

**SPOUSES TOMAS OCCEÑA AND SILVINA OCCEÑA, PETITIONERS, VS.
LYDIA MORALES OBSIANA ESPONILLA, ELSA MORALES OBSIANA
SALAZAR AND DARFROSA OBSIANA SALAZAR ESPONILLA,
RESPONDENTS.**

G.R. No. 156973. June 04, 2004

Ponente: PUNO, J.

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PUNO, J.:

The case at bar involves a portion of the 1,198-square meter residential lot (lot no. 265) situated in Sibalom, Antique, originally owned by spouses Nicolas and Irene Tordesillas under OCT No. 1130. The Tordesillas spouses had three (3) children, namely: Harod, Angela and Rosario, the latter having been survived by her two (2) children, Arnold and Lilia de la Flor.

After the death of the Tordesillas spouses, the lot was inherited by their children Harod and Angela, and grandchildren Arnold and Lilia. In 1951, the heirs executed a Deed of Pacto de Retro Sale[1] in favor of Alberta Morales covering the southwestern portion of the lot with an area of 748 square meters.

Three (3) years later, in 1954, Arnold and Lilia executed a Deed of Definite Sale of Shares, Rights, Interests and Participations[2] over the same 748 sq. m. lot in favor of Alberta Morales. The notarized deed also attested that the lot sold by vendors Arnold and Lilia to Alberta were their share in the estate of their deceased parents.

Alberta possessed the lot as owner, constructed a house on it and appointed a caretaker to oversee her property. Thereafter, in July 1956, vendor Arnold de la Flor borrowed the OCT from Alberta covering the lot. He executed an Affidavit[3] acknowledging receipt of the OCT in trust and undertook to return said title free from changes, modifications or cancellations.

In 1966, Arnold and Angela, nephew and daughter respectively of the Tordesillas spouses, without the knowledge of Alberta, executed a Deed of Extrajudicial Settlement[4] declaring the two of them as the only co-owners of the undivided 1,198 sq. m. lot no. 265, without acknowledging their previous sale of 748 sq. m. thereof to Alberta. A number of times, thereafter, Alberta and her nieces asked Arnold for the OCT of the land but Arnold just kept on promising to return it.

In 1983, Arnold executed an Affidavit of Settlement of the Estate[5] of Angela who died in 1978 without issue, declaring himself as the sole heir of Angela and thus consolidating the title of the entire lot in his name.

In 1985, vendee Alberta Morales died. Her nieces-heirs, Lydia, Elsa and Dafrosa, succeeded in the ownership of the lot. Months later, as the heirs were about to leave for the United States, they asked Arnold to deliver to them the title to the land so they can register it in their name. Arnold repeatedly promised to do so but failed to deliver the title to them.

On December 4, 1986, after Alberta's heirs left for the States, Arnold used the OCT he borrowed from the

deceased vendee Alberta Morales, subdivided the entire lot no. 265 into three sublots, and registered them all under his name, viz: lot no. 265-A (with TCT No. 16895), lot no. 265-B (with TCT No. 16896) and lot no. 265-C (with TCT No. 16897). He then paid the real estate taxes on the property.

On August 13, 1990, Arnold sold lot nos. 265-B & C to spouses Tomas and Sylvina Occeña, which included the 748 sq. m. portion previously sold to Alberta Morales. A Deed of Absolute Sale^[6] over said lots was executed to the Occeña spouses and titles were transferred to their names.

In 1993, after the death of Arnold, the three (3) nieces-heirs of Alberta Morales learned about the second sale of their lot to the Occeña spouses when they were notified by caretaker Abas that they were being ejected from the land. In 1994, the heirs filed a case^[7] for annulment of sale and cancellation of titles, with damages, against the second vendees Occeña spouses. In their complaint, they alleged that the Occeñas purchased the land in bad faith as they were aware that the lots sold to them had already been sold to Alberta Morales in 1954. They averred that before the sale, when Tomas Occeña conducted an ocular inspection of the lots, Morito Abas, the caretaker appointed by Alberta Morales to oversee her property, warned them not to push through with the sale as the land was no longer owned by vendor Arnold as the latter had previously sold the lot to Alberta Morales who had a house constructed thereon.

For their part, the Occeña spouses claimed that the OCT in the name of the original owners of the lots, the Tordesillas spouses, was cancelled after it was subdivided between Angela and Arnold in 1969; that new TCTs had been issued in the latter's names; that they were unaware that the subject lots were already previously sold to Morales as they denied that Tomas had a talk with caretaker Abas on the matter; that as of December 4, 1987, the TCTs covering the lots were in the name of Arnold and his wife, without any adverse claim annotated thereon; that vendor Arnold represented to them that the occupants they saw on the land were squatters and that he merely tolerated their presence; that they did not personally investigate the alleged squatters on the land and merely relied on the representation of vendor Arnold; that sometime in 1966-1967, Arnold and his co-heir Angela caused the survey of the original lot and subdivided it into 3 lots, without opposition from Morales or her heirs. Thus, three (3) TCTs were issued in 1969 to Arnold and Angela and, two of the lots were then sold to the Occeña spouses, again without objection from Alberta Morales.

The Occeña spouses alleged that they were buyers in good faith as the titles to the subject lots were free from liens or encumbrances when they purchased them. They claimed that in 1989, Arnold offered to sell the subject lots to them. On August 13, 1990, after they verified with the Antique Registry of Deeds that Arnold's TCTs were clean and unencumbered, Arnold signed the instrument of sale over the subject lots in favor of the Occeñas for P100,000.00 and new titles were issued in their names.

The Occeñas likewise set up the defenses of laches and prescription. They argue that Alberta and plaintiffs-heirs were barred from prosecuting their action as they failed to assert their right for forty (40) years. Firstly, they point out that vendor Arnold and Angela subdivided the entire lot in 1966 and declared themselves as the only co-owners thereof in the deed of extrajudicial settlement. Alberta Morales failed to oppose the inclusion of her 748 sq. m. lot in the deed. Thus, the title to the entire lot no. 256 was transferred to the names of Arnold and Angela. Secondly, preparatory to the division of the lots, vendor Arnold had the land surveyed but Alberta again failed to oppose the same. Finally, Alberta and her heirs who are claiming adverse rights over the land based on the 1951 Deed of Pacto de Retro Sale and the 1954 Deed of Definite Sale of Shares failed for 40 years to annotate their adverse claims on the new titles issued to Arnold and Angela, enabling the latter to possess a clean title and transfer them to the Occeña spouses.

After trial, the lower court rendered a decision declaring the Occeña spouses as buyers in good faith and ruled that

the action of the heirs was time-barred.

On appeal by Alberta's heirs, the Court of Appeals reversed the decision of the trial court. It found that the Occeñas purchased the land in bad faith and that the action filed by Alberta's heirs was not barred by prescription or laches. The dispositive portion reads:

WHEREFORE, the instant appeal is hereby GRANTED. Accordingly, the assailed decision is hereby REVERSED and SET ASIDE and a new one is rendered declaring the Deed of Absolute Sale dated August 13, 1990 executed between Arnold de la Flor in favor of defendants-appellees null and void and ordering the cancellation of Transfer Certificate of Title Nos. 16896, 16897, T-18241 and T-18242.

SO ORDERED. [8]

Hence this appeal where petitioner-spouses Occeña raise the following issues:

I

WHETHER OR NOT A VERBAL INFORMATION COULD BE MADE TO PREVAIL OVER A CLEAN CERTIFICATE OF TITLE OF A REGISTERED LAND WHICH IS FREE OF ANY LIEN OR ENCUMBRANCE ANNOTATED ON ITS CERTIFICATE OF TITLE OR ANY ADVERSE CLAIM RECORDED WITH THE REGISTER OF DEEDS.

II

WHETHER OR NOT A BUYER OF A REGISTERED LAND IS OBLIGATED TO MAKE INQUIRIES OF ANY POSSIBLE DEFECT OR ADVERSE CLAIM AFFECTING ITS OWNERSHIP WHICH DOES NOT APPEAR ON THE CERTIFICATE OF TITLE.

III

WHETHER OR NOT THE PERIOD OF MORE THAN FORTY (40) YEARS WITHOUT POSITIVE ACTION TAKEN BY RESPONDENTS, AS WELL AS BY ALBERTA MORALES, TO PROTECT THEIR INTEREST CAN BE CONSIDERED LACHES AND THUS THEIR PRESENT ACTION HAS PRESCRIBED.

On the first two issues, petitioner-spouses claim that they were purchasers of the land in good faith as the law does not obligate them to go beyond a clean certificate of title to determine the condition of the property. They argue that a person dealing with registered land is only charged with notice of the burden on the property annotated on the title. When there is nothing on the title to indicate any cloud or vice in the ownership of the property or any encumbrance thereon, the purchaser is not required to explore further than the title in quest of any hidden defect or inchoate right that may subsequently defeat his right thereto. They claim they had every right to purchase the land despite the verbal warning made by caretaker Abas as the information was mere hearsay and cannot prevail over the title of the land which was free from any encumbrance.

Their arguments do not persuade.

The petition at bar presents a case of double sale of an immovable property. Article 1544 of the New Civil Code provides that in case an immovable property is sold to different vendees, the ownership shall belong: (1) to the person acquiring it who in good faith first recorded it in the Registry of Property; (2) should there be no inscription, the ownership shall pertain to the person who in good faith was first in possession; and, (3) in the absence thereof, to the person who presents the oldest title, provided there is good faith.

In all cases, good faith is essential. It is the basic premise of the preferential rights granted to the one claiming ownership over an immovable.[9] What is material is whether the second buyer first registers the second sale in

good faith, i.e., without knowledge of any defect in the title of the property sold.[10] The defense of indefeasibility of a Torrens title does not extend to a transferee who takes the certificate of title in bad faith, with notice of a flaw.[11]

The governing principle of *prius tempore, potior jure* (first in time, stronger in right) enunciated under Art. 1544 has been clarified, thus:

x x x Knowledge by the first buyer of the second sale cannot defeat the first buyer's rights except when the second buyer first registers in good faith the second sale (*Olivares vs. Gonzales*, 159 SCRA 33). Conversely, knowledge gained by the second buyer of the first sale defeats his rights even if he is first to register, since such knowledge taints his registration with bad faith (see also *Astorga vs. Court of Appeals*, G.R. No. 58530, 26 December 1984). In *Cruz vs. Cabaña* (G.R. No. 56232, 22 June 1984, 129 SCRA 656), it was held that it is essential, to merit the protection of Art. 1544, second paragraph, that the second realty buyer must act in good faith in registering his deed of sale (citing *Carbonell vs. Court of Appeals*, 69 SCRA 99 and *Crisostomo vs. CA*, G.R. No. 95843, 02 September 1992).[12]

In the case at bar, we find that petitioner-spouses failed to prove good faith in their purchase and registration of the land. A purchaser in good faith and for value is one who buys property without notice that some other person has a right to or interest in such property and pays its fair price before he has notice of the adverse claims and interest of another person in the same property. So it is that the "honesty of intention" which constitutes good faith implies a freedom from knowledge of circumstances which ought to put a person on inquiry. At the trial, Tomas Occeña admitted that he found houses built on the land during its ocular inspection prior to his purchase. He relied on the representation of vendor Arnold that these houses were owned by squatters and that he was merely tolerating their presence on the land. Tomas should have verified from the occupants of the land the nature and authority of their possession instead of merely relying on the representation of the vendor that they were squatters, having seen for himself that the land was occupied by persons other than the vendor who was not in possession of the land at that time. The settled rule is that a buyer of real property in the possession of persons other than the seller must be wary and should investigate the rights of those in possession. Without such inquiry, the buyer can hardly be regarded as a buyer in good faith and cannot have any right over the property.[13] A purchaser cannot simply close his eyes to facts which should put a reasonable man on his guard and then claim that he acted in good faith under the belief that there was no defect in the title of his vendor.[14] His mere refusal to believe that such defect exists or his willful closing of his eyes to the possibility of the existence of a defect in his vendor's title will not make him an innocent purchaser for value if it later develops that the title was in fact defective, and it appears that he would have notice of the defect had he acted with that measure of precaution which may reasonably be required of a prudent man in a similar situation.

Indeed, the general rule is that one who deals with property registered under the Torrens system need not go beyond the same, but only has to rely on the title. He is charged with notice only of such burdens and claims as are annotated on the title. However, this principle does not apply when the party has actual knowledge of facts and circumstances that would impel a reasonably cautious man to make such inquiry or when the purchaser has knowledge of a defect or the lack of title in his vendor or of sufficient facts to induce a reasonably prudent man to inquire into the status of the title of the property in litigation. One who falls within the exception can neither be denominated an innocent purchaser for value nor a purchaser in good faith.[15]

The evidence of the private respondents show that when Tomas Occeña conducted an ocular inspection of the land prior to the second sale, Abas, the caretaker of the house which Alberta Morales built on the land, personally informed Tomas that the lot had been previously sold by the same vendor Arnold to Alberta Morales. With this information, the Occeñas were obliged to look beyond the title of their vendor and make further inquiries from the occupants of the land as to their authority and right to possess it. However, despite this information about a prior

sale, the Occeñas proceeded with the purchase in haste. They did not inquire from Abas how they could get in touch with the heirs or representatives of Alberta to verify the ownership of the land. Neither do the records reveal that they exerted effort to examine the documents pertaining to the first sale. Having discovered that the land they intended to buy was occupied by a person other than the vendor not in actual possession thereof, it was incumbent upon the petitioners to verify the extent of the occupant's possessory rights.[16] The Occeñas did nothing and chose to ignore and disbelieve Abas' statement.

On the third issue, we hold that the action to annul title filed by respondents-heirs is not barred by laches and prescription. Firstly, laches is a creation of equity and its application is controlled by equitable considerations. Laches cannot be used to defeat justice or perpetuate fraud and injustice. Neither should its application be used to prevent the rightful owners of a property from recovering what has been fraudulently registered in the name of another.[17] Secondly, prescription does not apply when the person seeking annulment of title or reconveyance is in possession of the lot because the action partakes of a suit to quiet title which is imprescriptible.[18] In this case, Morales had actual possession of the land when she had a house built thereon and had appointed a caretaker to oversee her property. Her undisturbed possession of the land for a period of fifty (50) long years gave her and her heirs a continuing right to seek the aid of a court of equity to determine the nature of the claim of ownership of petitioner-spouses.[19] As held by this Court in *Faja vs. Court of Appeals*: [20]

x x x There is settled jurisprudence that one who is in actual possession of a piece of land claiming to be owner thereof may wait until his possession is disturbed or his title attacked before taking steps to vindicate his right, the reason for the rule being, that his undisturbed possession gives him a continuing right to seek the aid of a court of equity to ascertain and determine the nature of the adverse claim and its effect on his own title, which right can be claimed only by one who is in possession. x x x The right to quiet title to the property, seek its reconveyance and annul any certificate of title covering it accrued only from the time the one in possession was made aware of a claim adverse to his own, and it is only then that the statutory period of prescription commences to run against such possessor.

In the case at bar, Morales' caretaker became aware of the second sale to petitioner-spouses only in 1991 when he received from the latter a notice to vacate the land. Respondents-heirs did not sleep on their rights for in 1994, they filed their action to annul petitioners' title over the land. It likewise bears to stress that when vendor Arnold reacquired title to the subject property by means of fraud and concealment after he has sold it to Alberta Morales, a constructive trust was created in favor of Morales and her heirs. As the defrauded parties who were in actual possession of the property, an action of the respondents-heirs to enforce the trust and recover the property cannot prescribe. They may vindicate their right over the property regardless of the lapse of time.[21] Hence, the rule that registration of the property has the effect of constructive notice to the whole world cannot be availed of by petitioners and the defense of prescription cannot be successfully raised against respondents.

In sum, the general rule is that registration under the Torrens system is the operative act which gives validity to the transfer of title on the land. However, it does not create or vest title especially where a party has actual knowledge of the claimant's actual, open and notorious possession of the property at the time of his registration.[22] A buyer in bad faith has no right over the land. As petitioner-spouses failed to register the subject land in good faith, ownership of the land pertains to respondent-heirs who first possessed it in good faith.

IN VIEW WHEREOF, the petition is DISMISSED. No costs.

SO ORDERED.

Quisumbing, Austria-Martinez, Callejo, Sr., and Tinga, JJ., concur.

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- [1] Original Records, pp. 19-20.
- [2] Id., pp. 21-24.
- [3] Id., p. 26.
- [4] Id., pp. 27-28.
- [5] Id., pp. 29-30.
- [6] Id., pp. 33-34.
- [7] Docketed as Civil Case No. 2715.
- [8] Decision dated January 17, 2003, Court of Appeals Special Second Division, Penned by Associate Justice Mariano del Castillo and concurred in by Associate Justices Teodoro P. Regino and Rebecca Guia-Salvador; Rollo at 41-54.
- [9] Gabriel vs. Spouses Mabanta and Colobong, G.R. No. 142403, March 26, 2003.
- [10] Coronel vs. Court of Appeals, 263 SCRA 15 (1996).
- [11] Baricuatro, Jr. vs. Court of Appeals, 325 SCRA 137 (2000).
- [12] Compendium of Civil Law and Jurisprudence, Justice Jose C. Vitug, pp. 604-605.
- [13] Spouses Castro vs. Miat, G.R. No. 143297, February 11, 2003.
- [14] Heirs of Ramon Durano, Sr. vs. Uy, 344 SCRA 238 (2000).
- [15] Spouses Domingo vs. Roces, G.R. No. 147468, April 9, 2003; Dela Merced vs. Government Service Insurance System, 365 SCRA 1 (2001).
- [16] Gonzales vs. Toledo, G.R. No. 149465, December 8, 2003; Mathay vs. Court of Appeals, 295 SCRA 556 (1998).
- [17] Alcantara-Daus vs. Spouses de Leon, G.R. No. 149750, June 16, 2003.
- [18] Heirs of Santiago vs. Heirs of Santiago, G.R. No. 151440, June 17, 2003.
- [19] Millena vs. Court of Appeals, 324 SCRA 126 (2000).
- [20] 75 SCRA 441 (1977).**
- [21] Heirs of Ermac vs. Heirs of Ermac, G.R. No. 149679, May 30, 2003; Juan vs. Zuñiga, 4 SCRA 1221 (1962).
- [22] Lavides vs. Pre, 367 SCRA 382 (2001).

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