# ANTONIA TORRES, ASSISTED BY HER HUSBAND, ANGELO TORRES; AND EMETERIA BARING, PETITIONERS, VS. COURT OF APPEALS AND MANUEL TORRES, RESPONDENTS.

*G.R. No. 134559. December 09, 1999*

Ponente: PANGANIBAN, J.

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**PANGANIBAN, J.:**

Courts may not extricate parties from the necessary consequences of their acts. That the terms of a contract turn out to be financially disadvantageous to them will not relieve them of their obligations therein. The lack of an inventory of real property will not ipso facto release the contracting partners from their respective obligations to each other arising from acts executed in accordance with their agreement.

The Case

The Petition for Review on Certiorari before us assails the March 5, 1998 Decision[1] Second Division of the Court of Appeals[2] (CA) in CA-GR CV No. 42378 and its June 25, 1998 Resolution denying reconsideration. The assailed Decision affirmed the ruling of the Regional Trial Court (RTC) of Cebu City in Civil Case No. R-21208, which disposed as follows:

> "WHEREFORE, for all the foregoing considerations, the Court, finding for the defendant and against the plaintiffs, orders the dismissal of the plaintiff's complaint. The counterclaims of the defendant are likewise ordered dismissed. No pronouncement as to costs."[3]

The Facts

Sisters Antonia Torres and Emeteria Baring, herein petitioners, entered into a "joint venture agreement" with Respondent Manuel Torres for the development of a parcel of land into a subdivision. Pursuant to the contract, they executed a Deed of Sale covering the said parcel of land in favor of respondent, who then had it registered in his name. By mortgaging the property, respondent obtained from Equitable Bank a loan of P40,000 which, under the Joint Venture Agreement, was to be used for the development of the subdivision.[4] All three of them also agreed to share the proceeds from the sale of the subdivided lots.

The project did not push through, and the land was subsequently foreclosed by the bank.

According to petitioners, the project failed because of "respondent's lack of funds or means and skills." They add that respondent used the loan not for the development of the subdivision, but in furtherance of his own company, Universal Umbrella Company.

On the other hand, respondent alleged that he used the loan to implement the Agreement. With the said amount, he was able to effect the survey and the subdivision of the lots. He secured the Lapu Lapu City Council's approval of the subdivision project which he advertised in a local newspaper. He also caused the construction of roads, curbs and gutters. Likewise, he entered into a contract with an engineering firm for the building of sixty low-cost housing units and actually even set up a model house on one of the subdivision lots. He did all of these for a total

expense of P85,000.

Respondent claimed that the subdivision project failed, however, because petitioners and their relatives had separately caused the annotations of adverse claims on the title to the land, which eventually scared away prospective buyers. Despite his requests, petitioners refused to cause the clearing of the claims, thereby forcing him to give up on the project.[5]

Subsequently, petitioners filed a criminal case for estafa against respondent and his wife, who were however acquitted. Thereafter, they filed the present civil case which, upon respondent's motion, was later dismissed by the trial court in an Order dated September 6, 1982. On appeal, however, the appellate court remanded the case for further proceedings. Thereafter, the RTC issued its assailed Decision, which, as earlier stated, was affirmed by the CA.

Hence, this Petition.[6]

Ruling of the Court of Appeals
In affirming the trial court, the Court of Appeals held that petitioners and respondent had formed a partnership for the development of the subdivision. Thus, they must bear the loss suffered by the partnership in the same proportion as their share in the profits stipulated in the contract. Disagreeing with the trial court's pronouncement that losses as well as profits in a joint venture should be distributed equally,[7] the CA invoked Article 1797 of the Civil Code which provides:

> "Article 1797 - The losses and profits shall be distributed in conformity with the agreement. If only the share of each partner in the profits has been agreed upon, the share of each in the losses shall be in the same proportion."

The CA elucidated further:

> "In the absence of stipulation, the share of each partner in the profits and losses shall be in proportion to what he may have contributed, but the industrial partner shall not be liable for the losses. As for the profits, the industrial partner shall receive such share as may be just and equitable under the circumstances. If besides his services he has contributed capital, he shall also receive a share in the profits in proportion to his capital."

The Issue
Petitioners impute to the Court of Appeals the following error:

> "x x x [The] Court of Appeals erred in concluding that the transaction x x x between the petitioners and respondent was that of a joint venture/partnership, ignoring outright the provision of Article 1769, and other related provisions of the Civil Code of the Philippines."[8]

The Court's Ruling
The Petition is bereft of merit.

Main Issue:
Existence of a Partnership
Petitioners deny having formed a partnership with respondent. They contend that the Joint Venture Agreement and the earlier Deed of Sale, both of which were the bases of the appellate court's finding of a partnership, were void.

In the same breath, however, they assert that under those very same contracts, respondent is liable for his failure to implement the project. Because the agreement entitled them to receive 60 percent of the proceeds from the sale of the subdivision lots, they pray that respondent pay them damages equivalent to 60 percent of the value of the


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property.[9]

The pertinent portions of the Joint Venture Agreement read as follows:

"KNOW ALL MEN BY THESE PRESENTS:

"This AGREEMENT, is made and entered into at Cebu City, Philippines, this 5th day of March, 1969, by and between MR. MANUEL R. TORRES, x x x the FIRST PARTY, likewise, MRS. ANTONIA B. TORRES, and MISS EMETERIA BARING, x x x the SECOND PARTY:

W I T N E S S E T H:
"That, whereas, the SECOND PARTY, voluntarily offered the FIRST PARTY, this property located at Lapu-Lapu City, Island of Mactan, under Lot No. 1368 covering TCT No. T-0184 with a total area of 17,009 square meters, to be sub-divided by the FIRST PARTY;

"Whereas, the FIRST PARTY had given the SECOND PARTY, the sum of: TWENTY THOUSAND (P20,000.00) Pesos, Philippine Currency, upon the execution of this contract for the property entrusted by the SECOND PARTY, for sub-division projects and development purposes;

"NOW THEREFORE, for and in consideration of the above covenants and promises herein contained the respective parties hereto do hereby stipulate and agree as follows:

"ONE: That the SECOND PARTY signed an absolute Deed of Sale x x x dated March 5, 1969, in the amount of TWENTY FIVE THOUSAND FIVE HUNDRED THIRTEEN & FIFTY CTVS. (P25,513.50) Philippine Currency, for 1,700 square meters at ONE [PESO] & FIFTY CTVS. (P1.50) Philippine Currency, in favor of the FIRST PARTY, but the SECOND PARTY did not actually receive the payment.

"SECOND: That the SECOND PARTY, had received from the FIRST PARTY, the necessary amount of TWENTY THOUSAND (P20,000.00) pesos, Philippine currency, for their personal obligations and this particular amount will serve as an advance payment from the FIRST PARTY for the property mentioned to be sub-divided and to be deducted from the sales.

"THIRD: That the FIRST PARTY, will not collect from the SECOND PARTY, the interest and the principal amount involving the amount of TWENTY THOUSAND (P20,000.00) Pesos, Philippine Currency, until the sub-division project is terminated and ready for sale to any interested parties, and the amount of TWENTY THOUSAND (P20,000.00) pesos, Philippine currency, will be deducted accordingly.

"FOURTH: That all general expense[s] and all cost[s] involved in the sub-division project should be paid by the FIRST PARTY, exclusively and all the expenses will not be deducted from the sales after the development of the sub-division project.

"FIFTH: That the sales of the sub-divided lots will be divided into SIXTY PERCENTUM 60% for the SECOND PARTY and FORTY PERCENTUM 40% for the FIRST PARTY, and additional profits or whatever income deriving from the sales will be divided equally according to the x x x percentage [agreed upon] by both parties.

"SIXTH: That the intended sub-division project of the property involved will start the work and all improvements upon the adjacent lots will be negotiated in both parties['] favor and all sales shall [be] decided by both parties.

"SEVENTH: That the SECOND PARTIES, should be given an option to get back the property mentioned provided the amount of TWENTY THOUSAND (P20,000.00) Pesos, Philippine Currency, borrowed by the SECOND PARTY, will be paid in full to the FIRST PARTY, including all necessary improvements spent by the FIRST PARTY, and the FIRST PARTY will be given a grace period to turnover the property mentioned above.


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> "That this AGREEMENT shall be binding and obligatory to the parties who executed same freely and voluntarily for the uses and purposes therein stated."[10]

A reading of the terms embodied in the Agreement indubitably shows the existence of a partnership pursuant to Article 1767 of the Civil Code, which provides:

> "ART. 1767. By the contract of partnership two or more persons bind themselves to contribute money, property, or industry to a common fund, with the intention of dividing the profits among themselves."

Under the above-quoted Agreement, petitioners would contribute property to the partnership in the form of land which was to be developed into a subdivision; while respondent would give, in addition to his industry, the amount needed for general expenses and other costs. Furthermore, the income from the said project would be divided according to the stipulated percentage. Clearly, the contract manifested the intention of the parties to form a partnership.[11]

It should be stressed that the parties implemented the contract. Thus, petitioners transferred the title to the land to facilitate its use in the name of the respondent. On the other hand, respondent caused the subject land to be mortgaged, the proceeds of which were used for the survey and the subdivision of the land. As noted earlier, he developed the roads, the curbs and the gutters of the subdivision and entered into a contract to construct low-cost housing units on the property.

Respondent's actions clearly belie petitioners' contention that he made no contribution to the partnership. Under Article 1767 of the Civil Code, a partner may contribute not only money or property, but also industry.

Petitioners Bound by
Terms of Contract

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.

Alleged Nullity of the
Partnership Agreement

Petitioners argue that the Joint Venture Agreement is void under Article 1773 of the Civil Code, which provides:

> "ART. 1773. A contract of partnership is void, whenever immovable property is contributed thereto, if an inventory of said property is not made, signed by the parties, and attached to the public instrument."

They contend that since the parties did not make, sign or attach to the public instrument an inventory of the real property contributed, the partnership is void.

We clarify. First, Article 1773 was intended primarily to protect third persons. Thus, the eminent Arturo M. Tolentino states that under the aforecited provision which is a complement of Article 1771,[12] "the execution of a public instrument would be useless if there is no inventory of the property contributed, because without its designation and description, they cannot be subject to inscription in the Registry of Property, and their contribution cannot prejudice third persons. This will result in fraud to those who contract with the partnership in the belief [in] the efficacy of the guaranty in which the immovables may consist. Thus, the contract is declared void by the law when no such inventory is made." The case at bar does not involve third parties who may be prejudiced.

Second, petitioners themselves invoke the allegedly void contract as basis for their claim that respondent should pay them 60 percent of the value of the property.[13] They cannot in one breath deny the contract and in another recognize it, depending on what momentarily suits their purpose. Parties cannot adopt inconsistent positions in regard to a contract and courts will not tolerate, much less approve, such practice.

In short, the alleged nullity of the partnership will not prevent courts from considering the Joint Venture Agreement an ordinary contract from which the parties' rights and obligations to each other may be inferred and enforced.

Partnership Agreement Not the Result
of an Earlier Illegal Contract

Petitioners also contend that the Joint Venture Agreement is void under Article 1422[14] of the Civil Code, because it is the direct result of an earlier illegal contract, which was for the sale of the land without valid consideration.

This argument is puerile. The Joint Venture Agreement clearly states that the consideration for the sale was the expectation of profits from the subdivision project. Its first stipulation states that petitioners did not actually receive payment for the parcel of land sold to respondent. Consideration, more properly denominated as cause, can take different forms, such as the prestation or promise of a thing or service by another.[15]

In this case, the cause of the contract of sale consisted not in the stated peso value of the land, but in the expectation of profits from the subdivision project, for which the land was intended to be used. As explained by the trial court, "the land was in effect given to the partnership as [petitioner's] participation therein. x x x There was therefore a consideration for the sale, the [petitioners] acting in the expectation that, should the venture come into fruition, they [would] get sixty percent of the net profits."

Liability of the Parties

Claiming that respondent was solely responsible for the failure of the subdivision project, petitioners maintain that he should be made to pay damages equivalent to 60 percent of the value of the property, which was their share in the profits under the Joint Venture Agreement.

We are not persuaded. True, the Court of Appeals held that petitioners' acts were not the cause of the failure of the project.[16] But it also ruled that neither was respondent responsible therefor.[17] In imputing the blame solely to him, petitioners failed to give any reason why we should disregard the factual findings of the appellate court relieving him of fault. Verily, factual issues cannot be resolved in a petition for review under Rule 45, as in this case. Petitioners have not alleged, not to say shown, that their Petition constitutes one of the exceptions to this doctrine.[18] Accordingly, we find no reversible error in the CA's ruling that petitioners are not entitled to damages.


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WHEREFORE, the Petition is hereby DENIED and the challenged Decision AFFIRMED. Costs against petitioners.

**SO ORDERED.**

Melo, (Chairman), Vitug, Purisima, and Gonzaga-Reyes, JJ., concur.

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[1] Penned by Justice Ramon U. Mabutas Jr.; concurred in by Justices Emeterio C. Cui, Division chairman, and Hilarion L. Aquino, member.

[2] Second Division.

[3] CA Decision, p. 1; rollo, p. 15.

[4] CA Decision, p.2; rollo, p. 16.

[5] CA Decision, p. 3; rollo, p. 17.

[6] The case was deemed submitted for resolution on September 15, 1999, upon receipt by the Court of the respective Memoranda of the respondent and the petitioners.

[7] CA Decision, p. 32; rollo, p. 46.

[8] Petition, p. 2; rollo, p. 10.

[9] Petitioners' Memorandum, pp. 6-7; rollo, pp. 82-83.

[10] CA Decision, pp. 5-6; rollo, pp. 19-20.

[11] Jo Chung Cang v. Pacific Commercial Co., 45 Phil 142, September 6, 1923.

[12] "ART. 1771. A partnership may be constituted in any form, except where immovable property or real rights are contributed thereto, in which case a public instrument shall be necessary."

[13] Petitioners' Memorandum, pp. 6-7; rollo, pp. 82-83.

[14] "ART. 1422. A contract which is the direct result of a previous illegal contract, is also void and inexistent."

[15] "ART. 1350. In onerous contracts the cause is understood to be, for each contracting party, the prestation or promise of a thing or service by the other; in remuneratory ones, the service or benefit which is remunerated; and in contracts of pure beneficence, the mere liberality of the benefactor."

[16] CA Decision, p. 20; rollo, p. 34.

[17] Ibid., p. 28; rollo, p. 42.

[18] See Fuentes v. Court of Appeals, 268 SCRA 703, February 26, 1997.


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