HEIRS OF AUGUSTO L. SALAS, JR., NAMELY: TERESITA D. SALAS FOR HERSELF AND AS LEGAL GUARDIAN OF THE MINOR FABRICE CYRILL D. SALAS, MA. CRISTINA S. LESACA, AND KARINA TERESA D. SA...

G.R. NO. 135362. December 13, 1999

Ponente: DE LEON, JR., J.

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DE LEON, JR., J.:

Before us is a petition for review on certiorari of the Order[1] of Branch 85 of the Regional Trial Court of Lipa City[2] dismissing petitioners' complaint[3] for rescission of several sale transactions involving land owned by Augusto L. Salas, Jr., their predecessor-in-interest, on the ground that they failed to first resort to arbitration.

Salas, Jr. was the registered owner of a vast tract of land in Lipa City, Batangas spanning 1,484,354 square meters.

On May 15, 1987, he entered into an Owner-Contractor Agreement[4] (hereinafter referred to as the Agreement) with respondent Laperal Realty Corporation (hereinafter referred to as Laperal Realty) to render and provide complete (horizontal) construction services on his land.

On September 23, 1988, Salas, Jr. executed a Special Power of Attorney in favor of respondent Laperal Realty to exercise general control, supervision and management of the sale of his land, for cash or on installment basis.

On June 10, 1989, Salas, Jr. left his home in the morning for a business trip to Nueva Ecija. He never returned.

On August 6, 1996, Teresita Diaz Salas filed with the Regional Trial Court of Makati City a verified petition for the declaration of presumptive death of her husband, Salas, Jr., who had then been missing for more than seven (7) years. It was granted on December 12, 1996.[5]

Meantime, respondent Laperal Realty subdivided the land of Salas, Jr. and sold subdivided portions thereof to respondents Rockway Real Estate Corporation and South Ridge Village, Inc. on February 22, 1990; to respondent spouses Abrajano and Lava and Oscar Dacillo on June 27, 1991; and to respondents Eduardo Vacuna, Florante de la Cruz and Jesus Vicente Capalan on June 4, 1996 (all of whom are hereinafter referred to as respondent lot buyers).

On February 3, 1998, petitioners as heirs of Salas, Jr. filed in the Regional Trial Court of Lipa City a Complaint[6] for declaration of nullity of sale, reconveyance, cancellation of contract, accounting and damages against herein respondents which was docketed as Civil Case No. 98-0047.

On April 24, 1998, respondent Laperal Realty filed a Motion to Dismiss[7]on the ground that petitioners failed to submit their grievance to arbitration as required under Article VI of the Agreement which provides:

> "ARTICLE VI. ARBITRATION.

> All cases of dispute between CONTRACTOR and OWNER'S representative shall be referred to the committee represented by:
> a. One representative of the OWNER;
> b. One representative of the CONTRACTOR;
> c. One representative acceptable to both OWNER and CONTRACTOR."[8]

On May 5, 1998, respondent spouses Abrajano and Lava and respondent Dacillo filed a Joint Answer with Counterclaim and Crossclaim[9] praying for dismissal of petitioners' Complaint for the same reason.

On August 9, 1998, the trial court issued the herein assailed Order dismissing petitioners' Complaint for non-compliance with the foregoing arbitration clause.

Hence this petition.

Petitioners argue, thus:

> "The petitioners' causes of action did not emanate from the Owner-Contractor Agreement."
>
> "The petitioners' causes of action for cancellation of contract and accounting are covered by the exception under the Arbitration Law."
>
> "Failure to arbitrate is not a ground for dismissal."[10]

In a catena of cases[11] inspired by Justice Malcolm's provocative dissent in Vega v. San Carlos Milling Co.[12], this Court has recognized arbitration agreements as valid, binding, enforceable and not contrary to public policy so much so that when there obtains a written provision for arbitration which is not complied with, the trial court should suspend the proceedings and order the parties to proceed to arbitration in accordance with the terms of their agreement[13] Arbitration is the "wave of the future" in dispute resolution.[14] To brush aside a contractual agreement calling for arbitration in case of disagreement between parties would be a step backward.[15]

Nonetheless, we grant the petition.

A submission to arbitration is a contract.[16] As such, the Agreement, containing the stipulation on arbitration, binds the parties thereto, as well as their assigns and heirs.[17] But only they. Petitioners, as heirs of Salas, Jr., and respondent Laperal Realty are certainly bound by the Agreement. If respondent Laperal Realty, had assigned its rights under the Agreement to a third party, making the former, the assignor, and the latter, the assignee, such assignee would also be bound by the arbitration provision since assignment involves such transfer of rights as to vest in the assignee the power to enforce them to the same extent as the assignor could have enforced them against the debtor[18] or in this case, against the heirs of the original party to the Agreement. However, respondents Rockway Real Estate Corporation, South Ridge Village, Inc., Maharami Development Corporation, spouses Abrajano, spouses Lava, Oscar Dacillo, Eduardo Vacuna, Florante de la Cruz and Jesus Vicente Capellan are not assignees of the rights of respondent Laperal Realty under the Agreement to develop Salas, Jr.'s land and sell the same. They are, rather, buyers of the land that respondent Laperal Realty was given the authority to develop and sell under the Agreement. As such, they are not "assigns" contemplated in Art. 1311 of the New Civil Code which provides that "contracts take effect only between the parties, their assigns and heirs".

Petitioners claim that they suffered lesion of more than one-fourth (1/4) of the value of Salas, Jr.'s land when respondent Laperal Realty subdivided it and sold portions thereof to respondent lot buyers. Thus, they instituted action[19]against both respondent Laperal Realty and respondent lot buyers for rescission of the sale transactions and reconveyance to them of the subdivided lots. They argue that rescission, being their cause of action, falls under the exception clause in Sec. 2 of Republic Act No. 876 which provides that "such submission [to] or contract [of arbitration] shall be valid, enforceable and irrevocable, save upon such grounds as exist at law for the

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revocation of any contract".

The petitioners' contention is without merit. For while rescission, as a general rule, is an arbitrable issue,[20] they impleaded in the suit for rescission the respondent lot buyers who are neither parties to the Agreement nor the latter's assigns or heirs. Consequently, the right to arbitrate as provided in Article VI of the Agreement was never vested in respondent lot buyers.

Respondent Laperal Realty, as a contracting party to the Agreement, has the right to compel petitioners to first arbitrate before seeking judicial relief. However, to split the proceedings into arbitration for respondent Laperal Realty and trial for the respondent lot buyers, or to hold trial in abeyance pending arbitration between petitioners and respondent Laperal Realty, would in effect result in multiplicity of suits, duplicitous procedure and unnecessary delay. On the other hand, it would be in the interest of justice if the trial court hears the complaint against all herein respondents and adjudicates petitioners' rights as against theirs in a single and complete proceeding.

WHEREFORE, the instant petition is hereby GRANTED. The Order dated August 19, 1998 of Branch 85 of the Regional Trial Court of Lipa City is hereby NULLIFIED and SET ASIDE. Said court is hereby ordered to proceed with the hearing of Civil Case No. 98-0047.

Costs against private respondents.

SO ORDERED.

Bellosillo, (Chairman), Mendoza, Quisumbing, and Buena, JJ., concur.

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[1] Annex "A" of the Petition, Rollo, pp. 19-20.

[2] Presided by Hon. Judge Avelino G. Demetria.

[3] Rollo, p. 32.

[4] Annex "B" of the Petition, Rollo, p. 22.

[5] Decision of Branch 59 of the Regional Trial Court of Makati City in SP. PROC. No. M-4394 marked as Annex "C" of the Petition, Rollo, pp. 29-31.

[6] Annex "D" of the Petition, Rollo, pp. 32-49.

[7] Annex "E" of the Petition, Rollo, pp. 50-56.

[8] Owner-Contractor Agreement, p. 6, Rollo, p. 27.

[9] Annex "F" of the Petition, Rollo, pp. 58-73.

[10] Petition, pp. 7, 9-10, Rollo, pp. 9, 11-12.

[11] Mindanao Portland Cement Corporation v. McDonough Construction Company of Florida, 19 SCRA 808, 815 (1967); Bengson v. Chan, 78 SCRA 113, 119 (1977); Chung Fu Industries (Phils.), Inc. v. Court of Appeals, 206 SCRA 545, 549-552 (1992); Puromines , Inc. v. Court of Appeals, 220 SCRA 281, 289-290 (1993); National Power Corporation v. Court of Appeals, 254 SCRA 116, 125 (1996).

[12] 51 Phil. 908, 916-920 (1924).

[13] Bengson v. Chan, supra.

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[14] B.F. Corporation v. Court of Appeals, et al., 288 SCRA 267, 286 (1998).

[15] Ibid.

[16] Manila Electric Company v. Pasay Transportation Co., 57 Phil. 600, 603 (1932).

[17] Art. 1311, Civil Code.

[18] Tolentino, Arturo M., Commentaries and Jurisprudence on the Civil Code of the Philippines, Vol. 5 (1992), p. 188.

[19] Complaint dated February 2, 1998 marked as Annex "D" of the Petition, Rollo, pp. 32-48.

[20] Santiago v. Gonzalez, 79 SCRA 494, 500 (1977).

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