING THAT THE EXISTENCE OF A REGISTERED TENANCY WAS FATAL TO THE VALIDITY OF THE CONTRACT.

(E)

FIFTH ASSIGNMENT OF ERROR

THE HONORABLE COURT OF APPEALS ERRED IN RULING THAT PLAINTIFF-APPELLANT WAS LIABLE TO DEFENDANT-APPELLEE FOR ATTORNEY'S FEES.[8]

The issue to be resolved in this case is whether or not the Contract of Lease with Option to Buy entered into by the late Encarnacion Bartolome with petitioner was terminated upon her death or whether it binds her sole heir, Victor, even after her demise.

Both the lower court and the Court of Appeals held that the said contract was terminated upon the death of Encarnacion Bartolome and did not bind Victor because he was not a party thereto.

Article 1311 of the Civil Code provides, as follows-

"ART. 1311. Contracts take effect only between the parties, their assigns and heirs, except in case where the rights and obligations arising from the contract are not transmissible by their nature, or by stipulation or by provision of law. The heir is not liable beyond the value of the property he received from the decedent.

x x x x x x x x."

The general rule, therefore, is that heirs are bound by contracts entered into by their predecessors-in-interest except when the rights and obligations arising therefrom are not transmissible by (1) their nature, (2) stipulation or (3) provision of law.

In the case at bar, there is neither contractual stipulation nor legal provision making the rights and obligations under the contract intransmissible. More importantly, the nature of the rights and obligations therein are, by their nature, transmissible.

The nature of intransmissible rights as explained by Arturo Tolentino, an eminent civilist, is as follows:

"Among contracts which are intransmissible are those which are purely personal, either by provision of law, such as in cases of partnerships and agency, or by the very nature of the obligations arising therefrom, such as those requiring special personal qualifications of the obligor. It may also be stated that contracts for the payment of money debts are not transmitted to the heirs of a party, but constitute a charge against his estate. Thus, where the client in a contract for professional services of a lawyer died, leaving minor heirs, and the lawyer, instead of presenting his claim for professional services under the contract to the probate court, substituted the minors as parties for his client, it was held that the contract could not be enforced against the minors; the lawyer was limited to a recovery on the basis of quantum meruit."[9]

In American jurisprudence, "(W)here acts stipulated in a contract require the exercise of special knowledge, genius, skill, taste, ability, experience, judgment, discretion, integrity, or other personal qualification of one or both parties, the agreement is of a personal nature, and terminates on the death of the party who is required to render such service."[10]

It has also been held that a good measure for determining whether a contract terminates upon the death of one of

the parties is whether it is of such a character that it may be performed by the promisor's personal representative. Contracts to perform personal acts which cannot be as well performed by others are discharged by the death of the promisor. Conversely, where the service or act is of such a character that it may as well be performed by another, or where the contract, by its terms, shows that performance by others was contemplated, death does not terminate the contract or excuse nonperformance.[11]

In the case at bar, there is no personal act required from the late Encarnacion Bartolome. Rather, the obligation of Encarnacion in the contract to deliver possession of the subject property to petitioner upon the exercise by the latter of its option to lease the same may very well be performed by her heir Victor.

As early as 1903, it was held that "(H)e who contracts does so for himself and his heirs." [12] In 1952, it was ruled that if the predecessor was duty-bound to reconvey land to another, and at his death the reconveyance had not been made, the heirs can be compelled to execute the proper deed for reconveyance. This was grounded upon the principle that heirs cannot escape the legal consequence of a transaction entered into by their predecessor-in-interest because they have inherited the property subject to the liability affecting their common ancestor.[13]

It is futile for Victor to insist that he is not a party to the contract because of the clear provision of Article 1311 of the Civil Code. Indeed, being an heir of Encarnacion, there is privity of interest between him and his deceased mother. He only succeeds to what rights his mother had and what is valid and binding against her is also valid and binding as against him.[14] This is clear from *Parañaque Kings Enterprises vs. Court of Appeals*, [15] where this Court rejected a similar defense-

With respect to the contention of respondent Raymundo that he is not privy to the lease contract, not being the lessor nor the lessee referred to therein, he could thus not have violated its provisions, but he is nevertheless a proper party. Clearly, he stepped into the shoes of the owner-lessor of the land as, by virtue of his purchase, he assumed all the obligations of the lessor under the lease contract. Moreover, he received benefits in the form of rental payments. Furthermore, the complaint, as well as the petition, prayed for the annulment of the sale of the properties to him. Both pleadings also alleged collusion between him and respondent Santos which defeated the exercise by petitioner of its right of first refusal.

In order then to accord complete relief to petitioner, respondent Raymundo was a necessary, if not indispensable, party to the case. A favorable judgment for the petitioner will necessarily affect the rights of respondent Raymundo as the buyer of the property over which petitioner would like to assert its right of first option to buy.

In the case at bar, the subject matter of the contract is likewise a lease, which is a property right. The death of a party does not excuse nonperformance of a contract which involves a property right, and the rights and obligations thereunder pass to the personal representatives of the deceased. Similarly, nonperformance is not excused by the death of the party when the other party has a property interest in the subject matter of the contract.[16]

Under both Article 1311 of the Civil Code and jurisprudence, therefore, Victor is bound by the subject Contract of Lease with Option to Buy.

That being resolved, we now rule on the issue of whether petitioner had complied with its obligations under the contract and with the requisites to exercise its option. The payment by petitioner of the reservation fees during the two-year period within which it had the option to lease or purchase the property is not disputed. In fact, the payment of such reservation fees, except those for February and March, 1990 were admitted by Victor.[17] This is clear from the transcripts, to wit-

"ATTY. MOJADO:

One request, Your Honor. The last payment which was allegedly made in January 1990 just indicate in that stipulation that it was issued November of 1989 and postdated January 1990 and then we will admit all.

COURT:

All reservation fee?

ATTY. MOJADO:

Yes, Your Honor.

COURT:

All as part of the lease?

ATTY. MOJADO:

Reservation fee, Your Honor. There was no payment with respect to payment of rentals."[18]

Petitioner also paid the P15,000.00 monthly rental fee on the subject property by depositing the same in China Bank Savings Account No. 1-04-02558-I-1, in the name of Victor as the sole heir of Encarnacion Bartolome,[19] for the months of March to July 30, 1990, or a total of five (5) months, despite the refusal of Victor to turn over the subject property.[20]

Likewise, petitioner complied with its duty to inform the other party of its intention to exercise its option to lease through its letter dated March 12, 1990,[21] well within the two-year period for it to exercise its option. Considering that at that time Encarnacion Bartolome had already passed away, it was legitimate for petitioner to have addressed its letter to her heir.

It appears, therefore, that the exercise by petitioner of its option to lease the subject property was made in accordance with the contractual provisions. Concomitantly, private respondent Victor Bartolome has the obligation to surrender possession of and lease the premises to petitioner for a period of six (6) years, pursuant to the Contract of Lease with Option to Buy.

Coming now to the issue of tenancy, we find that this is not for this Court to pass upon in the present petition. We note that the Motion to Intervene and to Dismiss of the alleged tenant, Andres Lanozo, was denied by the lower court and that such denial was never made the subject of an appeal. As the lower court stated in its Order, the alleged right of the tenant may well be ventilated in another proceeding in due time.

WHEREFORE, in view of the foregoing, the instant Petition for Review is GRANTED. The Decision of the Court of Appeals in CA-G.R. CV No. 40849 and that of the Regional Trial Court of Valenzuela in Civil Case No. 3337-V-90 are both SET ASIDE and a new one rendered ordering private respondent Victor Bartolome to:

- (a) surrender and deliver possession of that parcel of land covered by Transfer Certificate of Title No. V-14249 by way of lease to petitioner and to perform all obligations of his predecessor-in-interest, Encarnacion Bartolome, under the subject Contract of Lease with Option to Buy;
- (b) surrender and deliver his copy of Transfer Certificate of Title No. V-14249 to respondent Register of Deeds for registration and annotation thereon of the subject Contract of Lease with Option to Buy;
- (c) pay costs of suit.

Respondent Register of Deeds is, accordingly, ordered to register and annotate the subject Contract of Lease with Option to Buy at the back of Transfer Certificate of Title No. V-14249 upon submission by petitioner of a copy thereof to his office.

SO ORDERED.

Davide, Jr., C.J., (Chairman), Puno, Kapunan, and Pardo, JJ., concur.

- [1] Penned by Associate Justice Corona Ibay-Somera, concurred in by Justices Asaali S. Isnani and Celia Lipana-Reyes.
- [2] Penned by Judge Teresita Dizon-Capulong.
- [3] Records, Civil Case No. 3337-V-90, pp. 1-28.
- [4] Id., pp. 35-43.
- [5] Id., p. 60.
- [6] Id., p. 129.
- [7] Id., p. 130.
- [8] Petition for Review, pp. 9-10; Rollo, pp. 10-11.
- [9] IV Tolentino, CIVIL CODE OF THE PHILIPPINES, 430 (1986).
- [10] Kanawha Banking & Trust Co. v. Gilbert, 46 S.E. 2d 225, 131 W. Va. 88; Rowe v. Compensation Research Bureau, Inc., 62 N.W. 2d 581, 265 Wis. 589; Fressil v. Nichols, 114 So. 431, 94 Fla. 403; Cutler v. United Shoe Manufacturing Corporation, 174 N.E. 507, 274 Mass. 341, cited in 17A C.J.S. Sec. 465.
- [11] 17 Am. Jur. 2d, Sec. 413, p. 866.
- [12] Eleizegui v. Lawn Tennis Club, G.R. No. 967, 2 Phil. 309, 313 (1903), citing Article 1257 of the old Civil Code.
- [13] Carillo v. Salak de Paz, G.R. No. L-4133, 91 Phil. 265 (1952).
- [14] See Galsinao v. Austria, G.R. No. L-7918, 97 Phil. 82, 87 (1955).
- [15] G.R. No. 111538, 268 SCRA 727, 745 (1997).
- [16] 17A C.J.S. Section 465, p. 627.
- [17] See T.S.N., 19 October 1991, pp. 11-12, 14, 16, 19 and 20-21.
- [18] T.S.N., 29 October 1991, pp. 20-21.
- [19] See Exhibit "K"; Records, Civil Case No. 3337-V-90, pp. 274-276.
- [20] See T.S.N., 9 January 1992, pp. 16-17.
- [21] Exh. "J", Records, Civil Case No. 3337-V-90, pp. 272-273.

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