

NATIONAL HOUSING AUTHORITY, PETITIONER, VS. GRACE BAPTIST CHURCH AND THE COURT OF APPEALS, RESPONDENTS.

G.R. No. 156437. March 01, 2004

Ponente: YNARES-SATIAGO, J.

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YNARES-SATIAGO, J.:

This is a petition for review under Rule 45 of the Rules of Court, seeking to reverse the Decision of the Court of Appeals dated February 26, 2001,[1] and its Resolution dated November 8, 2002,[2] which modified the decision of the Regional Trial Court of Quezon City, Branch 90, dated February 25, 1997.[3]

On June 13, 1986, respondent Grace Baptist Church (hereinafter, the Church) wrote a letter to petitioner National Housing Authority (NHA), manifesting its interest in acquiring Lots 4 and 17 of the General Mariano Alvarez Resettlement Project in Cavite.[4] In its letter-reply dated July 9, 1986, petitioner informed respondent:

In reference to your request letter dated 13 June 1986, regarding your application for Lots 4 and 17, Block C-3-CL, we are glad to inform you that your request was granted and you may now visit our Project Office at General Mariano Alvarez for processing of your application to purchase said lots.

We hereby advise you also that prior to approval of such application and in accordance with our existing policies and guidelines, your other accounts with us shall be maintained in good standing.[5]

Respondent entered into possession of the lots and introduced improvements thereon.[6]

On February 22, 1991, the NHA's Board of Directors passed Resolution No. 2126, approving the sale of the subject lots to respondent Church at the price of P700.00 per square meter, or a total price of P430,500.00.[7] The Church was duly informed of this Resolution through a letter sent by the NHA.[8]

On April 8, 1991, the Church tendered to the NHA a manager's check in the amount of P55,350.00, purportedly in full payment of the subject properties.[9] The Church insisted that this was the price quoted to them by the NHA Field Office, as shown by an unsigned piece of paper with a handwritten computation scribbled thereon.[10] Petitioner NHA returned the check, stating that the amount was insufficient considering that the price of the properties have changed. The Church made several demands on the NHA to accept their tender of payment, but the latter refused. Thus, the Church instituted a complaint for specific performance and damages against the NHA with the Regional Trial Court of Quezon City,[11] where it was docketed as Civil Case No. Q-91-9148.

On February 25, 1997, the trial court rendered its decision, the dispositive portion of which reads:

WHEREFORE, premises considered, judgment is hereby rendered as follows:

- Ordering the defendant to reimburse to the plaintiff the amount of P4,290.00 representing the overpayment made for Lots 1, 2, 3, 18, 19 and 20;
- Declaring that there was no perfected contract of sale with respect to Lots 4 and 17 and ordering the plaintiff to return possession of the property to the defendant and to pay the latter reasonable rental for the use of the

property at P200.00 per month computed from the time it took possession thereof until finally vacated. Costs against defendant.

SO ORDERED.[12]

On appeal, the Court of Appeals, affirmed the trial court's finding that there was indeed no contract of sale between the parties. However, petitioner was ordered to execute the sale of the lots to Grace Baptist Church at the price of P700.00 per square meter, with 6% interest per annum from March 1991. The dispositive portion of the Court of Appeals' decision, dated February 26, 2001, reads:

WHEREFORE, the appealed Decision is hereby AFFIRMED with the MODIFICATION that defendant-appellee NHA is hereby ordered to sell to plaintiff-appellant Grace Baptist Church Lots 4 and 17 at the price of P700.00 per square meter, or a total cost P430,000.00 with 6% interest per annum from March, 1991 until full payment in cash.

SO ORDERED.[13]

The appellate court ruled that the NHA's Resolution No. 2126, which earlier approved the sale of the subject lots to Grace Baptist Church at the price of P700.00 per square meter, has not been revoked at any time and was therefore still in effect. As a result, the NHA was estopped from fixing a different price for the subject properties. Considering further that the Church had been occupying the subject lots and even introduced improvements thereon, the Court of Appeals ruled that, in the interest of equity, it should be allowed to purchase the subject properties.[14]

Petitioner NHA filed a Motion for Reconsideration which was denied in a Resolution dated November 8, 2002. Hence, the instant petition for review on the sole issue of: Can the NHA be compelled to sell the subject lots to Grace Baptist Church in the absence of any perfected contract of sale between the parties?

Petitioner submits that the Court cannot compel it to sell the subject property to Grace Baptist Church without violating its freedom to contract.[15] Moreover, it contends that equity should be applied only in the absence of any law governing the relationship between the parties, and that the law on sales and the law on contracts in general apply to the present case.[16]

We find merit in petitioner's submission.

Petitioner NHA is not estopped from selling the subject lots at a price equal to their fair market value, even if it failed to expressly revoke Resolution No. 2126. It is, after all, hornbook law that the principle of estoppel does not operate against the Government for the act of its agents,[17] or, as in this case, their inaction.

On the application of equity, it appears that the crux of the controversy involves the characterization of equity in the context of contract law. Preliminarily, we reiterate that this Court, while aware of its equity jurisdiction, is first and foremost, a court of law. While equity might tilt on the side of one party, the same cannot be enforced so as to overrule positive provisions of law in favor of the other. [18] Thus, before we can pass upon the propriety of an application of equitable principles in the case at bar, we must first determine whether or not positive provisions of law govern.

It is a fundamental rule that contracts, once perfected, bind both contracting parties, and obligations arising therefrom have the force of law between the parties and should be complied with in good faith. [19] However, it must be understood that contracts are not the only source of law that govern the rights and obligations between the parties. More specifically, no contractual stipulation may contradict law, morals, good customs, public order or public policy.[20] Verily, the mere inexistence of a contract, which would ordinarily serve as the law between the

parties, does not automatically authorize disposing of a controversy based on equitable principles alone. Notwithstanding the absence of a perfected contract between the parties, their relationship may be governed by other existing laws which provide for their reciprocal rights and obligations.

It must be remembered that contracts in which the Government is a party are subject to the same rules of contract law which govern the validity and sufficiency of contract between individuals. All the essential elements and characteristics of a contract in general must be present in order to create a binding and enforceable Government contract.[21]

It appearing that there is no dispute that this case involves an unperfected contract, the Civil Law principles governing contracts should apply. In *Vda. de Urbano v. Government Service Insurance System*,[22] it was ruled that a qualified acceptance constitutes a counter-offer as expressly stated by Article 1319 of the Civil Code. In said case, petitioners offered to redeem mortgaged property and requested for an extension of the period of redemption. However, the offer was not accepted by the GSIS. Instead, it made a counter-offer, which petitioners did not accept. Petitioners again offer to pay the redemption price on staggered basis. In deciding said case, it was held that when there is absolutely no acceptance of an offer or if the offer is expressly rejected, there is no meeting of the minds. Since petitioners' offer was denied twice by GSIS, it was held that there was clearly no meeting of the minds and, thus, no perfected contract. All that is established was a counter-offer.[23]

In the case at bar, the offer of the NHA to sell the subject property, as embodied in Resolution No. 2126, was similarly not accepted by the respondent.[24] Thus, the alleged contract involved in this case should be more accurately denominated as inexistent. There being no concurrence of the offer and acceptance, it did not pass the stage of generation to the point of perfection.[25] As such, it is without force and effect from the very beginning or from its incipiency, as if it had never been entered into, and hence, cannot be validated either by lapse of time or ratification.[26] Equity can not give validity to a void contract,[27] and this rule should apply with equal force to inexistent contracts.

We note from the records, however, that the Church, despite knowledge that its intended contract of sale with the NHA had not been perfected, proceeded to introduce improvements on the disputed land. On the other hand, the NHA knowingly granted the Church temporary use of the subject properties and did not prevent the Church from making improvements thereon. Thus, the Church and the NHA, who both acted in bad faith, shall be treated as if they were both in good faith.[28] In this connection, Article 448 of the Civil Code provides:

The owner of the land on which anything has been built, sown or planted in good faith, shall have the right to appropriate as his own the works, sowing or planting, after payment of the indemnity provided for in articles 546 and 548, or to oblige the one who built or planted to pay the price of the land, and the one who sowed, the proper rent. However, the builder or planter cannot be obliged to buy the land and if its value is considerably more than that of the building or trees. In such case, he shall pay reasonable rent, if the owner of the land does not choose to appropriate the building or trees after proper indemnity. The parties shall agree upon the terms of the lease and in case of disagreement, the court shall fix the terms thereof.

Pursuant to our ruling in *Depra v. Dumlao*,[29] there is a need to remand this case to the trial court, which shall conduct the appropriate proceedings to assess the respective values of the improvements and of the land, as well as the amounts of reasonable rentals and indemnity, fix the terms of the lease if the parties so agree, and to determine other matters necessary for the proper application of Article 448, in relation to Articles 546 and 548, of the Civil Code.

WHEREFORE, in view of the foregoing, the petition is GRANTED. The Court of Appeals' Decision dated February 26, 2001 and Resolution dated November 8, 2002 are REVERSED and SET ASIDE. The Decision of

the Regional Trial Court of Quezon City-Branch 90, dated February 25, 1997, is REINSTATED. This case is REMANDED to the Regional Trial Court of Quezon City, Branch 90, for further proceedings consistent with Articles 448 and 546 of the Civil Code.

No costs.

SO ORDERED.

Davide, Jr., C.J., Carpio, and Azcuna, JJ., concur.
Panganiban, J., on official leave.

[**] Acting Working Chairman.[1] Rollo, p. 32; penned by Associate Justice Ruben T. Reyes, concurred in by Associate Justices Presbiterio J. Velasco, Jr. and Juan Q. Enriquez, Jr.

[2] Rollo, p. 38.

[3] Records, p. 393; penned by Assisting Judge Recaredo P. Barte.

[4] Rollo, p. 24.

[5] Records, p. 98.

[6] Rollo, p. 25.

[7] Id.

[8] TSN, September 14, 1993, pp. 18-19.

[9] Records, p. 99.

[10] Records, p. 101; TSN, December 7, 1992, pp. 6-7, 12.

[11] Rollo, p. 26.

[12] Records, p. 399.

[13] CA Rollo, p. 109.

[14] Id., pp. 107-108.

[15] Id., pp. 15-16.

[16] Id., p. 17.

[17] Republic of the Philippines v. Court of Appeals, G.R. No. 112115, 9 March 2001, 354 SCRA 148.

[18] Lacanilao v. Court of Appeals, G.R. No. 121200, 26 September 1996, 262 SCRA 486.

[19] Philippine National Construction Corporation v. Court of Appeals, 338 Phil. 691 (1997).

[20] CIVIL CODE, art. 1306.

[21] BARTOLOME C. FERNANDEZ, A TREATISE ON GOVERNMENT CONTRACT UNDER PHILIPPINE LAW 9 (2001).

[22] 419 Phil. 948 (2001).

[23] *Vda. de Urbano v. Government Service Insurance System*, 419 Phil. 948, 974-976 (2001); citing *Leoquingco v. Postal Savings Bank*, 47 Phil. 772 (1925); *Gamboa v. Gonzales*, 17 Phil. 381 (1910) and *Batangan v. Cojuangco*, 78 Phil. 481 (1947).

[24] *Rollo*, pp. 4-5.

[25] CIVIL CODE, art. 1319, cited in IV TOLENTINO, COMMENTARIES AND JURISPRUDENCE ON THE CIVIL CODE OF THE PHILIPPINES 629-630 (1991).

[26] *COMELEC v. Quijano-Padilla*, G.R. No. 151992, 18 September 2002, 389 SCRA 353; citing *Manila Lodge v. Court of Appeals*, G.R. No. 414001, 30 September 1976, 73 SCRA 162 and *Tongoy v. Court of Appeals*, 208 Phil. 95 (1983).

[27] *Arsenal v. Intermediate Appellate Court*, 227 Phil. 36 (1986).

[28] *Boyer-Roxas v. Court of Appeals*, G.R. No. 100866, 14 July 1992, 211 SCRA 470.

[29] G.R. No. 57348, 16 May 1985, 136 SCRA 475, 483; cited in *Technogas Philippines Manufacturing Corporation v. Court of Appeals*, 335 Phil. 471 (1997), per Panganiban, J.

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