

DOMINGO REALTY, INC. AND AYALA STEEL MANUFACTURING CO., INC., PETITIONERS, VS. COURT OF APPEALS AND ANTONIO M. ACERO, RESPONDENTS.

G.R. NO. 126236. January 26, 2007

Ponente: VELASCO, JR., J.

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VELASCO, JR., J.:

Good judgment comes from experience, and often experience comes from bad judgment.

— Rita Mae Brown

The Case

This Petition for Review on Certiorari, under Rule 45 of the Revised Rules of Court, seeks the reversal of the October 31, 1995 Decision[1] of the Court of Appeals (CA) in CA-G.R. SP No. 33407, entitled *Antonio M. Acero v. Hon. Sofronio G. Sayo, et al.*, which annulled the December 7, 1987 Decision based on a Compromise Agreement among petitioner Domingo Realty, Inc. (Domingo Realty), respondent Antonio M. Acero, and defendant Luis Recato Dy in Civil Case No. 9581-P before the Pasay City Regional Trial Court (RTC), Branch CXI; and the August 28, 1996 Resolution[2] of the CA which denied petitioners' Motion for Reconsideration of its October 31, 1995 Decision.

The Facts

On November 19, 1981, petitioner Domingo Realty filed its November 15, 1981 Complaint[3] with the Pasay City RTC against Antonio M. Acero, who conducted business under the firm name A.M. Acero Trading,[4] David Victorio, John Doe, and Peter Doe, for recovery of possession of three (3) parcels of land located in Cupang, Muntinlupa, Metro Manila, covered by (1) Transfer Certificate of Title (TCT) No. (75600) S-107639-Land Records of Rizal; (2) TCT No. (67006) S-107640-Land Records of Rizal; and (3) TCT No. (67007) S-107643-Land Records of Rizal (the "subject properties"). The said lots have an aggregate area of 26,705 square meters, more or less, on a portion of which Acero had constructed a factory building for the manufacture of hollow blocks, as alleged by Domingo Realty.

On January 4, 1982, defendants Acero and Victorio filed their December 21, 1981 Answer[5] to the Complaint in Civil Case No. 9581-P. Acero alleged that he merely leased the land from his co-defendant David Victorio, who, in turn, claimed to own the property on which the hollow blocks factory of Acero stood. In the Answer, Victorio assailed the validity of the TCTs of Domingo Realty, alleging that the said TCTs emanated from spurious deeds of sale, and claimed that he and his predecessors-in-interest had been in possession of the property for more than 70 years.

On December 3, 1987, Mariano Yu representing Domingo Realty, Luis Recato Dy[6], and Antonio M. Acero, all assisted by counsels, executed a Compromise Agreement, which contained the following stipulations, to wit:

- That defendants admit and recognize the ownership of the plaintiff over the property subject of this case, covered by TCT No. S-107639 (75600), S-107643 (67007), and S-107640 (67006) with a total area of 26,705 square meters;
- That defendant Luis Recato Dy admits and recognizes that his title covered by TCT No. 108027 has been proven not to be genuine and that the area indicated therein is inside the property of the plaintiff;
- That defendant Acero admits that the property he is presently occupying by way of lease is encroaching on a portion of the property of the plaintiff and assume[s] and undertakes to vacate, remove and clear any and all structures erected inside the property of the plaintiff by himself and other third parties, duly authorized and/or who have an existing agreement with defendant Acero, and shall deliver said portion of the property of the plaintiff free and clear of any unauthorized structures, shanties, occupants, squatters or lessees within a period of sixty (60) days from date of signing of this compromise agreement. Should defendant Acero fail in his obligation to vacate, remove and clear the structures erected inside the property of the plaintiff within the period of 60 days afore-mentioned, plaintiff shall be entitled to a writ of execution for the immediate demolition or removal of said structure to fully implement this agreement; and ejectment of all squatters and occupants and lessees, including the dependents to fully implement this agreement;
- That plaintiff admits and recognizes that defendant Luis Recato Dy bought and occupied the property in good faith and for value whereas defendant Acero leased the portion of said property likewise in good faith and for value hereby waives absolutely and unconditionally all claims including attorney's fees against both defendants in all cases pending in any court whether by virtue of any judgment or under the present complaint and undertake to withdraw and/or move to dismiss the same under the spirit of this agreement;
- That defendants likewise waive all claims for damages including attorney's fees against the plaintiff;
- That plaintiff acknowledges the benefit done by defendant Luis Recato Dy on the property by incurring expenses in protecting and preserving the property by way of construction of perimeter fence and maintaining a caretaker therein and plaintiff has agreed to pay Luis Recato Dy the amount of P100,000.00 upon approval of this agreement by this Honorable Court.[7]

Acting on the Compromise Agreement, the Pasay City RTC rendered the December 7, 1987 Decision which adopted the aforementioned six (6) stipulations and approved the Compromise Agreement.

To implement the said Decision, Domingo Realty filed its January 21, 1988 Motion[8] asking the trial court for permission to conduct a re-survey of the subject properties, which was granted in the January 22, 1988 Order.[9]

On February 2, 1988, respondent Acero filed his January 29, 1988 Motion to Nullify the Compromise Agreement,[10] claiming that the January 22, 1988 Order authorizing the survey plan of petitioner Domingo Realty as the basis of a resurvey would violate the Compromise Agreement since the whole area he occupied would be adjudged as owned by the realty firm.

On March 18, 1988, Acero filed a Motion to Resurvey,[11] whereby it was alleged that the parties agreed to have the disputed lots re-surveyed by the Bureau of Lands. Thus, the trial court issued the March 21, 1988 Order[12] directing the Director of Lands to conduct a re-survey of the subject properties.

In his June 9, 1989 Report, Elpidio T. De Lara, Chief of the Technical Services Division of the Lands Management Section of the National Capital Region - Department of Environment and Natural Resources, submitted to the trial court Verification Survey Plan No. Vs-13-000135. In the said Verification Survey Plan, petitioners' TCTs covered the entire land occupied by the respondent's hollow block factory.[13]

On April 10, 1990, petitioner Ayala Steel Manufacturing Co., Inc. (Ayala Steel) filed its March 30, 1990 Motion for Substitution alleging that it had purchased the subject lots, attaching to the motion TCT Nos. 152528, 152529,

and 152530 all in its name, as proof of purchase.[14]

The said motion was opposed by Acero claiming that “this case has already been terminated in accordance with the compromise agreement of the parties, hence, substitution will no longer be necessary and justified under the circumstances.”[15] The motion was not resolved which explains why both transferor Domingo Realty and transferee Ayala Steel are co-petitioners in the instant petition.

In its December 28, 1990 Order,[16] the trial court directed Acero to conduct his own re-survey of the lots based on the technical description appearing in the TCTs of Domingo Realty and to have the re-survey plans approved by the Bureau of Lands. The Order resulted from Acero’s contention that he occupied only 2,000 square meters of petitioners’ property.

Acero employed the services of Engr. Eligio L. Cruz who came up with Verification Survey Plan No. Vs-13-000185. However, when the said Verification Survey Plan was presented to the Bureau of Lands for approval, it was rejected because Engr. Cruz failed to comply with the requirements of the Bureau.[17]

On April 8, 1991, petitioners filed a Manifestation with Motion praying for the denial of respondent’s Motion to Nullify the Compromise Agreement and for the approval of Verification Survey Plan No. Vs-13-000135 prepared by Engr. Lara of the Bureau of Lands. The Pasay City RTC issued the December 6, 1991 Order[18] denying respondent Acero’s Motion to Nullify the Compromise Agreement. As a consequence, petitioners filed a Motion for Execution on December 10, 1991.[19]

On January 6, 1992, respondent filed an undated Manifestation[20] claiming, among others, that it was on record that the Compromise Agreement was only as to a portion of the land being occupied by respondent, which is about 2,000 square meters, more or less. He reiterated the same contentions in his December 21, 1991 Manifestation.[21]

On January 13, 1992, respondent filed a Motion to Modify Order Dated 6 December ‘91,[22] claiming that the said Order modified the Compromise Agreement considering that it allegedly involved only 1,357 square meters and not the entire lot;[23] and if not amended, the Order would deviate from the principle that “no man shall enrich himself at the expense of the other.”

In its January 15, 1992 Order,[24] the trial court approved the issuance of a Writ of Execution to enforce the December 7, 1987 Decision. On February 3, 1992, respondent Acero subsequently filed a Motion for Reconsideration[25] of the January 15, 1992 Order arguing that the Order was premature and that Verification Survey Plan No. Vs-13-000135 violated the Compromise Agreement.

On January 18, 1992, the Pasay City Hall was gutted by fire, destroying the records of the lower court, including those of this case. Thus, after reconstituting the records, the trial court issued the October 6, 1992 Order,[26] reiterating its January 15, 1992 Order and ordering the issuance of a Writ of Execution.

On October 23, 1992, respondent filed a Manifestation and Compliance,[27] alleging that Verification Survey Plan No. Vs-13-000185 had been approved by the Regional Director of the DENR; thus, he moved for the annulment of the October 6, 1992 Order granting the Writ of Execution in favor of petitioners.

Given the conflicting Verification Survey Plans of the parties, the trial court issued the October 11, 1993 Order[28] requiring the Bureau of Lands Director to determine which of the two survey plans was correct.

Subsequently, Regional Technical Director Eriberto V. Almazan of the Land Registration Authority issued the November 24, 1993 Order[29] cancelling Verification Survey Plan No. Vs-13-000185, submitted by Engineer Eligio Cruz, who was hired by respondent Acero, and declared Verification Survey Plan No. Vs-13-000135,

submitted by Engineer Lara of the Bureau of Lands, as the correct Plan.

Thereafter, petitioners filed their January 12, 1994 Ex-parte Manifestation with Motion,[30] praying for the implementation of the Writ of Execution against the disputed lands, which was granted in the January 12, 1994 Order.[31]

Respondent's Motion for Reconsideration[32] of the January 12, 1994 Order was denied in the February 1, 1994 Order[33] of the Pasay City RTC.

Aggrieved, respondent Acero filed before the CA his February 23, 1994 Petition for Certiorari and Mandamus with Urgent Prayer for Issuance of a Temporary Restraining Order,[34] under Rule 65 of the Rules of Court, against petitioners and Judge Sofronio G. Sayo as presiding judge of the lower court. In the petition, respondent sought to nullify and set aside the RTC Orders dated December 6, 1991, January 15, 1992, October 6, 1992, January 12, 1994, and February 1, 1994, all of which pertain to the execution of the December 7, 1987 Decision on the Compromise Agreement. Significantly, respondent did not seek the annulment of said judgment but merely reiterated the issue that under the Compromise Agreement, he would only be vacating a portion of the property he was occupying.

The Ruling of the Court of Appeals

On October 31, 1995, the CA promulgated the assailed Decision, the fallo of which reads:

IN VIEW OF THE FOREGOING, the petition for certiorari is GRANTED and the Orders of respondent court dated December 6, 1991, January 15, 1992, October 6, 1992, and January 12, 1994, and February 1, 1994 are SET ASIDE. In the interest of justice, and consistent with the views expressed by this Court, the Compromise Judgment dated December 7, 1987 of respondent court is likewise SET ASIDE. Respondent Court is likewise directed to proceed with the hearing of Civil Case No. 9581-P on the merits and determine, once and for all, the respective proprietary rights of the litigants thereto.

SO ORDERED.[35]

In discarding the December 7, 1987 Decision based on the Compromise Agreement, the appellate court ratiocinated that David Victorio, the alleged lessor of Acero, was not a party to the Compromise Agreement; thus, there would always remain the probability that he might eventually resurface and assail the Compromise Agreement, giving rise to another suit. Moreover, the CA found the Compromise Agreement vague, not having stipulated a mutually agreed upon surveyor, "who would survey the properties using as a basis, survey plans acceptable to both, and to thereafter submit a report to the court." [36]

Likewise, the CA sustained Acero's belief that he would only have to vacate a portion of the property he was presently occupying, which was tantamount to a mistake that served as basis for the nullification of the Compromise Agreement entered into.

On January 17, 1996, petitioners filed a Motion for Reconsideration[37] of the adverse Decision, which was consequently rejected in the CA's August 28, 1996 Resolution.

Thus, the instant petition is in our hands.

The Issues

The issues as stated in the petition are as follows:

- THE RESPONDENT COURT OF APPEALS ERRED IN NULLIFYING AND SETTING ASIDE JUDGMENT ON COMPROMISE AGREEMENT AND THE COMPROMISE AGREEMENT ITSELF AS

WELL AS THE SUBSEQUENT ORDERS OF THE COURT A QUO THOUGH THERE IS NO MOTION TO SET ASIDE THE JUDGMENT ON THE COMPROMISE AGREEMENT BEFORE THE COURT A QUO ON THE GROUND OF FRAUD, MISTAKE OR DURESS;

- THE RESPONDENT COURT OF APPEALS ERRED IN NULLIFYING AND SETTING ASIDE THE JUDGMENT ON COMPROMISE AGREEMENT AND THE COMPROMISE AGREEMENT ITSELF AS WELL AS THE SUBSEQUENT ORDERS OF THE COURT OF QUO [SIC] THOUGH IN THE PETITION FOR CERTIORARI AND MANDAMUS BEFORE RESPONDENT COURT OF APPEALS, PRIVATE RESPONDENT ARGUED THAT JUDGMENT ON COMPROMISE AGREEMENT IS FINAL, EXECUTORY, IMMUTABLE AND UNALTERABLE;

- THE RESPONDENT COURT OF APPEALS ERRED IN NULLIFYING AND SETTING ASIDE JUDGMENT ON COMPROMISE AGREEMENT AND THE COMPROMISE AGREEMENT ITSELF AS WELL AS THE SUBSEQUENT ORDERS OF THE COURT A QUO BASED ON FRAUD OR MISTAKE THOUGH SAID ISSUES WERE NOT RAISED BEFORE THE COURT A QUO, AND NO EVIDENCE WAS INTRODUCED TO SUBSTANTIATE FRAUD OR MISTAKE BEFORE THE COURT A QUO;

- THE RESPONDENT COURT OF APPEALS ERRED WHEN IT RULED THAT THE NON-INCLUSION OF ONE OF THE PARTIES IN THIS CASE, AND THE VAGUENESS OF THE COMPROMISE AGREEMENT ARE GROUNDS TO NULLIFY AND SET ASIDE THE COMPROMISE AGREEMENT; AND

- THE RESPONDENT COURT OF APPEALS ERRED WHEN IT ENTERTAINED THE PETITION FOR CERTIORARI AND MANDAMUS THOUGH IT WAS FILED BEYOND REASONABLE TIME IF NOT BARRED BY LACHES.[38]

Restated, the issues are:

I.

WHETHER THE PETITION BEFORE THE COURT OF APPEALS WAS FILED OUT OF TIME OR BARRED BY LACHES;

II.

WHETHER THE NON-INCLUSION OF DAVID VICTORIO WOULD NULLIFY THE COMPROMISE AGREEMENT;

III.

WHETHER THE JUDGMENT ON COMPROMISE AGREEMENT SHOULD BE SET ASIDE ON THE GROUND OF VAGUENESS; AND

IV.

WHETHER THE JUDGMENT ON COMPROMISE AGREEMENT SHOULD BE SET ASIDE ON THE GROUND OF MISTAKE.

The Court's Ruling

The petition is meritorious.

The preliminary issue involves the query of what proper remedy is available to a party who believes that his consent in a compromise agreement was vitiated by mistake upon which a judgment was rendered by a court of law.

There is no question that a contract where the consent is given through mistake, violence, intimidation, undue influence, or fraud is voidable under Article 1330 of the Civil Code. If the contract assumes the form of a Compromise Agreement between the parties in a civil case, then a judgment rendered on the basis of such covenant is final, unappealable, and immediately executory. If one of the parties claims that his consent was obtained through fraud, mistake, or duress, he must file a motion with the trial court that approved the compromise agreement to reconsider the judgment and nullify or set aside said contract on any of the said grounds for annulment of contract within 15 days from notice of judgment. Under Rule 37, said party can either file a motion for new trial or reconsideration. A party can file a motion for new trial based on fraud, accident or mistake, excusable negligence, or newly discovered evidence.

On the other hand, a party may decide to seek the recall or modification of the judgment by means of a motion for reconsideration on the ground that “the decision or final order is contrary to law” if the consent was procured through fraud, mistake, or duress. Thus, the motion for a new trial or motion for reconsideration is the readily available remedy for a party to challenge a judgment if the 15-day period from receipt of judgment for taking an appeal has not yet expired. This motion is the most plain, speedy, and adequate remedy in law to assail a judgment based on a compromise agreement which, even if it is immediately executory, can still be annulled for vices of consent or forgery.[39]

Prior to the effectivity of the 1997 Rules of Civil Procedure on July 1, 1997, an order denying a motion for new trial or reconsideration was not appealable since the judgment in the case is not yet final. The remedy is to appeal from the challenged decision and the denial of the motion for reconsideration or new trial is assigned as an error in the appeal.[40] Under the present [1997] Rules of Civil Procedure, the same rule was maintained that the order denying said motion is still unappealable and the rule is still to appeal from the judgment and not from the order rejecting the motion for reconsideration/new trial.

If the 15-day period for taking an appeal has lapsed, then the aggrieved party can avail of Rule 38 by filing a petition for relief from judgment which should be done within 60 days after the petitioner learns of the judgment, but not more than six (6) months after such judgment or final order was entered. Prior to the effectivity of the 1997 Rules of Civil Procedure in 1997, if the court denies the petition under Rule 38, the remedy is to appeal from the order of denial and not from the judgment since said decision has already become final and already unappealable.[41] However, in the appeal from said order, the appellant may likewise assail the judgment. Under the 1997 Rules of Civil Procedure, the aggrieved party can no longer appeal from the order denying the petition since this is proscribed under Section 1 of Rule 41. The remedy of the party is to file a special civil action for certiorari under Rule 65 from the order rejecting the petition for relief from judgment.

The records of the case reveal the following:

- December 3, 1987 – the parties signed the Compromise Agreement;
- December 7, 1987 – a decision/judgment was rendered based on the December 3, 1987 Compromise Agreement;
- February 2, 1988 – Acero filed a Motion to Nullify the Compromise Agreement;
- December 6, 1991 – the trial court denied Acero’s Motion to Nullify the Compromise Agreement;
- December 11, 1991 – defendant Acero received the December 6, 1991 Order which denied said motion;[42]
- December 26, 1991 – the 15-day period to appeal to the CA expired by the failure of defendant Acero to file an appeal with said appellate court;
- January 15, 1992 – the trial court issued the Order which granted petitioners’ motion for the issuance of a Writ

of Execution;

- October 6, 1992 – the trial court reiterated its January 15, 1992 Order directing the issuance of a Writ of Execution after the records of the case were lost in a fire that gutted the Pasay City Hall;
- January 12, 1994 – the trial court issued the Order which directed the implementation of the Writ of Execution prayed for by petitioners;
- February 1, 1994 – the trial court issued the Order which denied respondent's Motion for Reconsideration of its January 12, 1994 Order; and
- April 4, 1994 – Acero filed with the CA a petition for certiorari in CA-G.R. SP No. 33407 entitled Antonio M. Acero v. Domingo Realty, Inc., et al.

In his undated Manifestation, respondent Acero admitted having received a copy of the December 7, 1987 Decision on December 11, 1987. However, it was only on February 2, 1988 when he filed a Motion to Nullify the Compromise Agreement which was discarded for lack of merit by the trial court on December 6, 1991. If the Motion to Nullify the Compromise Agreement is treated as a motion for reconsideration and/or for new trial, then Acero should have filed an appeal from the December 7, 1987 Decision and assigned as error the December 6, 1991 Order denying said motion pursuant to the rules existing prior to the 1997 Rules of Civil Procedure. He failed to file such appeal but instead filed a petition for certiorari under Rule 65 with the CA on April 4, 1994. This is prejudicial to respondent Acero as the special civil action of certiorari is not the proper remedy. If the aggrieved party does not interpose a timely appeal from the adverse decision, a special civil action for certiorari is not available as a substitute for a lost appeal.[43]

What respondent Acero should have done was to file a petition for relief from judgment when he became aware that he lost his right of appeal on December 26, 1991. Even with this approach, defendant Acero was also remiss.

In sum, the petition for certiorari instituted by respondent Acero with the CA is a wrong remedy; a simple appeal to the CA would have sufficed. Since the certiorari action is an improper legal action, the petition should have been rejected outright by the CA.

Assuming arguendo that a petition for certiorari with the CA is the appropriate remedy, still, said petition was filed out of time.

The petition before the CA was filed prior to the effectivity of the 1997 Rules of Court when there was still no prescribed period within which to file said petition, unlike in the present Section 4 of Rule 65 wherein a Petition for Certiorari and Mandamus must be filed within 60 days from notice of the judgment, final order, or resolution appealed from, or of the denial of the petitioners' motion for new trial or reconsideration after notice of judgment.

Section 4, Rule 65 previously read:

Section 4. Where petition filed.—The petition may be filed in the Supreme Court, or, if it relates to the acts or omissions of an inferior court, or of a corporation, board or officer or person, in a Court of First Instance having jurisdiction thereof. It may also be filed in the Court of Appeals if it is in aid of its appellate jurisdiction.

Petitions for certiorari under Rules 43, 44 and 45 shall be filed with the Supreme Court.

Before the 1997 Rules of Civil Procedure became effective on July 1, 1997, the yardstick to determine the timeliness of a petition for certiorari under Rule 65 was the reasonableness of the time that had elapsed from receipt of notice of the assailed order/s of the trial court up to the filing of the appeal with the CA.[44] In a

number of cases, the Court ruled that reasonable time can be pegged at three (3) months.[45]

In the present case, the Order denying the Motion to Nullify the Compromise Agreement was issued on December 6, 1991. The petition for certiorari was filed on April 4, 1994. The period of two (2) years and four (4) months cannot be considered fair and reasonable. With respect to the January 15, 1992 Order granting the writ of execution and the October 6, 1992 Order directing the issuance of the writ, it is evident that the petition before the CA was filed more than three (3) months after the receipt by respondent Acero of said orders and the filing of the petition is likewise unreasonably delayed.

On the second issue, petitioners assail the ruling of the appellate court that David Victorio who is claimed to be the lessor of Acero, and who is impleaded as a defendant in Civil Case No. 9581-P, was not made a party to the Compromise Agreement and hence, he may later “assail the compromise agreement as not binding upon him, thereby giving rise to another suit.”[46]

We find merit in petitioners’ position.

The CA was unable to cite a law or jurisprudence that supports the annulment of a compromise agreement if one of the parties in a case is not included in the settlement. The only legal effect of the non-inclusion of a party in a compromise agreement is that said party cannot be bound by the terms of the agreement. The Compromise Agreement shall however be “valid and binding as to the parties who signed thereto.”[47]

The issue of ownership between petitioners and David Victorio can be threshed out by the trial court in Civil Case No. 9581-P. The proper thing to do is to remand the case for continuation of the proceedings between petitioners and defendant David Victorio but not to annul the partial judgment between petitioners and respondent Acero which has been pending execution for 20 years.

With regard to the third issue, petitioners assail the ruling of the CA that the Compromise Agreement is vague as there is still a need to determine the exact metes and bounds of the encroachment on the petitioners’ lot.

The object of a contract, in order to be considered as “certain,” need not specify such object with absolute certainty. It is enough that the object is determinable in order for it to be considered as “certain.” Article 1349 of the Civil Code provides:

Article 1349. The object of every contract must be determinate as to its kind. The fact that the quantity is not determinate shall not be an obstacle to the existence of the contract, provided it is possible to determine the same, without the need of a new contract between the parties.

In the instant case, the title over the subject property contains a technical description that provides the metes and bounds of the property of petitioners. Such technical description is the final determinant of the extent of the property of petitioners. Thus, the area of petitioners’ property is determinable based on the technical descriptions contained in the TCTs.

Notably, the determination made by the Bureau of Lands—that Verification Survey Plan No. Vs-13-000135 is the correct Plan—is controlling and shall prevail over Verification Survey Plan No. Vs-13-000185 submitted by Acero. Findings of fact by administrative agencies, having acquired expertise in their field of specialization, must be given great weight by this Court.[48] Even if the exact area of encroachment is not specified in the agreement, it can still be determined from the technical description of the title of plaintiff which defendant Acero admitted to be correct. Thus, the object of the Compromise Agreement is considered determinate and specific.

Moreover, “vagueness” is defined in Black’s Law Dictionary as: “indefinite, uncertain; not susceptible of being understood.”

A perusal of the entire Compromise Agreement will negate any contention that there is vagueness in its provisions. It must be remembered that in the interpretation of contracts, an instrument must be construed so as to give effect to all the provisions of these contracts.[49] Thus, the Compromise Agreement must be considered as a whole.

The alleged vagueness revolves around the term “portion” in paragraph three (3) of the Compromise Agreement,[50] taken together with paragraph one (1) which we quote:

1. That defendants admit and recognize the ownership of the plaintiff over the property subject of this case, covered by TCT No. S-107639 (75600), S-107643 (67007), and S-107640 (67006) with a total area of 26,705 square meters;

x x x x

3. That defendant Acero admits that the property he is presently occupying by way of lease is encroaching on a portion of the property of the plaintiff and assume and undertakes to vacate, remove and clear any and all structures erected inside the property of the plaintiff by himself and other third parties, duly authorized and/or who have an existing agreement with defendant Acero, and shall deliver said portion of the property of the plaintiff free and clear of any unauthorized structures, shanties, occupants, squatters or lessees within a period of sixty (60) days from date of signing of this compromise agreement. Should defendant Acero fail in his obligation to vacate, remove and clear the structures erected inside the property of the plaintiff within the period of 60 days afore-mentioned, plaintiff shall be entitled to a writ of execution for the immediate demolition or removal of said structure to fully implement this agreement; and ejectment of all squatters and occupants and lessees, including the dependents to fully implement this agreement. (Emphasis supplied.)

Respondent harps on their contention that the term “portion” in paragraph 3 of the Compromise Agreement refers to the property which they are occupying. Respondent’s interpretation of paragraph 3 of the Compromise Agreement is mistaken as it is anchored on his belief that the encroachment on the property of petitioners is only a portion and not the entire lot he is occupying. This is apparent from his Supplement to his Petition for Certiorari and Mandamus where he explained:

Petitioner [Acero] entered into this agreement because of his well-founded belief and conviction that a portion of the property he is occupying encroaches only a portion of the property of private respondent. In fine, only a portion of the property petitioner is occupying (not all of it) encroaches on a portion of the property of private respondent.[51]

This contention is incorrect. The agreement is clear that respondent Acero admitted that “the property he is presently occupying by way of lease is encroaching on a portion of the property of the plaintiff.” Thus, whether it is only a portion or the entire lot Acero is leasing that will be affected by the agreement is of no importance. What controls is the encroachment on the lot of petitioner Domingo Realty regardless of whether the entire lot or only a portion occupied by Acero will be covered by the encroachment.

While it may be the honest belief of respondent Acero that only a portion of the lot he is occupying encroaches on the 26,705-square meter lot of petitioner Domingo Realty and later, Ayala Steel, the Court finds that the true and real agreement between the parties is that any encroachment by respondent Acero on the lot of petitioners will be surrendered to the latter. This is apparent from the undertaking in paragraph 3 that defendant Acero “undertakes to vacate, remove and clear any and all structures erected inside the property of the plaintiff.” This prestation results from the admission against the interest of respondent Acero that he “admits and recognizes the ownership of the plaintiff (Domingo Realty)” over the subject lot. The controlling word therefore is “encroachment”—whether it involves a portion of or the entire lot claimed by defendant David Victorio. To reiterate, the word “portion” refers to petitioners’ lot and not that of Acero’s. Contrary to the disposition of the

CA, we rule that the terms of the Compromise Agreement are clear and leave no doubt upon the intent of the parties that respondent Acero will vacate, remove, and clear any and all structures erected inside petitioners' property, the ownership of which is not denied by him. The literal meaning of the stipulations in the Compromise Agreement will control under Article 1370 of the Civil Code. Thus, the alleged vagueness in the object of the agreement cannot be made an excuse for its nullification.

Finally, with regard to the fourth issue, petitioners question the finding of the CA that the compromise judgment can be set aside on the ground of mistake under Article 2038 of the Civil Code, because respondent Acero gave his consent to the Compromise Agreement in good faith that he would only vacate a portion of his lot in favor of petitioner Domingo Realty.

We rule otherwise.

Articles 2038 and 1330 of the Civil Code allow a party to a contract, on the ground of mistake, to nullify a compromise agreement, viz:

Article 2038. A compromise in which there is mistake, fraud, violence, intimidation, undue influence, or falsity of documents, is subject to the provisions of Article 1330 of this Code.

Article 1330. A contract where the consent is given through mistake, violence, intimidation, undue influence, or fraud is voidable (emphasis supplied).

"Mistake" has been defined as a "misunderstanding of the meaning or implication of something" or "a wrong action or statement proceeding from a faulty judgment x x x." [52]

Article 1333 of the Civil Code of the Philippines however states that "there is no mistake if the party alleging it knew the doubt, contingency or risk affecting the object of the contract."

Under this provision of law, it is presumed that the parties to a contract know and understand the import of their agreement. Thus, civil law expert Arturo M. Tolentino opined that:

To invalidate consent, the error must be excusable. It must be real error, and not one that could have been avoided by the party alleging it. The error must arise from facts unknown to him. He cannot allege an error which refers to a fact known to him, or which he should have known by ordinary diligent examination of the facts. An error so patent and obvious that nobody could have made it, or one which could have been avoided by ordinary prudence, cannot be invoked by the one who made it in order to annul his contract. A mistake that is caused by manifest negligence cannot invalidate a juridical act. [53] (Emphasis supplied.)

Prior to the execution of the Compromise Agreement, respondent Acero was already aware of the technical description of the titled lots of petitioner Domingo Realty and more so, of the boundaries and area of the lot he leased from David Victorio. Before consenting to the agreement, he could have simply hired a geodetic engineer to conduct a verification survey and determine the actual encroachment of the area he was leasing on the titled lot of petitioner Domingo Realty. Had he undertaken such a precautionary measure, he would have known that the entire area he was occupying intruded into the titled lot of petitioners and possibly, he would not have signed the agreement.

In this factual milieu, respondent Acero could have easily averted the alleged mistake in the contract; but through palpable neglect, he failed to undertake the measures expected of a person of ordinary prudence. Without doubt, this kind of mistake cannot be resorted to by respondent Acero as a ground to nullify an otherwise clear, legal, and valid agreement, even though the document may become adverse and even ruinous to his business.

Moreover, respondent failed to state in the Compromise Agreement that he intended to vacate only a portion of

the property he was leasing. Such provision being beneficial to respondent, he, in the exercise of the proper diligence required, should have made sure that such matter was specified in the Compromise Agreement. Respondent Acero's failure to have the said stipulation incorporated in the Compromise Agreement is negligence on his part and insufficient to abrogate said agreement.

In *Torres v. Court of Appeals*,^[54] which was also cited in *LL and Company Development and Agro-Industrial Corporation v. Huang Chao Chun*,^[55] it was held that:

Under Article 1315 of the Civil Code, contracts bind the parties not only to what has been expressly stipulated, but also to all necessary consequences thereof, as follows:

ART. 1315. Contracts are perfected by mere consent, and from that moment the parties are bound not only to the fulfillment of what has been expressly stipulated but also to all the consequences which, according to their nature, may be in keeping with good faith, usage and law.

It is undisputed that petitioners are educated and are thus presumed to have understood the terms of the contract they voluntarily signed. If it was not in consonance with their expectations, they should have objected to it and insisted on the provisions they wanted.

Courts are not authorized to extricate parties from the necessary consequences of their acts, and the fact that the contractual stipulations may turn out to be financially disadvantageous will not relieve parties thereto of their obligations. They cannot now disavow the relationship formed from such agreement due to their supposed misunderstanding of its terms.

The mere fact that the Compromise Agreement favors one party does not render it invalid. We ruled in *Amarante v. Court of Appeals* that:

Compromises are generally to be favored and cannot be set aside if the parties acted in good faith and made reciprocal concessions to each other in order to terminate a case. This holds true even if all the gains appear to be on one side and all the sacrifices on the other (emphasis supplied).^[56]

One final note. While the Court can commiserate with respondent Acero in his sad plight, nonetheless we have no power to make or alter contracts in order to save him from the adverse stipulations in the Compromise Agreement. Hopefully this case will serve as a precaution to prospective parties to a contract involving titled lands for them to exercise the diligence of a reasonably prudent person by undertaking measures to ensure the legality of the title and the accurate metes and bounds of the lot embraced in the title. It is advisable that such parties (1) verify the origin, history, authenticity, and validity of the title with the Office of the Register of Deeds and the Land Registration Authority; (2) engage the services of a competent and reliable geodetic engineer to verify the boundary, metes, and bounds of the lot subject of said title based on the technical description in the said title and the approved survey plan in the Land Management Bureau; (3) conduct an actual ocular inspection of the lot; (4) inquire from the owners and possessors of adjoining lots with respect to the true and legal ownership of the lot in question; (5) put up signs that said lot is being purchased, leased, or encumbered; and (6) undertake such other measures to make the general public aware that said lot will be subject to alienation, lease, or encumbrance by the parties. Respondent Acero, for all his woes, may have a legal recourse against lessor David Victorio who inveigled him to lease the lot which turned out to be owned by another.

WHEREFORE, the petition is hereby GRANTED and the assailed Decision and Resolution of the CA are REVERSED. The questioned Orders of the Pasay City RTC dated December 6, 1991, January 15, 1992, October 6, 1992, January 12, 1994, and February 1, 1994, including the Decision dated December 7, 1987, are AFFIRMED. The case is remanded to the Pasay RTC, Branch III for further proceedings with respect to petitioner Domingo Realty's November 15, 1981 Complaint^[57] against one of the defendants, David Victorio. No costs.

SO ORDERED.

Quisumbing, (Chairperson), Carpio, Carpio-Morales, and Tinga, JJ., concur.

[1] Penned by Associate Justice Ricardo P. Galvez, with Associate Justices Emeterio C. Cui (Chairperson) and Antonio P. Solano concurring; rollo, pp. 33-40.

[2] Id. at 43.

[3] Records, pp. 5-11.

[4] Id. at 5.

[5] CA rollo, pp. 61-64.

[6] The subject property of this case consists of three (3) parcels of land, and respondent Acero does not occupy all of these lands. Other parties occupying the other parts of the subject property were included in the case and denominated as John and Peter Does. John Doe appears to have turned out to be Recato Dy who, according to the Compromise Agreement, was also claiming part of the subject property by virtue of Transfer Certificate of Title No. 108027. Dy later on admitted in the Compromise Agreement that such TCT was not genuine and that the property indicated in the TCT belonged to petitioners.

[7] Records, pp. 15-16.

[8] Id. at 20.

[9] Id. at 21.

[10] Id. at 22-23.

[11] Id. at 29-30.

[12] Id. at 31.

[13] Id. at 35-36.

[14] Id. at 41-43B.

[15] Id. at 43C.

[16] Id. at 57.

[17] Id. at 59.

[18] Id. at 62-65.

[19] Id. at 66-68.

[20] Id. at 69-70.

[21] Id. at 71.

[22] Id. at 72-75.

[23] Id. at 74.

[24] Id. at 78-79.

- [25] Id. at 81-85.
- [26] Id. at 143.
- [27] Id. at 150-152.
- [28] Id. at 199-200.
- [29] Id. at 203.
- [30] Id. at 210.
- [31] Id. at 211.
- [32] Id. at 212-220.
- [33] Id. at 229.
- [34] CA rollo, p. 3-41.
- [35] Supra note 1, at 40.
- [36] Id. at 39.
- [37] CA rollo, pp. 250-261.
- [38] Rollo, pp. 15-16.
- [39] Magbanua v. Uy, G.R. No. 161003, May 6, 2005, 458 SCRA 184, 191.
- [40] I Regalado, CIVIL LAW COMPENDIUM 394 (2002).
- [41] Id. at 395, citation omitted.
- [42] Supra note 20, at 69.
- [43] Fajardo v. Bautista, G.R. Nos. 102193-97, May 10, 1994, 232 SCRA 291; Calalang v. Register of Deeds of Quezon City, G.R. Nos. 76265 & 83280, March 11, 1994, 231 SCRA 88; and Hipolito v. CA, G.R. Nos. 108478-79, February 21, 1994, 230 SCRA 191.
- [44] Fernandez v. National Labor Relations Commission, G.R. No. 106090, February 28, 1994, 230 SCRA 460, 465.
- [45] People v. Magallanes, G.R. Nos. 118013-14, October 11, 1995, 249 SCRA 212, 229 and Paderanga v. Court of Appeals, G.R. No. 115407, August 28, 1995, 247 SCRA 741, 759.
- [46] Rollo, p. 38.
- [47] SMI Fish Industries, Inc. v. NLRC, G.R. Nos. 96952-56, September 2, 1992, 213 SCRA 444, 448.
- [48] See Pan Pacific Industrial Sales Co., Inc. v. NLRC, G.R. No. 96191, March 4, 1994, 194 SCRA 633; Five J Taxi v. NLRC, G.R. No. 100138, August 5, 1992, 212 SCRA 225; and San Miguel Corporation v. Javate, Jr., G.R. No. 54244, January 27, 1992, 205 SCRA 469.
- [49] Rules of Court, Rule 130, Sec. 11.
- [50] Supra note 6.
- [51] Rollo, p. 22.

[52] WEBSTER'S THIRD NEW INTERNATIONAL DICTIONARY OF THE ENGLISH LANGUAGE UNABRIDGED 1446 (1993).

[53] IV COMMENTARIES AND JURISPRUDENCE ON THE CIVIL CODE OF THE PHILIPPINES 486-487.

[54] G.R. No. 134559, December 9, 1999, 320 SCRA 428, 436-437.

[55] G.R. No. 142378, March 7, 2002, 378 SCRA 612, 624-625.

[56] G.R. No. 49698, May 3, 1994, 232 SCRA 104, 108.

[57] Supra note 3.

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