

**PHILIPPINE ECONOMIC ZONE AUTHORITY (PEZA), PETITIONER, VS.
HON. RUMOLDO R. FERNANDEZ, REGIONAL TRIAL COURT OF
LAPU-LAPU CITY (BRANCH 54); AND THE HEIRS OF THE DECEASED
SPOUSES J...**

G.R. No. 138971. June 06, 2001

Ponente: PANGANIBAN, J.

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PANGANIBAN, J.:

An action for reconveyance of land, an equitable remedy recognized under our land registration laws, is subject to the applicable rules on prescription. Moreover, the right to pursue such reivindicatory action may be defeated when the property sought to be recovered has been conveyed to an innocent purchaser for value.

The Case

Before this Court is a Petition for Review on Certiorari under Rule 45 of the Rules of Court, seeking to set aside the June 8, 1999 Decision[1] of the Court of Appeals (CA) in CA-GR SP No. 47575. In the said Decision, the CA sustained the January 12, 1998[2] and the March 31, 1998[3] Orders of the Regional Trial Court of Lapu-Lapu City (Branch 54) in Civil Case No. 4534-L, which denied petitioner's Motion to Dismiss and Motion for Reconsideration, respectively. The dispositive portion of the CA Decision reads as follows:

"WHEREFORE, [there being] no abuse of discretion committed by respondent court, the instant petition is hereby DISMISSED."

The Facts

The subject of the present controversy is Lot No. 4673 of the Opon Cadastre situated in Lapu-Lapu City, covered by Original Certificate of Title (OCT) No. RO-2537 (May 19, 1982) and registered in the names of Florentina Rapaya, Victorino Cuizon, Isidro Cuizon, Ursula Cuizon, Benito Lozano, Isabel Lozano, Pelagia Lozano, Augusto Lozano, Valeriano Ybañez, Jesus Ybañez, Numeriano Ybañez, Martino Ybañez, Eutiquio Patalinghug, Celedonio Patalinghug, Santiago Patalinghug and Silvino Patalinghug. The lot has an area of 11,345 square meters, more or less.

On May 15, 1982, Jorgea Igot-Soroño, Frisca Booc and Felix Cuizon executed an Extrajudicial Partition, in which they declared themselves as the only surviving heirs of the registered owners of the aforesaid lot. Consequently, they were issued TCT No. 12467 on July 8, 1982.

Considering that the said lot was among the objects of expropriation proceedings docketed as Civil Case No 510-L and pending before it, Branch XVI of the Regional Trial Court (RTC) of Lapu-Lapu City rendered a partial Decision on August 11, 1982. In that Decision, the RTC approved the Compromise Agreement entered into between the Export Processing Zone Authority (EPZA) and the new registered owners of Lot No. 4673; namely, Jorgea Igot-Soroño, Frisca Booc and Felix Cuizon. In accordance with the approved Compromise Agreement, EPZA would pay P68,070 as just compensation for the expropriation of the subject property, which was to be

used for an export processing zone to be established in Lapu-Lapu City.

As a consequence of the RTC Decision, petitioner acquired title over Lot No. 4673 and the corresponding Transfer Certificate of Title (TCT) No. 12788 issued by the Register of Deeds of Lapu-Lapu City on October 13, 1982.

On July 29, 1996, private respondents filed with the RTC of Lapu-Lapu City a Complaint for Nullity of Documents, Redemption and Damages against petitioner and Jorgea-Igot Soroño et al. Docketed as Civil Case No. 4534-L, the Complaint alleged that herein private respondents had been excluded from the extrajudicial settlement of the estate. It likewise sought the nullification of several documents, including TCT No. 12788 dated October 13, 1992, issued in the name of herein petitioner.

On February 17, 1997, petitioner filed a Motion to Dismiss the Complaint on the ground of prescription. This Motion was denied by respondent judge in the Order dated January 12, 1998. A Motion for Reconsideration thereof was likewise denied in the Order dated March 31, 1998.

On April 30, 1998, petitioner elevated the matter to the Court of Appeals through a Petition for Certiorari. As earlier noted, the CA dismissed the Petition.

Hence, this recourse.[4]

The CA Ruling

In denying the Petition, the CA ratiocinated as follows:

"Civil Case No. 4534-L although instituted in the guise of a complaint for Nullity of Documents, Redemption and Damages is in effect an action for reconveyance of the property to plaintiffs of a portion which rightfully belong to them. It would be against good reason and conscience not to hold that defendants, Francisca 'Frisca' Booc, heirs of deceased Jorg[e]a Igot-Soronio and heirs of Felix Cuizon committed a breach of trust which enabled them to execute a Deed of Extrajudicial Partition[,] Special Power of Attorney and Deed of Absolute Sale in favor of EPZA to the prejudice of the plaintiffs as their co-heirs. Therefore, in an action like this case, the private respondents may be ordered to make reconveyance of the property to the person rightfully entitled to it.

"It is undeniable that defendants defrauded plaintiffs by falsely representing that they were the only heirs of deceased Juan Cuizon and Florentina Rapaya, succeeded in having the original title cancelled and enabling them to appropriate the land in favor of EPZA and a new one issued in the name of the latter (EPZA). This way of acquiring title create[s] what is called 'constructive trust' in favor of the defrauded party and grants the latter the right to vindicate [itself] x x x regardless of the lapse of time. Thus, it has been held that if a person obtain(s) a legal title to the property by fraud or concealment, courts of equity will impress upon the title a so called 'trust' in favor of the defrauded party. In fact, it has long been held that a co-heir who through fraud, succeeds in obtaining a certificate of title in his name to the prejudice of his co-heirs, is deemed to hold the land in trust for the latter. The excluded heir's action is imprescriptible.

"And if the action involve(s) the declaration of the nullity or inexistence of a void or inexistent contract which became the basis for the fraudulent registration of the subject property, then the action is imprescriptible. This finds codal support in Article 1410 of the Civil Code, which declares that the action or defense for the declaration of the inexistence of a void contract does not prescribe.

"As to the constructive notice rule alleged by the petitioner, (the) Supreme Court in the case of Juan vs. Zuniga, citing Sevilla vs. Angeles, has this to say:

"While this ruling is correct as applied to ordinary actions by recovery of real property which is covered by a

torrens title upon the theory that its registration under our registration system has the effect of constructive notice to the whole world, the same cannot be applied x x x when the purpose of the action is to compel a trustee to convey the property registered in his name for the benefit of the cestui que trust. In other words, the defense of prescription cannot be set up in an action whose purpose is to recover property held by a person for the benefit of another.'

The Issues

Petitioner interposes the following issues for the consideration of this Court:

"I

Whether or not the appellate court erred in not holding that private respondents' claim against expropriated property had prescribed.

"II

Whether or not the appellate court erred in not holding that reconveyance does not lie against the expropriated property."[5]

The Court's Ruling

The Petition is meritorious.

First Issue:

Prescription

Petitioner avers that private respondents' claim against the subject property has already prescribed, because the two-year period within which an unduly excluded heir may seek a new settlement of the estate had already lapsed by the time private respondents filed their action with the trial court. Petitioner further argues that private respondents received constructive notice in view of the registration of the extrajudicial partition with the Registry of Deeds. According to petitioner, the two-year period commenced from July 8, 1982, the date of inscription of the extrajudicial settlement on OCT No. 2537.

The pertinent provisions of Section 4, Rule 74 of the Rules of Court, are reproduced for easy reference, as follows:

"Section 4. Liability of distributees and estate. - If it shall appear at any time within two (2) years after the settlement and distribution of an estate in accordance with the provisions of either of the first two sections of this rule, that an heir or other person has been unduly deprived of his lawful participation in the estate, such heir or such other person may compel the settlement of the estate in the courts in the manner hereinafter provided for the purpose of satisfying such lawful participation. And if within the same time of two (2) years, it shall appear that there are debts outstanding against the estate which have not been paid, or that an heir or other person has been unduly deprived of his lawful participation payable in money, the court having jurisdiction of the estate may, by order for that purpose, after hearing, settle the amount of such debts or lawful participation and order how much and in what manner each distributee shall contribute in the payment thereof, and may issue execution, if circumstances require, against the bond provided in the preceding section or against the real estate belonging to the deceased, or both. Such bond and such real estate shall remain charged with a liability to creditors, heirs, or other persons for the full period of two (2) years after such distribution, notwithstanding any transfers of real estate that may have been made." (Emphasis supplied)

A perusal of the foregoing provision will show that persons unduly deprived of their lawful participation in a settlement may assert their claim only within the two-year period after the settlement and distribution of the estate. This prescription period does not apply, however, to those who had no part in or had no notice of the

settlement. Section 4, Rule 74 of the Rules of Court, is not meant to be a statute of limitations. Moreover, by no reason or logic can one contend that an extrajudicial partition, being merely an ex parte proceeding, would affect third persons who had no knowledge thereof.[6] Be that as it may, it cannot be denied, either, that by its registration in the manner provided by law, a transaction may be known actually or constructively.

In the present case, private respondents are deemed to have been constructively notified of the extrajudicial settlement by reason of its registration and annotation in the certificate of title over the subject lot. From the time of registration, private respondents had two (2) years or until July 8, 1984, within which to file their objections or to demand the appropriate settlement of the estate.

On the matter of constructive notice vis-à-vis prescription of an action to contest an extrajudicial partition, a leading authority on land registration elucidates as follows:

"While it may be true that an extrajudicial partition is an ex parte proceeding, yet after its registration under the Torrens system and the annotation on the new certificate of title of the contingent liability of the estate for a period of two years as prescribed in Rule 74, Section 4, of the Rules of Court, by operation of law a constructive notice is deemed made to all the world, so that upon the expiration of said period all third persons should be barred [from going] after the particular property, except where title thereto still remains in the names of the alleged heirs who executed the partition tainted with fraud, or their transferees who may not qualify as 'innocent purchasers for value'. If the liability of the registered property should extend indefinitely beyond that period, then such constructive notice which binds the whole world by virtue of registration would be meaningless and illusory. x x x." [7] (Emphasis supplied)

The only exception to the above-mentioned prescription is when the title remains in the hands of the heirs who have fraudulently caused the partition of the subject property or in those of their transferees who cannot be considered innocent purchasers for value.

In this regard, title to the property in the present case was no longer in the name of the allegedly fraudulent heirs, but already in that of an innocent purchaser for value - the government. Moreover, the government is presumed to have acted in good faith in the acquisition of the lot, considering that title thereto was obtained through a Compromise Agreement judicially approved in proper expropriation proceedings.

Even assuming that there was in fact fraud on the part of the other heirs, private respondents may proceed only against the defrauding heirs, not against petitioner which had no participation in or knowledge of the alleged fraud. The fact that the co-heirs' title to the property was fraudulently secured cannot prejudice the rights of petitioner which, absent any showing that it had knowledge or participation in the irregularity, is considered a purchaser in good faith and for value.[8]

The remedy of an owner alleged to have been prejudiced or fraudulently deprived of property that was subsequently sold to an innocent purchaser for value is an action for damages against the person or persons who perpetrated the fraud.[9]

Second Issue:

Limitations on Reconveyance

The law recognizes the right of a person, who, by adjudication or confirmation of title obtained by actual fraud, is deprived of an estate or an interest therein.[10] Although a review of the decree of registration is no longer possible after the one-year period from its entry expires, still available is an equitable remedy to compel the reconveyance of property to those who may have been wrongfully deprived of it.[11] This equitable remedy afforded by law is not without limitations, however.

An action for reconveyance resulting from fraud prescribes four years from the discovery of the fraud; such discovery is deemed to have taken place upon the issuance of the certificate of title over the property. Registration of real property is considered a constructive notice to all persons and, thus, the four-year period shall be counted therefrom.[12] Clearly then, private respondents' action for reconveyance based on fraud has already prescribed, considering that title to said property had been issued way back on August 11, 1982, while the reivindicatory suit was instituted only on July 29, 1996.

Even an action for reconveyance based on an implied or a constructive trust would have already prescribed just the same, because such action prescribes ten (10) years from the alleged fraudulent registration or date of issuance of the certificate of title over the property.[13] The imprescriptibility of an action for reconveyance based on implied or constructive trust applies only when the plaintiff or the person enforcing the trust is in possession of the property. In effect, the action for reconveyance is an action to quiet the property title, which does not prescribe.[14] Undisputedly, private respondents are not in possession of the disputed property. In fact, they do not even claim to be in possession of it, even if to do so would enable them to justify the imprescriptibility of their action.

Accordingly, the CA Decision's reliance on *Juan v. Zuñiga*,[15] as regards the imprescriptibility of an action for reconveyance based on implied or constructive trust, is utterly misplaced in the light of the foregoing rulings of the Court declaring a ten-year period of prescription for such action. Moreover, the principle enunciated therein has no application to the instant case, considering that the supposed "trustee" herein has effectively repudiated the so-called "trust" by directly performing an act of ownership; that is, by conveying the property to the government through expropriation. An action to compel, for the benefit of the cestui que trust, the conveyance of property registered in the trustee's name does not prescribe unless the trustee repudiates the trust.[16] Thus, private respondents cannot invoke the imprescriptibility of their action for reconveyance, irrespective of their basis for it.

Finally, it must be remembered that reconveyance is a remedy of those whose property has been wrongfully or erroneously registered in the name of another. Such recourse, however, cannot be availed of once the property has passed to an innocent purchaser for value. For an action for reconveyance to prosper, the property should not have passed into the hands of an innocent purchaser for value.[17]

Indubitably, we find that the property has already been conveyed to the government in appropriate expropriation proceedings, the regularity or validity of which has not been questioned. Petitioner should, therefore, enjoy the security afforded to innocent third persons under our registration laws. Equally important, its title to the property must be rightfully preserved.

Hence, private respondents' action to recover the subject property from the government cannot be maintained, not only because of the prescription of the action, but on account of the protection given to innocent purchasers for value granted under our land registration laws. Indeed, the inevitable consequences of the Torrens system of land registration must be upheld in order to give stability to it and provide finality to land disputes.

This ruling notwithstanding, private respondents are not without recourse. They may sue for damages their co-heirs who have allegedly perpetrated fraud in Civil Case No. 4534-L pending before the RTC. The right and the extent of damages to be awarded to private respondents shall be determined by the trial court, subject to the evidence duly established during the proceedings.

WHEREFORE, the Petition is hereby GRANTED and the assailed Decision of the Court of Appeals REVERSED. The Orders of the Regional Trial Court of Lapu-Lapu City (Branch 54) in Civil Case No. 4534-L, dated January 12, 1998 and March 31, 1998, are SET ASIDE and the said Civil Case, as against petitioner, is DISMISSED. No costs.

SO ORDERED.

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

[1] Rollo, pp. 28-31. This was penned by Justice Eugenio S. Labitoria (Division chairman) with the concurrence of Justices Marina L. Buzon and Renato C. Dacudao, members.

[2] Rollo, pp. 23-24.

[3] Rollo, pp. 25-27.

[4] The case was deemed submitted for resolution on March 27, 2000, upon receipt by the Court of petitioner's Memorandum signed by Solicitor General Ricardo P. Galvez, Assistant Solicitor General Nestor J. Ballacillo and Associate Solicitor Tomas M. Navarro. Respondents' Memorandum, signed by Atty. Demosthenes S. Tecson, was received by this Court on February 29, 2000.

[5] Petitioner's Memorandum, p.5; rollo, p.120.

[6] Sampilo & Salacup v. CA, 103 Phil 70, February 28, 1958; Villaluz v. Neme, 7 SCRA 27, January 31, 1963.

[7] Peña, Registration of Land Titles and Deeds, 1988 revised ed., p. 409.

[8] Eduarte v. CA, 253 SCRA 391, February 9, 1996.

[9] Ibid.

[10] Serna v. CA, 308 SCRA 527, June 18, 1999.

[11] Esquivias v. CA, 272 SCRA 803, May 29, 1997.

[12] Ramos v. CA, 302 SCRA 589, February 3, 1999; Serna v. CA, 308 SCRA 527, June 18, 1999 .

[13] Salvatierra v. CA, 261 SCRA 45, August 26, 1996; Olviga v. CA, 227 SCRA 330, October 21, 1993; Sta. Ana Jr. v.. CA, 281 SCRA 624, November 13, 1997.

[14] Vda. de Cabrera v.. CA, 267 SCRA 339, February 3, 1997.

[15] 4 SCRA 1221, April 28, 1962.

[16] Vilorio v. CA, 309 SCRA 529, June 30, 1999.

[17] Lucena v. CA, 313 SCRA 47, August 25, 1999.

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