EQUATORIAL REALTY DEVELOPMENT, INC., PETITIONER, VS. MAYFAIR THEATER, INC., RESPONDENT.

G.R. No. 133879. November 21, 2001

Ponente: PANGANIBAN, J.

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PANGANIBAN, J.:

General propositions do not decide specific cases. Rather, laws are interpreted in the context of the peculiar factual situation of each proceeding. Each case has its own flesh and blood and cannot be ruled upon on the basis of isolated clinical classroom principles.

While we agree with the general proposition that a contract of sale is valid until rescinded, it is equally true that ownership of the thing sold is not acquired by mere agreement, but by tradition or delivery. The peculiar facts of the present controversy as found by this Court in an earlier relevant Decision show that delivery was not actually effected; in fact, it was prevented by a legally effective impediment. Not having been the owner, petitioner cannot be entitled to the civil fruits of ownership like rentals of the thing sold. Furthermore, petitioner's bad faith, as again demonstrated by the specific factual milieu of said Decision, bars the grant of such benefits. Otherwise, bad faith would be rewarded instead of punished.

The Case

Filed before this Court is a Petition for Review[1] under Rule 45 of the Rules of Court, challenging the March 11, 1998 Order[2] of the Regional Trial Court of Manila (RTC), Branch 8, in Civil Case No. 97-85141. The dispositive portion of the assailed Order reads as follows:

> "WHEREFORE, the motion to dismiss filed by defendant Mayfair is hereby GRANTED, and the complaint filed by plaintiff Equatorial is hereby DISMISSED."[3]

Also questioned is the May 29, 1998 RTC Order[4] denying petitioner's Motion for Reconsideration.

The Facts

The main factual antecedents of the present Petition are matters of record, because it arose out of an earlier case decided by this Court on November 21, 1996, entitled Equatorial Realty Development, Inc. v. Mayfair Theater, Inc.[5] (henceforth referred to as the "mother case"), docketed as GR No. 106063.

Carmelo & Bauermann, Inc. ("Carmelo") used to own a parcel of land, together with two 2-storey buildings constructed thereon, located at Claro M. Recto Avenue, Manila, and covered by TCT No. 18529 issued in its name by the Register of Deeds of Manila.

On June 1, 1967, Carmelo entered into a Contract of Lease with Mayfair Theater Inc. ("Mayfair") for a period of 20 years. The lease covered a portion of the second floor and mezzanine of a two-storey building with about 1,610 square meters of floor area, which respondent used as a movie house known as Maxim Theater.

Two years later, on March 31, 1969, Mayfair entered into a second Contract of Lease with Carmelo for the lease of another portion of the latter's property -- namely, a part of the second floor of the two-storey building, with a floor area of about 1,064 square meters; and two store spaces on the ground floor and the mezzanine, with a combined floor area of about 300 square meters. In that space, Mayfair put up another movie house known as Miramar Theater. The Contract of Lease was likewise for a period of 20 years.

Both leases contained a provision granting Mayfair a right of first refusal to purchase the subject properties. However, on July 30, 1978 - within the 20-year-lease term -- the subject properties were sold by Carmelo to Equatorial Realty Development, Inc. ("Equatorial") for the total sum of P11,300,000, without their first being offered to Mayfair.

As a result of the sale of the subject properties to Equatorial, Mayfair filed a Complaint before the Regional Trial Court of Manila (Branch 7) for (a) the annulment of the Deed of Absolute Sale between Carmelo and Equatorial, (b) specific performance, and (c) damages. After trial on the merits, the lower court rendered a Decision in favor of Carmelo and Equatorial. This case, entitled "Mayfair Theater, Inc. v. Carmelo and Bauermann, Inc., et al.," was docketed as Civil Case No. 118019.

On appeal (docketed as CA-GR CV No. 32918), the Court of Appeals (CA) completely reversed and set aside the judgment of the lower court.

The controversy reached this Court via GR No. 106063. In this mother case, it denied the Petition for Review in this wise:

> "WHEREFORE, the petition for review of the decision of the Court of Appeals, dated June 23, 1992, in CA-G.R. CV No. 32918, is HEREBY DENIED. The Deed of Absolute Sale between petitioners Equatorial Realty Development, Inc. and Carmelo & Bauermann, Inc. is hereby deemed rescinded; Carmelo & Bauermann is ordered to return to petitioner Equatorial Realty Development the purchase price. The latter is directed to execute the deeds and documents necessary to return ownership to Carmelo & Bauermann of the disputed lots. Carmelo & Bauermann is ordered to allow Mayfair Theater, Inc. to buy the aforesaid lots for P11,300,000.00."[6]

The foregoing Decision of this Court became final and executory on March 17, 1997. On April 25, 1997, Mayfair filed a Motion for Execution, which the trial court granted.

However, Carmelo could no longer be located. Thus, following the order of execution of the trial court, Mayfair deposited with the clerk of court a quo its payment to Carmelo in the sum of P11,300,000 less P847,000 as withholding tax. The lower court issued a Deed of Reconveyance in favor of Carmelo and a Deed of Sale in favor of Mayfair. On the basis of these documents, the Registry of Deeds of Manila cancelled Equatorial's titles and issued new Certificates of Title[7] in the name of Mayfair.

Ruling on Equatorial's Petition for Certiorari and Prohibition contesting the foregoing manner of execution, the CA in its Resolution of November 20, 1998, explained that Mayfair had no right to deduct the P847,000 as withholding tax. Since Carmelo could no longer be located, the appellate court ordered Mayfair to deposit the said sum with the Office of the Clerk of Court, Manila, to complete the full amount of P11,300,000 to be turned over to Equatorial.

Equatorial questioned the legality of the above CA ruling before this Court in GR No. 136221 entitled "Equatorial Realty Development, Inc. v. Mayfair Theater, Inc." In a Decision promulgated on May 12, 2000,[8] this Court directed the trial court to follow strictly the Decision in GR No. 106063, the mother case. It explained its ruling in these words:

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> "We agree that Carmelo and Bauermann is obliged to return the entire amount of eleven million three hundred thousand pesos (P11,300,000.00) to Equatorial. On the other hand, Mayfair may not deduct from the purchase price the amount of eight hundred forty-seven thousand pesos (P847,000.00) as withholding tax. The duty to withhold taxes due, if any, is imposed on the seller, Carmelo and Bauermann, Inc."[9]

Meanwhile, on September 18, 1997 -- barely five months after Mayfair had submitted its Motion for Execution before the RTC of Manila, Branch 7 -- Equatorial filed with the Regional Trial Court of Manila, Branch 8, an action for the collection of a sum of money against Mayfair, claiming payment of rentals or reasonable compensation for the defendant's use of the subject premises after its lease contracts had expired. This action was the progenitor of the present case.

In its Complaint, Equatorial alleged among other things that the Lease Contract covering the premises occupied by Maxim Theater expired on May 31, 1987, while the Lease Contract covering the premises occupied by Miramar Theater lapsed on March 31, 1989.[10] Representing itself as the owner of the subject premises by reason of the Contract of Sale on July 30, 1978, it claimed rentals arising from Mayfair's occupation thereof.

Ruling of the RTC Manila, Branch 8

As earlier stated, the trial court dismissed the Complaint via the herein assailed Order and denied the Motion for Reconsideration filed by Equatorial.[11]

The lower court debunked the claim of petitioner for unpaid back rentals, holding that the rescission of the Deed of Absolute Sale in the mother case did not confer on Equatorial any vested or residual proprietary rights, even in expectancy.

In granting the Motion to Dismiss, the court a quo held that the critical issue was whether Equatorial was the owner of the subject property and could thus enjoy the fruits or rentals therefrom. It declared the rescinded Deed of Absolute Sale as "void at its inception as though it did not happen."

The trial court ratiocinated as follows:

> "The meaning of rescind in the aforequoted decision is to set aside. In the case of Ocampo v. Court of Appeals, G.R. No. 97442, June 30, 1994, the Supreme Court held that, `to rescind is to declare a contract void in its inception and to put an end as though it never were. It is not merely to terminate it and release parties from further obligations to each other but to abrogate it from the beginning and restore parties to relative positions which they would have occupied had no contract ever been made.'
>
> "Relative to the foregoing definition, the Deed of Absolute Sale between Equatorial and Carmelo dated July 31, 1978 is void at its inception as though it did not happen.
>
> "The argument of Equatorial that this complaint for backrentals as `reasonable compensation for use of the subject property after expiration of the lease contracts presumes that the Deed of Absolute Sale dated July 30, 1978 from whence the fountain of Equatorial's alleged property rights flows is still valid and existing.
>
> xxx xxx xxx
>
> "The subject Deed of Absolute Sale having been rescinded by the Supreme Court, Equatorial is not the owner and does not have any right to demand backrentals from the subject property. x x x."[12]

The trial court added: "The Supreme Court in the Equatorial case, G.R. No. 106063, has categorically stated that the Deed of Absolute Sale dated July 31, 1978 has been rescinded subjecting the present complaint to res judicata."[13]

Hence, the present recourse.[14]

Issues

Petitioner submits, for the consideration of this Court, the following issues:[15]

> "A.
>
> The basis of the dismissal of the Complaint by the Regional Trial Court not only disregards basic concepts and principles in the law on contracts and in civil law, especially those on rescission and its corresponding legal effects, but also ignores the dispositive portion of the Decision of the Supreme Court in G.R. No. 106063 entitled `Equatorial Realty Development, Inc. & Carmelo & Bauermann, Inc. vs. Mayfair Theater, Inc.'
>
> "B.
>
> The Regional Trial Court erred in holding that the Deed of Absolute Sale in favor of petitioner by Carmelo & Bauermann, Inc., dated July 31, 1978, over the premises used and occupied by respondent, having been `deemed rescinded' by the Supreme Court in G.R. No. 106063, is `void at its inception as though it did not happen.'
>
> "C.
>
> The Regional Trial Court likewise erred in holding that the aforesaid Deed of Absolute Sale, dated July 31, 1978, having been `deemed rescinded' by the Supreme Court in G.R. No. 106063, petitioner `is not the owner and does not have any right to demand backrentals from the subject property,' and that the rescission of the Deed of Absolute Sale by the Supreme Court does not confer to petitioner `any vested right nor any residual proprietary rights even in expectancy.'
>
> "D.
>
> The issue upon which the Regional Trial Court dismissed the civil case, as stated in its Order of March 11, 1998, was not raised by respondent in its Motion to Dismiss.
>
> "E.
>
> The sole ground upon which the Regional Trial Court dismissed Civil Case No. 97-85141 is not one of the grounds of a Motion to Dismiss under Sec. 1 of Rule 16 of the 1997 Rules of Civil Procedure."

Basically, the issues can be summarized into two: (1) the substantive issue of whether Equatorial is entitled to back rentals; and (2) the procedural issue of whether the court a quo`s dismissal of Civil Case No. 97-85141 was based on one of the grounds raised by respondent in its Motion to Dismiss and covered by Rule 16 of the Rules of Court.

This Court's Ruling

The Petition is not meritorious.

First Issue:
Ownership of Subject Properties

We hold that under the peculiar facts and circumstances of the case at bar, as found by this Court en banc in its Decision promulgated in 1996 in the mother case, no right of ownership was transferred from Carmelo to Equatorial in view of a patent failure to deliver the property to the buyer.

Rental - a Civil Fruit of Ownership

To better understand the peculiarity of the instant case, let us begin with some basic parameters. Rent is a civil fruit[16] that belongs to the owner of the property producing it[17] by right of accession.[18] Consequently and ordinarily, the rentals that fell due from the time of the perfection of the sale to petitioner until its rescission by final judgment should belong to the owner of the property during that period.

By a contract of sale, "one of the contracting parties obligates himself to transfer ownership of and to deliver a determinate thing and the other to pay therefor a price certain in money or its equivalent."[19]

Ownership of the thing sold is a real right,[20] which the buyer acquires only upon delivery of the thing to him "in any of the ways specified in articles 1497 to 1501, or in any other manner signifying an agreement that the possession is transferred from the vendor to the vendee."[21] This right is transferred, not by contract alone, but by tradition or delivery.[22] Non nudis pactis sed traditione dominia rerum transferantur. And there is said to be delivery if and when the thing sold "is placed in the control and possession of the vendee."[23] Thus, it has been held that while the execution of a public instrument of sale is recognized by law as equivalent to the delivery of the thing sold,[24] such constructive or symbolic delivery, being merely presumptive, is deemed negated by the failure of the vendee to take actual possession of the land sold.[25]

Delivery has been described as a composite act, a thing in which both parties must join and the minds of both parties concur. It is an act by which one party parts with the title to and the possession of the property, and the other acquires the right to and the possession of the same. In its natural sense, delivery means something in addition to the delivery of property or title; it means transfer of possession.[26] In the Law on Sales, delivery may be either actual or constructive, but both forms of delivery contemplate "the absolute giving up of the control and custody of the property on the part of the vendor, and the assumption of the same by the vendee."[27]

Possession Never Acquired by Petitioner

Let us now apply the foregoing discussion to the present issue. From the peculiar facts of this case, it is clear that petitioner never took actual control and possession of the property sold, in view of respondent's timely objection to the sale and the continued actual possession of the property. The objection took the form of a court action impugning the sale which, as we know, was rescinded by a judgment rendered by this Court in the mother case. It has been held that the execution of a contract of sale as a form of constructive delivery is a legal fiction. It holds true only when there is no impediment that may prevent the passing of the property from the hands of the vendor into those of the vendee.[28] When there is such impediment, "fiction yields to reality - the delivery has not been effected."[29]

Hence, respondent's opposition to the transfer of the property by way of sale to Equatorial was a legally sufficient impediment that effectively prevented the passing of the property into the latter's hands.

This was the same impediment contemplated in Vda. de Sarmiento v. Lesaca,[30] in which the Court held as follows:

> "The question that now arises is: Is there any stipulation in the sale in question from which we can infer that the vendor did not intend to deliver outright the possession of the lands to the vendee? We find none. On the contrary, it can be clearly seen therein that the vendor intended to place the vendee in actual possession of the lands immediately as can be inferred from the stipulation that the vendee `takes actual possession thereof x x x with full rights to dispose, enjoy and make use thereof in such manner and form as would be most advantageous to herself.' The possession referred to in the contract evidently refers to actual possession and not merely symbolical inferable from the mere execution of the document.
>
> "Has the vendor complied with this express commitment? she did not. As provided in Article 1462, the thing

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> sold shall be deemed delivered when the vendee is placed in the control and possession thereof, which situation does not here obtain because from the execution of the sale up to the present the vendee was never able to take possession of the lands due to the insistent refusal of Martin Deloso to surrender them claiming ownership thereof. And although it is postulated in the same article that the execution of a public document is equivalent to delivery, this legal fiction only holds true when there is no impediment that may prevent the passing of the property from the hands of the vendor into those of the vendee. x x x."[31]

The execution of a public instrument gives rise, therefore, only to a prima facie presumption of delivery. Such presumption is destroyed when the instrument itself expresses or implies that delivery was not intended; or when by other means it is shown that such delivery was not effected, because a third person was actually in possession of the thing. In the latter case, the sale cannot be considered consummated.

However, the point may be raised that under Article 1164 of the Civil Code, Equatorial as buyer acquired a right to the fruits of the thing sold from the time the obligation to deliver the property to petitioner arose.[32] That time arose upon the perfection of the Contract of Sale on July 30, 1978, from which moment the laws provide that the parties to a sale may reciprocally demand performance.[33] Does this mean that despite the judgment rescinding the sale, the right to the fruits[34] belonged to, and remained enforceable by, Equatorial?

Article 1385 of the Civil Code answers this question in the negative, because "[r]escission creates the obligation to return the things which were the object of the contract, together with their fruits, and the price with its interest; x x x." Not only the land and building sold, but also the rental payments paid, if any, had to be returned by the buyer.

Another point. The Decision in the mother case stated that "Equatorial x x x has received rents" from Mayfair "during all the years that this controversy has been litigated." The Separate Opinion of Justice Teodoro Padilla in the mother case also said that Equatorial was "deriving rental income" from the disputed property. Even herein ponente`s Separate Concurring Opinion in the mother case recognized these rentals. The question now is: Do all these statements concede actual delivery?

The answer is "No." The fact that Mayfair paid rentals to Equatorial during the litigation should not be interpreted to mean either actual delivery or ipso facto recognition of Equatorial's title.

The CA Records of the mother case[35] show that Equatorial - as alleged buyer of the disputed properties and as alleged successor-in-interest of Carmelo's rights as lessor - submitted two ejectment suits against Mayfair. Filed in the Metropolitan Trial Court of Manila, the first was docketed as Civil Case No. 121570 on July 9, 1987; and the second, as Civil Case No. 131944 on May 28, 1990. Mayfair eventually won them both. However, to be able to maintain physical possession of the premises while awaiting the outcome of the mother case, it had no choice but to pay the rentals.

The rental payments made by Mayfair should not be construed as a recognition of Equatorial as the new owner. They were made merely to avoid imminent eviction. It is in this context that one should understand the aforequoted factual statements in the ponencia in the mother case, as well as the Separate Opinion of Mr. Justice Padilla and the Separate Concurring Opinion of the herein ponente.

At bottom, it may be conceded that, theoretically, a rescissible contract is valid until rescinded. However, this general principle is not decisive to the issue of whether Equatorial ever acquired the right to collect rentals. What is decisive is the civil law rule that ownership is acquired, not by mere agreement, but by tradition or delivery. Under the factual environment of this controversy as found by this Court in the mother case, Equatorial was never put in actual and effective control or possession of the property because of Mayfair's timely objection.

As pointed out by Justice Holmes, general propositions do not decide specific cases. Rather, "laws are interpreted in the context of the peculiar factual situation of each case. Each case has its own flesh and blood and cannot be decided on the basis of isolated clinical classroom principles."[36]

In short, the sale to Equatorial may have been valid from inception, but it was judicially rescinded before it could be consummated. Petitioner never acquired ownership, not because the sale was void, as erroneously claimed by the trial court, but because the sale was not consummated by a legally effective delivery of the property sold.

Benefits Precluded by Petitioner's Bad Faith

Furthermore, assuming for the sake of argument that there was valid delivery, petitioner is not entitled to any benefits from the "rescinded" Deed of Absolute Sale because of its bad faith. This being the law of the mother case decided in 1996, it may no longer be changed because it has long become final and executory. Petitioner's bad faith is set forth in the following pertinent portions of the mother case:

> "First and foremost is that the petitioners acted in bad faith to render Paragraph 8 `inutile.'
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> xxx xxx xxx
>
> "Since Equatorial is a buyer in bad faith, this finding renders the sale to it of the property in question rescissible. We agree with respondent Appellate Court that the records bear out the fact that Equatorial was aware of the lease contracts because its lawyers had, prior to the sale, studied the said contracts. As such, Equatorial cannot tenably claim to be a purchaser in good faith, and, therefore, rescission lies.
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> xxx xxx xxx
>
> "As also earlier emphasized, the contract of sale between Equatorial and Carmelo is characterized by bad faith, since it was knowingly entered into in violation of the rights of and to the prejudice of Mayfair. In fact, as correctly observed by the Court of Appeals, Equatorial admitted that its lawyers had studied the contract of lease prior to the sale. Equatorial's knowledge of the stipulations therein should have cautioned it to look further into the agreement to determine if it involved stipulations that would prejudice its own interests.
>
> xxx xxx xxx
>
> "On the part of Equatorial, it cannot be a buyer in good faith because it bought the property with notice and full knowledge that Mayfair had a right to or interest in the property superior to its own. Carmelo and Equatorial took unconscientious advantage of Mayfair."[37] (Italics supplied)

Thus, petitioner was and still is entitled solely to the return of the purchase price it paid to Carmelo; no more, no less. This Court has firmly ruled in the mother case that neither of them is entitled to any consideration of equity, as both "took unconscientious advantage of Mayfair."[38]

In the mother case, this Court categorically denied the payment of interest, a fruit of ownership. By the same token, rentals, another fruit of ownership, cannot be granted without mocking this Court's en banc Decision, which has long become final.

Petitioner's claim of reasonable compensation for respondent's use and occupation of the subject property from the time the lease expired cannot be countenanced. If it suffered any loss, petitioner must bear it in silence, since it had wrought that loss upon itself. Otherwise, bad faith would be rewarded instead of punished.

We uphold the trial court's disposition, not for the reason it gave, but for (a) the patent failure to deliver the property and (b) petitioner's bad faith, as above discussed.

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Second Issue:
Ground in Motion to Dismiss

Procedurally, petitioner claims that the trial court deviated from the accepted and usual course of judicial proceedings when it dismissed Civil Case No. 97-85141 on a ground not raised in respondent's Motion to Dismiss. Worse, it allegedly based its dismissal on a ground not provided for in a motion to dismiss as enunciated in the Rules of Court.

We are not convinced. A review of respondent's Motion to Dismiss Civil Case No. 97-85141 shows that there were two grounds invoked, as follows:

> "(A)
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> Plaintiff is guilty of forum-shopping.
>
> "(B)
>
> Plaintiff's cause of action, if any, is barred by prior judgment."[39]

The court a quo ruled, inter alia, that the cause of action of petitioner (plaintiff in the case below) had been barred by a prior judgment of this Court in GR No. 106063, the mother case.

Although it erred in its interpretation of the said Decision when it argued that the rescinded Deed of Absolute Sale was "void," we hold, nonetheless, that petitioner's cause of action is indeed barred by a prior judgment of this Court. As already discussed, our Decision in GR No. 106063 shows that petitioner is not entitled to back rentals, because it never became the owner of the disputed properties due to a failure of delivery. And even assuming arguendo that there was a valid delivery, petitioner's bad faith negates its entitlement to the civil fruits of ownership, like interest and rentals.

Under the doctrine of res judicata or bar by prior judgment, a matter that has been adjudicated by a court of competent jurisdiction must be deemed to have been finally and conclusively settled if it arises in any subsequent litigation between the same parties and for the same cause.[40] Thus, "[a] final judgment on the merits rendered by a court of competent jurisdiction is conclusive as to the rights of the parties and their privies and constitutes an absolute bar to subsequent actions involving the same claim, demand, or cause of action."[41] Res judicata is based on the ground that "the party to be affected, or some other with whom he is in privity, has litigated the same matter in a former action in a court of competent jurisdiction, and should not be permitted to litigate it again."[42]

It frees the parties from undergoing all over again the rigors of unnecessary suits and repetitive trials. At the same time, it prevents the clogging of court dockets. Equally important, it stabilizes rights and promotes the rule of law.

We find no need to repeat the foregoing disquisitions on the first issue to show satisfaction of the elements of res judicata. Suffice it to say that, clearly, our ruling in the mother case bars petitioner from claiming back rentals from respondent. Although the court a quo erred when it declared "void from inception" the Deed of Absolute Sale between Carmelo and petitioner, our foregoing discussion supports the grant of the Motion to Dismiss on the ground that our prior judgment in GR No. 106063 has already resolved the issue of back rentals.

On the basis of the evidence presented during the hearing of Mayfair's Motion to Dismiss, the trial court found that the issue of ownership of the subject property has been decided by this Court in favor of Mayfair. We quote the RTC:

> "The Supreme Court in the Equatorial case, G.R. No. 106063 has categorically stated that the Deed of Absolute Sale dated July 31, 1978 has been rescinded subjecting the present complaint to res judicata."[43]

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(Emphasis in the original)

Hence, the trial court decided the Motion to Dismiss on the basis of res judicata, even if it erred in interpreting the meaning of "rescinded" as equivalent to "void." In short, it ruled on the ground raised; namely, bar by prior judgment. By granting the Motion, it disposed correctly, even if its legal reason for nullifying the sale was wrong. The correct reasons are given in this Decision.

WHEREFORE, the Petition is hereby DENIED. Costs against petitioner.

SO ORDERED.

Davide, Jr., C.J., Quisumbing, Pardo, Buena, Ynares-Santiago, and Carpio, JJ., concur.
Bellosillo, J., join the dissenting opinion of J. Sandoval-Gutierrez.
Melo, J., see concurring opinion.
Puno, and Mendoza, JJ., concur and join the concurring opinion of J. Melo.
Vitug, and Sandoval-Gutierrez, JJ., see dissenting opinion.
Kapunan, J., join the dissenting opinion of J. Vitug and Sandoval-Gutierrez.
De Leon, Jr., J., join the dissenting opinion of J. Vitug.

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[1] Originally assigned to the Second Division, this case was transferred to the Third Division and later on referred to the Court en banc.

[2] Rollo, pp. 261-270; penned by Judge Felixberto T. Olalia Jr.

[3] RTC Decision, p. 10; rollo, p. 270.

[4] Rollo, pp. 310-311.

[5] 264 SCRA 483, November 21, 1996, per Hermosisima, J., concurred in by Justices Padilla (with Separate Opinion), Regalado, Davide, Bellosillo, Melo, Puno, Kapunan, Mendoza, Francisco, and Panganiban (with Separate Concurring Opinion). Justice Vitug wrote a Dissenting Opinion, joined by Justice Torres, while Justice Romero filed a Concurring and Dissenting Opinion. Chief Justice Narvasa took no part.

[6] Ibid., p. 512.

[7] TCT Nos. 235120, 235121, 235122, and 235123.

[8] 332 SCRA 139, May 12, 2000; penned by Justice Bernardo T. Pardo (First Division) with the concurrence of Chief Justice Hilario G. Davide Jr. and Justices Santiago M. Kapunan and Consuelo Ynares-Santiago. Justice Reynato S. Puno took no part.

[9] Ibid., p. 149.

[10] Complaint, pp. 3-4; rollo, pp. 47-48.

[11] Rollo, pp. 261-270 and 301-311.

[12] Rollo, pp. 265-266.

[13] RTC Order dated May 11, 1998, p. 9; rollo, p. 269.

[14] The case was deemed submitted for decision on June 13, 2000, upon receipt by the Court of the letter of Virginia A. Bautista, officer-in-charge of RTC Manila, Branch 8, transmitting the complete records of Civil Case

No. 97-85141, the progenitor of the present case. After the final deliberations on this case on November 13, 2001, the writing of this Decision was assigned to herein ponente.

[15] Petition pp. 11-12, 24; rollo, pp. 24-25, 37; original in upper case.

[16] Art. 442, Civil Code, provides in its third paragraph that "[c]ivil fruits are the rents of buildings, the price of leases of lands and other property and the amount or perpetual or life annuities or other similar incomes."

[17] Art. 441, par (3), provides: "To the owner belong xxx (3) [t]he civil fruits."

[18] Art. 440 reads: "The ownership of the property gives the right by accession to everything produced thereby, or which is incorporated or attached thereto, either naturally or artificially."

[19] Art. 1458, Civil Code.

[20] See Arts. 712 and 1164, Civil Code.

[21] Art. 1496, Civil Code.

[22] Tolentino, Civil Code, 1992 ed., Vol. II, pp. 451-452; Roman v. Grimlt, 6 Phil. 96, April 11, 1906; Ocejo, Perez & Co. v. International Bank, 37 Phil. 631, February 14, 1918.

[23] Art. 1497, Civil Code.

[24] Art. 1498, Civil Code.

[25] Pasagui v. Villablanca, 68 SCRA 18, November 10, 1975; Tolentino, op. cit., Vol. V, p. 54.

[26] CJS, Vol. 26A, p. 165.

[27] Words and Phrases, Vol. IIA, p. 522.

[28] Vda. de Sarmiento v. Lesaca, 108 Phil. 900, 903, June 30, 1960.

[29] Addison v. Felix, 38 Phil. 404, August 3, 1918; as cited in Vda. de Sarmiento v. Lesaca, supra, at p. 904.

[30] Supra, per Bautista-Angelo, J.

[31] Ibid., p. 903.

[32] Art. 1164 reads: "The creditor has a right to the fruits of the thing from the time the obligation to deliver it arises. However, he shall acquire no real right over it until the same has been delivered to him."

[33] See Art. 1475, Civil Code.

[34] Rentals that accrued from the execution of the Deed of Sale from July 30, 1978 until November 21, 1996. Equatorial Realty Development, Inc. v. Mayfair Theater, Inc., supra.

[35] CA Records in the mother case, pp. 460 and 516. These ejectment suits are also referred to in the Petition and Comment in the present case.

[36] Philippines Today v. NLRC, 267 SCRA 202, January 30, 1997, per Panganiban, J.

[37] Ibid., pp. 506-512.

[38] Id., p. 511.

[39] Respondent's Motion to Dismiss, p. 1; rollo, p. 67; original in upper case.

[40] Development, Bank of the Philippines v. CA, GR No. 110203, May 9, 2001, citing Gosnell v. Webb, 66 CA2d 518, 521, 152 P2d 463 (1944); Poochigan v. Layne, 120 CA2d 757, 261 P2d 738 (1953).

[41] Ibid., per Panganiban, J., citing Republic v.Court of Appeals , 324 SCRA 560, February 3, 2000.

[42] Id., citing Watkins v. Watkins, 117 CA2d 610, 256 P2d 339 (1953).

[43] RTC Order dated March 11, 1978, p. 9; rollo, p. 269.

CONCURRING OPINION

MELO, J.:

While I express my conformity to the ponencia of our distinguished colleague, Mr. Justice Artemio V. Panganiban, I would just like to make the following observations:

- The issue in this case was squarely resolved in our 1996 En Banc decision in the main case. What petitioner is asking us to do now is to reverse or modify a judgment which is accurate in every respect, conformable to law and jurisprudence, and faithful to principles of fairness and justice.

- Petitioner's submissions are deceiving. It is trying to collect unjustified and unbelievably increased rentals by provoking a purely academic discussion, as far as respondent is concerned, of a non-applicable provision of the Civil Code on contracts.

- To grant the petition is to reward bad faith, for petitioner has deprived respondent of the latter's property rights for twenty-three (23) years and has forced it to defend its interests in case after case during that lengthy period. Petitioner now tries to inflict further injury in the fantastic and groundless amount of P115,947,867.00. To remand this case to the lower court in order to determine the back rentals allegedly due to petitioner Equatorial Realty Development Corporation, Inc. is to encourage continuation of crafty tactics and to allow the further dissipation of scarce judicial time and resources.

The instant petition arose from a complaint for back rentals, increased rentals and interests filed by petitioner Equatorial Realty Development, Inc. (Equatorial) against respondent Mayfair Theater, Inc. (Mayfair). It has to be adjudicated in the context of three earlier petitions decided by this Court.

A dispute between the two parties over the ownership of a commercial lot and building along Claro M. Recto Avenue in Manila has led to 23 years of protracted litigation, including the filing of 4 petitions with the Court, namely, G.R. No. L-106063, decided on November 21, 1996 (264 SCRA 483); G.R. No. 103311 decided on March 4, 1992; G.R. No. 136221, decided on May 12, 2000; and the present petition, G.R. No. 133879.

The case at bar is a classic illustration of how a dubious interpretation of the dispositive portion of the 1996 decision for petitioner could lead to 5 more years of bitter litigation after the initial 18 years of legal proceedings over the first case.

Lease contracts over the subject property were executed on June 1, 1967 and March 31, 1969 by original owner Carmelo and Bauermann, Inc. (Carmelo) in favor of herein respondent Mayfair. The leases expired on May 31, 1987 and March 31, 1989, respectively. The lease contracts embodied provisions giving Mayfair a right-of-first-refusal should Carmelo sell the property.

In an act characterized as bad faith by this Court, the property, in violation of the right-of-first-refusal, was sold by Carmelo to herein petitioner Equatorial, on July 31, 1978 for P11,300,000.00. On September 13, 1978, Mayfair

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filed the first case for annulment of the contract of sale, specific performance of the right-of-first-refusal provision, and damages. The Regional Trial Court (RTC) of Manila decided the case in favor of Equatorial on February 7, 1991. Counterclaims for compensation arising from the use of the premises were awarded to Equatorial by the 1991 RTC decision.

On June 23, 1992, the Court of Appeals reversed the RTC decision, thus leading to the first petition, G.R. No. 106063, filed against Mayfair by both Equatorial and Carmelo.

On November 21, 1996, this Court En Banc rendered its decision (264 SCRA 483 [1996]), disposing:

> WHEREFORE, the petition for review of the decision of the Court of Appeals dated June 23, 1992, in CA-G.R. CV No. 32918, is HEREBY DENIED. The Deed of Absolute Sale between petitioners Equatorial Realty Development, Inc. and Carmelo & Bauermann, Inc. is hereby rescinded; petitioner Carmelo & Bauermann is ordered to return to petitioner Equatorial Realty Development the purchase price. The latter is directed to execute the deeds and documents necessary to return ownership to Carmelo & Bauermann of the disputed lots. Carmelo and Bauermann is ordered to allow Mayfair Theater, Inc. to buy the aforesaid lots for P11,300,000.00.

In the Court of Appeals decision (CA-G.R. CV No. 32918, June 23, 1992) in the main case, raised to this Court, Mayfair was ordered to directly pay P11,300,000.00 to Equatorial whereupon Equatorial would execute the deeds and documents necessary for the transfer of ownership to Mayfair and the registration of the property in its name. The execution of documents and the transfer of the property were directly between Equatorial and Mayfair. Our decision in 1996 (G.R. No. 106063) affirmed the appellate decision. However, while the 1978 deed of sale questioned by Mayfair was rescinded, we ordered Carmelo to first return to Equatorial the purchase price of the property, whereupon Equatorial would return ownership to Carmelo, after which Mayfair would buy the lot for P11,300,000.00 from Carmelo.

When the case was remanded to the RTC for execution of the decision, it was ascertained that Carmelo and Bauermann, Inc. was no longer in existence. The Sheriff could not enforce the portions of the judgment calling for acts to be performed by Carmelo. Mayfair, therefore, deposited the amount of P11,300,000.00 with the RTC for payment to Equatorial, hoping that the latter would faithfully comply with this Court's decision. In this regard, it may be mentioned that buyer Mayfair also paid P847,000.00 in taxes which the vendors should have paid. The RTC ordered the execution of deeds of transfer, the cancellation of Equatorial's titles to the property, and the issuance of new titles in favor of Mayfair. Accordingly, the property was registered in the name of Mayfair and titles issued in its favor.

Equatorial, however, saw an opening for further litigation. It questioned the method employed by the RTC to execute the Court's judgment, arguing that the directives involving Carmelo's participation were ignored by the trial court. The litigation over the alleged incorrectness of the execution eventually led to the second petition earlier mentioned - G.R. No. 136221.

It may be mentioned at this point that on July 9, 1987, while the right-of-first-refusal and cancellation case was pending, Equatorial filed an action for ejectment against Mayfair. Because the issue of ownership was still pending in the case for rescission of deed of sale including the enforcement of the right-of-first-refusal provision, the ejectment case was dismissed. Appeals to the RTC and the Court of Appeals were denied.

On March 26, 1990, still another ejectment case was filed by Equatorial. In decisions which reached all the way to this Court in G.R. No. 103311, the cases for ejectment did not prosper. Mayfair won the cases on March 4, 1992.

The three cases decided by the Court in these litigations between Equatorial and Mayfair, all of them in favor of Mayfair, are antecedents of the present and fourth petition. Equatorial has been adjudged as having unlawfully

and in bad faith acquired property that should have belonged to Mayfair since 1978. Ownership and title have been unquestionably transferred to Mayfair.

Seemingly, Equatorial now seeks to profit from its bad faith. While the case involving the allegedly incorrect execution of the 1996 decision on cancellation of the deed of sale in G.R. No. 106063 was being litigated, Equatorial filed on September 18, 1997 with the RTC of Manila two complaints for payment of back and increased rentals arising from the use by Mayfair of the lot, building, and other fixed improvements. From the time the property was sold by Carmelo to Equatorial, lessee Mayfair had been paying to Equatorial the rentals fixed in the 1967 and 1969 lease contracts with the original owner. This was during the pendency of the complaint for annulment of the contract of sale, specific performance of the right-of-first refusal provision, and damages.

As found in our 1998 decision in G.R. No. 106063, the disputed property should have actually belonged to Mayfair at the time. However, to avoid the ejectment cases, which Equatorial nonetheless later filed, Mayfair was forced to pay rentals to Equatorial. It paid the rentals based on the rates fixed by Carmelo in the lease contracts.

Equatorial, claiming the 1967 and 1969 rentals to be inadequate, claimed increased amounts as reasonable compensation. Because the amounts fixed by the lease contract with Carmelo but paid to Equatorial were only at the rate of P17,966.21 monthly while Equatorial wanted P210,000.00 every month plus legal interests, the suit was for the payment of P115,947,867.68 as of June 19, 1997.

Citing the 1996 decision in G.R. No. 106063, Mayfair contended that it owned the property under the decision. It stated that the sale by Carmelo to Equatorial had been cancelled, and, as owner, Mayfair owed no increased rentals to Equatorial based on said decision.

The present case on back rentals could not be conclusively decided because the execution and finality of the issue of ownership were being contested for 5 years in the petition on the proper execution filed in G.R. No. 136221. This petition had to wait for the resolution of G.R. No. 136221.

In its decision dated May 12, 2000, in G.R. No. 136221 (First Division, per Mr. Justice Pardo; Davide, C.J., Kapunan, and Ynares-Santiago, JJ., concurring), this Court reiterated the judgment in G.R. No. 106063. It emphasized that the 1996 decision awarding the property to Mayfair was clear. It stated that the decision having attained finality, there was nothing left for the parties to do but to adhere to the mandates of the decision.

In the dispositive portion, however, the Court ordered the trial court "to carry out the execution following strictly the terms" of the 1996 decision. However, as earlier stated, this could not be done because Carmelo had ceased to exist. There was no longer any Carmelo which could return the P11,300,000.00 consideration of the 1978 sale to Equatorial as ordered in the dispositive portion of the 1996 decision. Equatorial could not and would not also execute the deeds returning the property to Carmelo, as directed in the decision. Neither could the defunct Carmelo sell the property to Mayfair at the sale price in 1978 when the right of first refusal was violated.

Mayfair had to file a motion for partial reconsideration, emphasizing that it was impossible for a corporation which has gone out of existence to obey the specific orders of this Court. A resolution was, therefore, rendered on June 25, 2001 putting an end to the controversy over the proper implementation of the 1996 judgment.

This June 25, 2001 Resolution in G.R. No. 136221 validated the issuance of new titles in the name of the adjudicated owner, Mayfair. The Court ordered the direct release to Equatorial of the P11,300,000.00 deposited in court for the account of the defunct Carmelo.

In the follow-up Resolution of the First Division in G.R. No. 136221 dated June 25, 2001, the Court, after describing the case as a promethean one involving the execution of a decision which has been long final, and after

calling the efforts to stave off execution as a travesty of justice, instructed the trial court:

> - To execute the Court's Decision strictly in accordance with the ruling in G.R. No. 106063 by validating the acts of the sheriff of Manila and the titles in the name of Mayfair Theater, Inc. issued by the Register of Deeds of Manila consistent therewith;
>
> - In case of failure of Carmelo and Bauermann to accept the amount of P11,300,000.00 deposited by Mayfair Theater, Inc. with the Clerk of Court, Regional Trial Court, Manila, to authorize the Clerk of Court to RELEASE the amount of P11,300,000.00 deposited with the court for the account of Carmelo and Bauermann, Inc. to petitioner;
>
> - To devolve upon the trial court the determination of other issues that may remain unresolved among the parties, relating to the execution of this Court's final decision in G.R. No. 106063.

In light of the Court's judgments in G.R. No. 106063 and G.R. No. 136221, the present petition in G.R. No. 133879 for back rentals should now be finally resolved, applying the rulings in those earlier decisions.

Indubitably, the 1978 deed of sale executed by Carmelo in favor of Equatorial over the disputed property has been set aside by this Court. Equatorial was declared a buyer in bad faith. The contract was characterized as a fraudulent sale and the entirety of the indivisible property sold to Equatorial was the property we ordered to be conveyed to Mayfair for the same price paid by Equatorial to Carmelo.

It is also beyond question that the method of execution of the 1996 decision by the RTC, the direct payment by Mayfair to Equatorial, bypassing and detouring the defunct Carmelo corporation, has been validated by this Court. There are no longer any procedural obstacles to the full implementation of the decision.

And finally, the property sold to Equatorial in violation of Mayfair's right of first refusal is now indisputably possessed by, and owned and titled in the name of, respondent Mayfair.

Parenthetically, the issue on the payment of back and increased rentals, plus interests, was actually settled in the 1996 decision in G.R. No. 106063. It could not be enforced at the time only because of the controversy unfortunately raised by Equatorial over the proper execution of the 1996 decision.

It is now time to reiterate the 1996 decision on interests and settle the dispute between Mayfair and Equatorial once and for all.

Thus, we reiterate that:

> On the question of interest payments on the principal amount of P11,300.000.00, it must be borne in mind that both Carmelo and Equatorial acted in bad faith. Carmelo knowingly and deliberately broke a contract entered into with Mayfair. It sold the property to Equatorial with purpose and intent to withhold any notice or knowledge of the sale coming to the attention of Mayfair. All the circumstances point to a calculated and contrived plan of non-compliance with the agreement of first refusal.
>
> On the part of Equatorial, it cannot be a buyer in good faith because it bought the property with notice and full knowledge the Mayfair had a right to or interest in the property superior to its own. Carmelo and Equatorial took unconscientious advantage of Mayfair.
>
> Neither may Carmelo and Equatorial avail of consideration based on equity which might warrant the grant of interests. The vendor received as payment from the vendee what, at the time, was a full and fair price for the property. It has used the P11,300,000.00 all these years earning income or interest from the amount. Equatorial, on the other hand, has received rents and otherwise profited from the use of the property turned over to it by Carmelo. In fact, during all the years that this controversy was being litigated, Mayfair paid rentals regularly to the buyer who had an inferior right to purchase the property. Mayfair is under no obligation

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> to pay any interests arising from this judgment to either Carmelo or Equatorial (264 SCRA 483, pp. 511-512).

Worthy quoting too is the concurring opinion in our 1996 decision of Mr. Justice Teodoro R. Padilla as follows:

> The equities of the case support the foregoing legal disposition. During the intervening years between 1 August 1978 and this date, Equatorial (after acquiring the C.M. Recto property for the price of P11,300,000,00) had been leasing the property and deriving rental income therefrom. In fact, one of the lessees in the property was Mayfair. Carmelo had, in turn, been using the proceeds of the sale, investment-wise and/or operation wise in its own business.
>
> It may appear, at first blush, that Mayfair is unduly favored by the solution submitted by this opinion, because the price of P11,300,000.00 which it has to pay Carmelo in the exercise of its right of first refusal, has been subjected to the inroads of inflation so that its purchasing power today is less than when the same amount was paid by Equatorial to Carmelo. But then it cannot be overlooked that it was Carmelo's breach of Mayfair's right of first refusal that prevented Mayfair from paying the price of P11,300,000.00 to Carmelo at about the same time the amount was paid by Equatorial to Carmelo. Moreover, it cannot be ignored that Mayfair had also incurred consequential or "opportunity" losses by reason of its failure to acquire and use the property under its right of first refusal. In fine, any loss in purchasing power of the price of P11,300,000.00 is for Carmelo to incur or absorb on account of its bad faith in breaching Mayfair's contractual right of first refusal to the subject property. (ibid., pp. 511-512).

It can be seen from the above ruling that the issue of rentals and interests was fully discussed and passed upon in 1996. Equatorial profited from the use of the building for all the years when it had no right or, as stated in our decision, had an inferior right over the property. Mayfair, which had the superior right, continued to pay rent but it was the rate fixed in the lease contract with Carmelo. We see no reason for us to now deviate from the reasoning given in our main decision. The decision has been final and executory for five (5) years and petitioner has failed to present any valid and reasonable ground to reconsider, modify or reverse it. Let that which has been fairly adjudicated remain final.

My second observation relates to the clever but, to my mind, deceptive argument foisted by Equatorial on the Court.

Equatorial relies on the Civil Code provision on rescissible contracts to bolster its claim. Its argument is that a rescissible contract remains valid and binding upon the parties thereto until the same is rescinded in an appropriate judicial proceeding.

Equatorial conveniently fails to state that the July 31, 1978 Deed of Absolute Sale was between Equatorial and Carmelo only. Respondent Mayfair was not a party to the contract. The deed of sale was surreptitiously entered into between Carmelo and Equatorial behind the back and in violation of the rights of Mayfair. Why should the innocent and wronged party now be made to bear the consequences of an unlawful contract to which it was not privy? Insofar as Equatorial and Carmelo are concerned, their 1978 contract may have validly transferred ownership from one to the other. But not as far as Mayfair is concerned.

Mayfair starts its arguments with a discussion of Article 1381 of the Civil Code that contracts entered into in fraud of creditors are rescissible. There is merit in Mayfair's contention that the legal effects are not restricted to the contracting parties only. On the contrary, the rescission is for the benefit of a third party, a stranger to the contract. Mayfair correctly states that as far as the injured third party is concerned, the fraudulent contract, once rescinded, is non-existent or void from its inception. Hence, from Mayfair's standpoint, the deed of absolute sale which should not have been executed in the first place by reason of Mayfair's superior right to purchase the property and which deed was cancelled for that reason by this Court, is legally non-existent. There must be a restoration of things to the condition prior to the celebration of the contract (Respondent relies on Almeda vs. J.M.

& Company, 43072-R, December 16, 1975, as cited in the Philippine Law Dictionary; IV Arturo M. Tolentino, Civil Code of the Philippines, 570, 1990 Ed., citing Manresa; IV Edgardo L. Paras, Civil Code of the Philippines, 717-718, 1994 Ed.).

It is hard not to agree with the explanations of Mayfair, to wit:

> 4.22.
>
> As a consequence of the rescission of the Deed of Absolute Sale, it was as if Equatorial never bought and became the lessor of the subject properties. Thus, the court a quo did not err in ruling that Equatorial is not the owner and does not have any right to demand back rentals from [the] subject property.
>
> 4.23.
>
> Tolentino, supra, at 577-578 further explains that the effects of rescission in an accion pauliana retroact to the date when the credit or right being enforced was acquired.
>
> "While it is necessary that the credit of the plaintiff in the accion pauliana must be prior to the fraudulent alienation, the date of the judgment enforcing it is immaterial. Even if the judgment be subsequent to the alienation, it is merely declaratory, with retroactive effect to the date when the credit was constituted. x x x." (emphasis supplied)
>
> 4.24.
>
> The clear rationale behind this is to prevent conniving parties, such as Equatorial and Carmelo, from benefiting in any manner from their unlawful act of entering into a contract in fraud of innocent parties with superior rights like Mayfair. Thus, to allow Equatorial to further collect rentals from Mayfair is to allow the former to profit from its own act of bad faith. Ex dolo malo non oritur actio. (Respondent's Comment, pp. 338-339, Rollo).

This brings me to my third and final observation in this case. This Court emphasized in the main case that the contract of sale between Equatorial and Carmelo was characterized by bad faith. The Court described the sale as "fraudulent" in its 1996 decision. It stated that the damages which Mayfair suffered are in terms of actual injury and lost opportunities, emphasizing that Mayfair should not be given an empty or vacuous victory. Moreover, altogether too many suits have been filed in this case. Four separate petitions have come before us, necessitating full length decisions in at least 3 of them. The 1996 decision stressed that the Court has always been against multiplicity of suits.

There was bad faith from the execution of the deed of sale because Equatorial and Carmelo affirmatively operated with furtive design or with some motive of self-interest or ill-will or for ulterior purposes (Air France vs. Carrascoso, 18 SCRA 166 [1966]). There was breach of a known duty by the two parties to the unlawful contract arising from motives of interests or ill-will calculated to cause damage to another (Lopez vs. Pan American World Airways, 123 Phil. 264 [1966]).

The presence of bad faith is clear from the records. Our resolution of this issue in 1996 (G.R. 106063) is res judicata.

We stated:

> First and foremost is that the petitioners (referring to Equatorial and Carmelo) acted in bad faith to render Paragraph 8 "inutile".

> x x x
>
> x x x
>
> x x x
>
> Since Equatorial is a buyer in bad faith, this finding renders the sale to it of the property in question rescissible. We agree with respondent Appellate Court that the records bear out the fact that Equatorial was aware of the lease contracts because its lawyers had, prior to the sale, studied the said contracts. As such Equatorial cannot tenably claim to be a purchaser in good faith and, therefore, rescission lies.
>
> x x x
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> x x x
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> x x x
>
> As also earlier emphasized, the contract of sale between Equatorial and Carmelo is characterized by bad faith, since it was knowingly entered into in violation of the rights of and to the prejudice of Mayfair. In fact, as correctly observed by the Court of Appeals, Equatorial admitted that its lawyers had studied the contract of lease prior to the sale. Equatorial's knowledge of the stipulations therein should have cautioned it to look further into the agreement to determine if it involved stipulations that would prejudice its own interests.
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> x x x
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> x x x
>
> x x x
>
> On the part of Equatorial, it cannot be a buyer in good faith because it bought the property with notice and full knowledge that Mayfair had a right to or interest in the property superior to its own. Carmelo and Equatorial took unconscientious advantage of Mayfair (264 SCRA 506, 507-511).

We ruled that because of bad faith, neither may Carmelo and Equatorial avail themselves of considerations based on equity which might warrant the grant of interests and, in this case, unconscionably increased rentals.

Verily, if Mayfair were a natural person, it could very well have asked for moral damages instead of facing a lengthy and expensive suit to pay rentals many times higher than those stipulated in the contract of lease. Under the Civil Code, Mayfair is the victim in a breach of contract where Carmelo and Equatorial acted fraudulently and in bad faith.

Considering the judgments in our 3 earlier decisions, Mayfair is under no obligation to pay any interests, whether based on law or equity, to Carmelo or Equatorial. Mayfair is the wronged entity, the one which has suffered injury since 1978 or for the 23 years it was deprived of the property.

Equatorial has received rentals and other benefits from the use of the property during these 23 years, rents and benefits which would have accrued to Mayfair if its rights had not been violated.

There is no obligation on the part of respondent Mayfair to pay any increased, additional, back or future rentals or interests of any kind to petitioner Equatorial under the circumstances of this case.

I, therefore, concur with the majority opinion in denying due course and dismissing the petition.

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DISSENTING OPINION

VITUG, J.:

Civil Law, in its usual sophistication, classifies defective contracts (unlike the seemingly generic treatment in Common Law), into, first, the rescissible contracts,[1] which are the least infirm; followed by, second, the voidable contracts;[2] then, third, the unenforceable contracts;[3] and, finally, fourth, the worst of all or the void contracts.[4] In terms of their efficaciousness, rescissible contracts are regarded, among the four, as being the closest to perfectly executed contracts. A rescissible contract contains all the requisites of a valid contract and are considered legally binding, but by reason of injury or damage to either of the contracting parties or to third persons, such as creditors, it is susceptible to rescission at the instance of the party who may be prejudiced thereby. A rescissible contract is valid, binding and effective until it is rescinded. The proper way by which it can be assailed is by an action for rescission based on any of the causes expressly specified by law.[5]

The remedy of rescission in the case of rescissible contracts under Article 1381 is not to be confused with the remedy of rescission, or more properly termed "resolution," of reciprocal obligations under Article 1191 of the Civil Code. While both remedies presuppose the existence of a juridical relation that, once rescinded, would require mutual restitution, it is basically, however, in this aspect alone when the two concepts coincide.

Resolution under Article 1191 would totally release each of the obligors from compliance with their respective covenants. It might be worthwhile to note that in some cases, notably Ocampo vs. Court of Appeals,[6] and Velarde vs. Court of Appeals,[7] where the Court referred to rescission as being likened to contracts which are deemed "void at inception," the focal issue is the breach of the obligation involved that would allow resolution pursuant to Article 1191 of the Civil Code. The obvious reason is that when parties are reciprocally bound, the refusal or failure of one of them to comply with his part of the bargain should allow the other party to resolve their juridical relationship rather than to leave the matter in a state of continuing uncertainty. The result of the resolution, when decreed, renders the reciprocal obligations inoperative "at inception."

Upon the other hand, the rescission of a rescissible contract under Article 1381, taken in conjunction with Article 1385, is a relief which the law grants for the protection of a contracting party or a third person from injury and damage that the contract may cause, or to protect some incompatible and preferent right created by the contract.[8] Rescissible contracts are not void ab initio, and the principle, "quod nullum est nullum producit effectum," in void and inexistent contracts is inapplicable. Until set aside in an appropriate action rescissible contracts are respected as being legally valid, binding and in force. It would be wrong to say that rescissible contracts produce no legal effects whatsoever and that no acquisition or loss of rights could meanwhile occur and be attributed to the terminated contract. The effects of the rescission, prospective in nature, can come about only upon its proper declaration as such.

Thus, when the Court[9] held the contract to be "deemed rescinded" in G.R. No. 106063, the Court did not mean a "declaration of nullity" of the questioned contract. The agreement between petitioner and Carmelo, being efficacious until rescinded, validly transferred ownership over the property to petitioner from the time the deed of sale was executed in a public instrument on 30 July 1978 up to the time that the decision in G.R. No. 106063 became final on 17 March 1997. It was only from the latter date that the contract had ceased to be efficacious. The fact that the subject property was in the hands of a lessee, or for that matter of any possessor with a juridical title derived from an owner, would not preclude a conferment of ownership upon the purchaser nor be an impediment from the transfer of ownership from the seller to the buyer. Petitioner, being the owner of the property (and none other) until the judicial rescission of the sale in its favor, was entitled to all incidents of ownership inclusive of, among its other elements, the right to the fruits of the property. Rentals or rental value over that disputed property

from 30 July 1978 up to 17 March 1997 should then properly pertain to petitioner. In this respect, the much abused terms of "good faith" or "bad faith" play no role; ownership, unlike other concepts, is never described as being either in good faith or in bad faith.

With all due respect, I am thus unable to join in this instance my colleagues in the majority.

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[1] Article 1381-1382, Civil Code of the Philippines.

[2] Article 1390.

[3] Article 1403.

[4] Article 1409.

[5] Borja vs. Addison, 44 Phil. 895.

[6] 233 SCRA 551.

[7] G.R. No. 108346, 11 July 2001.

[8] Aquino vs. Tanedo, 39 Phil. 517.

[9] Equatorial Realty Dev., Inc. vs. Mayfair Theater, Inc., 264 SCRA 483.

DISSENTING OPINION

SANDOVAL-GUTIERREZ, J.:

"Stare decisis et non quieta movere - follow past precedents and do not disturb what has been settled. Adherence to this principle is imperative if this Court is to maintain stability in jurisprudence.

I regret that I am unable to agree with the majority opinion.

The principal issue in this case is whether a rescissible contract is void and ineffective from its inception. This issue is not a novel one. Neither is it difficult to resolve as it involves the application of elementary principles in the law on contracts, specifically on rescissible contracts, as distinguished from void or inexistent contracts.

The facts are simple.

On June 1, 1967, respondent Mayfair Theater, Inc. (Mayfair) leased portions of the ground, mezzanine and second floors of a two storey commercial building located along C.M. Recto Avenue, Manila. The building together with the land on which it was constructed was then owned by Carmelo & Bauermann, Inc. (Carmelo). Respondent used these premises as "Maxim Theater." The lease was for a period of twenty (20) years.

On March 31, 1969, Mayfair leased from Carmelo another portion of the second floor, as well as two (2) store spaces on the ground and mezzanine floors of the same building. Respondent Mayfair used the premises as a movie theater known as "Miramar Theater."

Both leases contained the following identical provisions:

> "That if the LESSOR should desire to sell the leased premises, the LESSEE shall be given 30-days exclusive option to purchase the same.

> In the event, however, that the leased premises is sold to someone other than the LESSEE, the LESSOR is bound and obligated, as it hereby binds and obligates itself, to stipulate in the Deed of Sale thereof that the purchaser shall recognize this lease and be bound by all the terms and conditions thereof.

On July 31, 1978, Carmelo entered into a Deed of Absolute Sale whereby it sold the subject land and two-storey building to petitioner Equatorial Realty Development, Inc. (Equatorial) for P11,300,000.00. Having acquired from Carmelo ownership of the subject property, Equatorial received rents from Mayfair for sometime.

Subsequently, Mayfair, claiming it had been denied its right to purchase the leased property in accordance with the provisions of its lease contracts with Carmelo, filed with the Regional Trial Court, Branch 7, Manila, a suit for specific performance and annulment of sale with prayer to enforce its "exclusive option to purchase" the property. The dispute between Mayfair, on the one hand, and Carmelo and Equatorial on the other, reached this Court in G.R. No. 106063, "Equatorial Realty Development, Inc. & Carmelo & Bauermann, Inc. vs. Mayfair Theater, Inc."[1] On November 21, 1996, this Court rendered a Decision, the dispositive portion of which reads:

> "WHEREFORE, the petition for review of the decision of the Court of Appeals, dated June 23, 1992, in CA-G.R. CV No. 32918, is HEREBY DENIED. The Deed of Absolute Sale between petitioners Equatorial Realty Development, Inc. and Carmelo & Bauermann, Inc. is hereby deemed rescinded; Carmelo & Bauermann is ordered to return to petitioner Equatorial Realty Development the purchase price. The latter is directed to execute the deeds and documents necessary to return ownership to Carmelo & Bauermann of the disputed lots. Carmelo & Bauermann is ordered to allow Mayfair Theater, Inc. to buy the aforesaid lots for P11,300,000.00.
>
> SO ORDERED."

The Decision of this Court in G.R. No. 106063 became final and executory on March 17, 1997.

On April 25, 1997, Mayfair filed with the trial court a motion for execution which was granted.

However, Carmelo could no longer be located. Thus, Mayfair deposited with the trial court its payment to Carmelo in the sum of P11,300,000.00 less P847,000.00 as withholding tax.

The Clerk of Court of the Manila Regional Trial Court, as sheriff, executed a deed of re-conveyance in favor of Carmelo and a deed of sale in favor of Mayfair. On the basis of these documents, the Registry of Deeds of Manila cancelled Equatorial's titles and issued new Certificates of Title[2] in the name of Mayfair.

In G.R. No. 136221,[3] "Equatorial Realty Development, Inc. vs. Mayfair Theater, Inc.," this Court instructed the trial court to execute strictly this Court's Decision in G.R. No. 106063.

On September 18, 1997, or after the execution of this Court's Decision in G.R. No. 106063, Equatorial filed with the Regional Trial Court of Manila, Branch 8, an action for collection of a sum of money against Mayfair, docketed as Civil Case No. 97-85141. Equatorial prayed that the trial court render judgment ordering Mayfair to pay:

> (1) the sum of P11,548,941.76 plus legal interest, representing the total amount of unpaid monthly rentals/reasonable compensation from June 1, 1987 (Maxim Theater) and March 31, 1989 (Miramar Theater) to July 31, 1997;
>
> (2) the sums of P849,567.12 and P458,853.44 a month, plus legal interest, as rental/reasonable compensation for the use and occupation of the subject property from August 1, 1997 to May 31, 1998 (Maxim Theater) and March 31, 1998 (Miramar Theater);
>
> (3) the sum of P500,000.00 as and for attorney's fees, plus other expenses of litigation; and

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(4) the costs of the suit.[4]

On October 14, 1997, before filing its answer, Mayfair filed a "Motion to Dismiss" Civil Case No. 97-85141 on the following grounds:

"(A)

PLAINTIFF IS GUILTY OF FORUM SHOPPING.

(B)

PLAINTIFF'S CAUSE OF ACTION, IF ANY, IS BARRED BY PRIOR JUDGMENT."[5]

On March 11, 1998, the court a quo issued an order dismissing Civil Case No. 97-85141 on the ground that since this Court, in G.R. No. 106063, rescinded the Deed of Absolute Sale between Carmelo and Equatorial, the contract is void at its inception.[6] Correspondingly, Equatorial is not the owner of the subject property and, therefore, does not have any right to demand from Mayfair payment of rentals or reasonable compensation for its use and occupation of the premises.

Equatorial filed a motion for reconsideration but was denied.

Hence, the present petition.

At this stage, I beg to disagree with the ruling of the majority that (1) Equatorial did not acquire ownership of the disputed property from Carmelo because of lack of delivery; and that (2) Equatorial is not entitled to the payment of rentals because of its bad faith.

Firmly incorporated in our Law on Sales is the principle that ownership is transferred to the vendee by means of delivery, actual or constructive.[7] There is actual delivery when the thing sold is placed in the control and possession of the vendee.[8] Upon the other hand, there is constructive delivery when the delivery of the thing sold is represented by other signs or acts indicative thereof. Article 1498 of the Civil Code is in point. It provides that "When the sale is made through a public instrument, the execution thereof shall be equivalent to the delivery of the thing which is the object of the contract, if from the deed the contrary does not appear or cannot clearly be inferred."[9]

Contrary to the majority opinion, the facts and circumstances of the instant case clearly indicate that there was indeed actual and constructive delivery of the disputed property from Carmelo to Equatorial.

Let me substantiate my claim.

First, I must take exception to the majority's statement that this Court found in G.R. No. 106063[10] that, "no right of ownership was transferred from Carmelo to Equatorial in view of a patent failure to deliver the property to the buyer."[11]

A perusal of the Decision dated November 21, 1996 would reveal otherwise.

To say that this Court found no transfer of ownership between Equatorial and Carmelo is very inaccurate. For one, this Court, in disposing of G.R. No. 106063, explicitly ordered Equatorial to "execute the deeds and documents necessary to return ownership to Carmelo & Bauermann of the disputed lots."[12] I suppose this Court would not have made such an order if it did not recognize the transfer of ownership from Carmelo to Equatorial under the contract of sale. For why would the Court order Equatorial to execute the deeds and documents necessary to return ownership to Carmelo if, all along, it believed that ownership remained with Carmelo?

Furthermore, this Court explicitly stated in the Decision that Equatorial received rentals from Mayfair during the

pendency of the case. Let me quote the pertinent portion of the Decision, thus:

> "X x x Equatorial, on the other hand, has received rents and otherwise profited from the use of the property turned over to it by Carmelo. In fact, during all the years that this controversy was being litigated, Mayfair paid rentals regularly to the buyer (Equatorial) who had an inferior right to purchase the property. Mayfair is under no obligation to pay any interests arising from this judgment to either Carmelo or Equatorial."[13]

Justice Teodoro R. Padilla, in his Separate Opinion, made the following similar observations:

> "The equities of the case support the foregoing legal disposition. During the intervening years between 1 August 1978 and this date, Equatorial (after acquiring the C.M. Recto property for the price of P11,300,000.00) had been leasing the property and deriving rental income therefrom. In fact, one of the lessees in the property was Mayfair. Carmelo had, in turn, been using the proceeds of the sale, investment-wise and/or operation-wise in its own business."[14]

Obviously, this Court acknowledged the delivery of the property from Carmelo to Equatorial. As aptly described by Justice Panganiban himself, the sale between Carmelo and Equatorial had not only been "perfected" but also "consummated".[15]

That actual possession of the property was turned over by Carmelo to Equatorial is clear from the fact that the latter received rents from Mayfair. Significantly, receiving rentals is an exercise of actual possession. Possession, as defined in the Civil Code, is the holding of a thing or the enjoyment of a right.[16] It may either be by material occupation or by merely subjecting the thing or right to the action of our will.[17] Possession may therefore be exercised through one's self or through another.[18] It is not necessary that the person in possession should himself be the occupant of the property, the occupancy can be held by another in the name of the one who claims possession. In the case at bench, Equatorial exercised possession over the disputed property through Mayfair. When Mayfair paid its monthly rentals to Equatorial, the said lessee recognized the superior right of Equatorial to the possession of the property. And even if Mayfair did not recognize Equatorial's superior right over the disputed property, the fact remains that Equatorial was then enjoying the fruits of its possession.

At this juncture, it will be of aid to lay down the degrees of possession. The first degree is the mere holding, or possession without title whatsoever, and in violation of the right of the owner. Here, both the possessor and the public know that the possession is wrongful. An example of this is the possession of a thief or a usurper of land. The second is possession with juridical title, but not that of ownership. This is possession peaceably acquired, such that of a tenant, depositary, or pledge. The third is possession with a just title, or a title sufficient to transfer ownership, but not from the true owner. An example is the possession of a vendee of a piece of land from one who pretends to be the owner but is in fact not the owner thereof. And the fourth is possession with a just title from the true owner. This is possession that springs from ownership.[19] Undoubtedly, Mayfair's possession is by virtue of juridical title under the contract of lease, while that of Equatorial is by Virtue of its right of ownership under the contract of sale.

Second, granting arguendo that there was indeed no actual delivery, would Mayfair's alleged "timely objection to the sale and continued actual possession of the property" constitute an "impediment" that may prevent the passing of the property from Carmelo to Equatorial?[20]

I believe the answer is no.

The fact that Mayfair has remained in "actual possession of the property," after the perfection of the contract of sale between Carmelo and Equatorial up to the finality of this Court's Decision in G.R. No. 106063 (and even up to the present), could not prevent the consummation of such contract. As I have previously intimated, Mayfair's possession is not under a claim of ownership. It cannot in any way clash with the ownership accruing to

Equatorial by virtue of the sale. The principle has always been that the one who possesses as a mere holder acknowledges in another a superior right or right of ownership. A tenant possesses the thing leased as a mere holder, so does the usufructuary of the thing in usufruct; and the borrower of the thing loaned in commodatum. None of these holders asserts a claim of ownership in himself over the thing. Similarly, Mayfair does not claim ownership, but only possession as a lessee with the prior right to purchase the property.

In G.R. No. 106063, Mayfair's main concern in its action for specific performance was the recognition of its right of first refusal. Hence, the most that Mayfair could secure from the institution of its suit was to be allowed to exercise its right to buy the property upon rescission of the contract of sale. Not until Mayfair actually exercised what it was allowed to do by this Court in G.R. No. 106063, specifically to buy the disputed property for P11,300,000.00, would it have any right of ownership. How then, at that early stage, could Mayfair's action be an impediment in the consummation of the contract between Carmelo and Equatorial?

Pertinently, it does not always follow that, because a transaction is prohibited or illegal, title, as between the parties to the transaction, does not pass from the seller, donor, or transferor to the vendee, donee or transferee.[21]

And third, conformably to the foregoing disquisition, I maintain that Equatorial has the right to be paid whatever monthly rentals during the period that the contract of sale was in existence minus the rents already paid. In Guzman v. Court of Appeals,[22] this Court decreed that upon the purchase of the leased property and proper notice by the vendee, the lessee must pay the agreed monthly rentals to the new owner since, by virtue of the sale, the vendee steps into the shoes of the original lessor to whom the lessee bound himself to pay. His belief that the subject property should have been sold to him does not justify the unilateral withholding of rental payments due to the new owner of the property.[23] It must be stressed that under Article 1658 of the Civil Code, there are only two instances wherein the lessee may suspend payment of rent, namely: in case the lessor fails to make the necessary repairs or to maintain the lessee in peaceful and adequate enjoyment of the property leased.[24] In this case, the fact remains that Mayfair occupied the leased property. It derived benefit from such occupation, thus, it should pay the corresponding rentals due. Nemo cum alterius detrimento locupletari potest. No one shall enrich himself at the expense of another.[25]

Neither should the presence of bad faith prevent the award of rent to Equatorial. While Equatorial committed bad faith in entering into the contract with Carmelo, it has been equitably punished when this Court rendered the contract rescissible. That such bad faith was the very reason why the contract was declared rescissible is evident from the Decision itself.[26] To utilize it again, this time, to deprive Equatorial of its entitlement to the rent corresponding to the period during which the contract was supposed to validly exist, would not only be unjust, it would also disturb the very nature of a rescissible contract.

Let me elucidate on the matter.

Articles 1380 through 1389 of the Civil Code deal with rescissible contracts. A rescissible contract is one that is validly entered into, but is subsequently terminated or rescinded for causes provided for by law.

This is the clear implication of Article 1380 of the same Code which provides:

> "Art. 1380. Contracts validly agreed upon may be rescinded in the cases established by law."

Rescission has been defined as follows:

> "Rescission is a remedy granted by law to the contracting parties and even to third persons, to secure the reparation of damages caused to them by a contract, even if this should be valid, by means of the restoration of things to their condition at the moment prior to the celebration of said contract. It is a relief for the protection of one of the contracting parties and third persons from all injury and damage the contract may cause, or to

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> protect some incompatible and preferential right created by the contract. It implies a contract which, even if initially valid, produces a lesion or pecuniary damage to someone. It sets aside the act or contract for justifiable reasons of equity."[27]

Necessarily, therefore, a rescissible contract remains valid and binding upon the parties thereto until the same is rescinded in an appropriate judicial proceeding.

On the other hand, a void contract, which is treated in Articles 1409 through 1422 of the Civil Code, is inexistent and produces no legal effect whatsoever. The contracting parties are not bound thereby and such contract is not subject to ratification.

In dismissing petitioner Equatorial's complaint in Civil Case No. 97-85141, the trial court was apparently of the impression that a rescissible contract has the same effect as a void contract, thus:

> "However, the words in the dispositive portion of the Supreme Court "is hereby deemed rescinded" does not allow any other meaning. The said Deed of Absolute Sale is void at its inception.
>
> x x x x
>
> The subject Deed of Absolute Sale having been rescinded by the Supreme Court, Equatorial is not the owner and does not have any right to demand back rentals from subject property. The law states that only an owner can enjoy the fruits of a certain property or jus utendi which includes the right to receive from subject property what it produces, x x x x"

The trial Court erred. In G.R. No. 106063 (involving Mayfair's suit for specific performance), this Court clearly characterized the Deed of Absolute Sale between Carmelo and petitioner Equatorial as a rescissible contract. We stated therein that:

> "Since Equatorial is a buyer in bad faith, this finding renders the sale to it of the property in question rescissible. We agree with respondent Appellate Court that the records bear out the fact that Equatorial was aware of the lease contracts because its lawyers had, prior to the sale, studied the said contracts. As such, Equatorial cannot tenably claim to be a purchaser in good faith, and therefore, rescission lies."

This Court did not declare the Deed of Absolute Sale between Carmelo and Equatorial void but merely rescissible. Consequently, the contract was, at inception, valid and naturally, it validly transferred ownership of the subject property to Equatorial. It bears emphasis that Equatorial was not automatically divested of its ownership. Rather, as clearly directed in the dispositive portion of our Decision, Carmelo should return the purchase price to Equatorial which, in turn, must execute such deeds and documents necessary to enable Carmelo to reacquire its ownership of the property.

As mentioned earlier, Mayfair deposited with the Regional Trial Court, Branch 7, Manila, the purchase price of P10,452,000.00 (P11,300,000.00 less P847,000.00 as withholding tax). In turn, the Clerk of Court executed the deed of sale of the subject property in favor of Mayfair.

In the meantime, Mayfair has continued to occupy and use the premises, the reason why Equatorial filed against it Civil Case No. 97-85141 for sum of money representing rentals and reasonable compensation.

At this point, I must reiterate that Equatorial purchased the subject property from Carmelo and became its owner on July 31, 1978. While the contract of sale was "deemed rescinded" by this Court in G.R. No. 106063, nevertheless the sale had remained valid and binding between the contracting parties until March 17, 1997 when the Decision in G.R. No. 106063 became final. Consequently, being the owner, Equatorial has the right to demand from Mayfair payment of rentals corresponding to the period from July 31, 1978 up to March 17, 1997.

Records show that the rentals and reasonable compensation which Equatorial demands from Mayfair are those which accrued from the year 1987 to 1998. As earlier stated, prior thereto, Mayfair had been paying the rents to Equatorial.

In line with this Court's finding that Equatorial was the owner of the disputed property from July 31, 1978 to March 17, 1997, it is, therefore, entitled to the payment of rentals accruing to such period.

Consequently, whether or not Mayfair paid Equatorial the rentals specified in the lease contracts from June 1, 1987 to March 17, 1997 is for the trial court to resolve.

One last word. In effect, the majority have enunciated that:

> - A lessor, in a contract of sale, cannot transfer ownership of his property, occupied by the lessee, to the buyer because there can be no delivery of such property to the latter; and
>
> - Not only a possessor, but also an owner, can be in bad faith.

I cannot subscribe to such doctrines.

WHEREFORE, I vote to GRANT the petition.

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[1] 264 SCRA 483 (1996)

[2] TCT Nos. 235120, 235121, 235122 and 235123.

[3] 332 SCRA 139 (2000) In this case, Equatorial questioned the regularity of the execution of this Court's Decision in G.R. No. 106063.

[4] Complaint, Rollo, p. 45

[5] Motion to Dismiss, Rollo, p. 67

[6] Order, Rollo, p. 261, 265.

[7] Article 1477 of the Civil Code of the Philippines.

[8] Vitug, Compendium of Civil Law and Jurisprudence, Revised Edition, 1993, p. 592; Article 1497, Civil Code of the Philippines, La Fuerza, Inc. v. Court of Appeals, 23 SCRA 1217 (1968).

[9] Tolentino, Civil Code of the Philippines, Vol. II, 1998, p. 461.

[10] Equatorial Realty Development, Inc. v. Mayfair Theater, Inc. 264 SCRA 483 (1996). In this case, this Court ruled that the contract of sale between Carmelo and Equatorial is rescissible. This Court upheld Mayfair's right of first refusal. It ordered Carmelo to return to Equatorial the purchase price. Equatorial was directed to execute the documents necessary to return ownership of the disputed property to Carmelo and the latter was ordered to allow Mayfair to buy the same.

[11] Decision, p. 12.

[12] Ibid, p. 512.

[13] Ibid. p. 512.

[14] Ibid. p. 514.

[15] His Concurring Opinion in G.R. No. 106063, supra.

[16] Article 523 of the Civil Code of the Philippines.

[17] Tolentino, Civil Code of the Philippines, Volume II, p. 238; 4 Manresa 17.

[18] Ibid., p. 239.

[19] Ibid. 241-242

[20] Dissenting Opinion, p. 5.

[21] O'Mara v. Detinger, 62 N.Y. S. 2d 825, 271 App. Div. 22; Rosasco Creameries, Inc., v. Cohen, 276 N.Y. 274, 278, 11 N.E. 2d 908, 909; Whitfield v. United states, 92 U.S. 165, 169, 170, 23 L. Ed. 705.

[22] Guzman v. Court of Appeals 177 SCRA 604 (1989)

[23] Ibid.

[24] Reyes v. Area, 15 SCRA 442 (1965)

[25] Santos v. Court of Appeals, 221 SCRA 42 (1993)

[26] "Since Equatorial is a buyer in bad faith, this finding renders the sale to it of the property in question rescissible. We agree with respondent Appellate Court that the records bear out the fact that Equatorial was aware of the lease contracts because its lawyers had, prior to the sale, studied the said contracts. As such, Equatorial cannot tenably claim to be a purchaser in good faith, and therefore, rescission lies."

[27] IV Tolentino, Commentaries and Jurisprudence on the Civil Code of the Philippines (1997), pp. 570-571.

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