

RODOLFO V. ROSALES, (REPRESENTED BY HIS HEIRS, RODOLFO, JR., ROMEO ALLAN, LILLIAN RHODORA, ROY VICTOR, ROGER LYLE AND ALEXANDER NICOLAI, ALL SURNAMED ROSALES) AND LILY ROSQUETA-...

G.R. NO. 157044. October 05, 2005

Ponente: CARPIO MORALES, J.

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CARPIO MORALES, J.:

The present petition for review on certiorari assails the October 2, 2002 Decision[1] and February 6, 2003 Resolution[2] of the Court of Appeals (CA) in CA G.R. CV No. 64046 and seeks to reinstate the April 21, 1999 Decision[3] of the Regional Trial Court (RTC) of Calamba, Laguna, Branch 34 in Civil Case No. 2229-95-C.

Spouses-petitioners Rodolfo V. Rosales and Lily Rosqueta-Rosales (petitioners) are the registered owners of a parcel of land with an area of approximately 315 square meters, covered by Transfer Certificate of Title (TCT) No. 36856[4] and designated as Lot 17, Block 1 of Subdivision Plan LRC Psd-55244 situated in Los Baños, Laguna.

On August 16, 1995, petitioners discovered that a house was being constructed on their lot, without their knowledge and consent, by respondent Miguel Castelltort (Castelltort).[5]

It turned out that respondents Castelltort and his wife Judith had purchased a lot, Lot 16 of the same Subdivision Plan, from respondent Lina Lopez-Villegas (Lina) through her son-attorney-in-fact Rene Villegas (Villegas) but that after a survey thereof by geodetic engineer Augusto Rivera, he pointed to Lot 17 as the Lot 16 the Castelltorts purchased.

Negotiations for the settlement of the case thus began, with Villegas offering a larger lot near petitioners' lot in the same subdivision as a replacement thereof.[6] In the alternative, Villegas proposed to pay the purchase price of petitioners' lot with legal interest.[7] Both proposals were, however, rejected by petitioners[8] whose counsel, by letter[9] of August 24, 1995, directed Castelltort to stop the construction of and demolish his house and any other structure he may have built thereon, and desist from entering the lot.

Petitioners subsequently filed on September 1, 1995 a complaint[10] for recovery of possession and damages with prayer for the issuance of a restraining order and preliminary injunction against spouses-respondents Miguel and Judith Castelltort before the RTC of Calamba, Laguna, docketed as Civil Case No. 2229-95-C.

To the complaint, the Castelltorts claimed in their Answer with Counterclaim[11] that they were builders in good faith.

Lina, represented by her son-attorney-in-fact Villegas, soon filed a Motion for Intervention[12] before the RTC which was granted by Order[13] of December 19, 1995.

In her Answer to the complaint,[14] Lina alleged that the Castelltorts acted in good faith in constructing the house

on petitioners' lot as they in fact consulted her before commencing any construction thereon, they having relied on the technical description of the lot sold to them, Lot 16, which was verified by her officially designated geodetic engineer.

Nevertheless, Lina proposed to give petitioners a lot containing an area of 536 square meters together with the house and duplex structure built thereon or, if petitioners choose, to encumber the 536 square meter lot as collateral "to get immediate cash" through a financing scheme in order to compensate them for the lot in question.[15]

Ruling out good faith, the RTC, by Decision of April 21, 1999, found for petitioners in this wise:

In the instant case, there is no well-founded belief of ownership by the defendants of the land upon which they built their house. The title or mode of acquisition upon which they based their belief of such ownership stemmed from a Contract to Sell (Exhibit "P") of which they were not even parties, the designated buyer being Elizabeth Yson Cruz and the sale even subjected to the judicial reconstitution of the title. And by their own actions, particularly defendant Miguel Castelltort, defendants betrayed this very belief in their ownership when realizing the inutility of anchoring their ownership on the basis of the Contract of Sale, defendant Miguel Castelltort in his testimony declared Elizabeth Yson Cruz as his wife (tsn, pp. 7-8, March 24, 1998) despite an admission in their answer that they are the spouses named as defendants (tsn, p. 8, January 12, 1998) and which declaration is an utter falsehood as the Contract to Sell itself indicates the civil status of said Elizabeth Yson Cruz to be single.

Even if we are to concede that defendants built their house in good faith on account of the representation of attorney-in-fact Rene Villegas, their failure to comply with the requirements of the National Building Code, particularly the procurement of a building permit, stained such good faith and belief.

x x x

From any and all indications, this deliberate breach is an unmitigated manifestation of bad faith. And from the evidence thus adduced, we hold that defendants and the intervenor were equally guilty of negligence which led to the construction of the defendants' house on plaintiffs' property and therefore jointly and severally liable for all the damages suffered by the plaintiffs.[16] (Underscoring supplied)

The dispositive portion of the trial court's Decision reads, quoted verbatim:

ACCORDINGLY, in view of all the foregoing, judgment is hereby rendered in favor of plaintiffs and against the defendants, ordering the latter to surrender the possession of the property covered by TCT No. 36856 of the Register of Deeds of Laguna including any and all improvements built thereon to the plaintiffs.

Defendants and intervenors are likewise jointly and severally directed to pay to plaintiffs the following damages:

- a) TWO THOUSAND (P2,000.00) PESOS per month from February 1995 by way of reasonable compensation for the use of plaintiffs' property until the surrender of the same;
- b) FIFTY THOUSAND (P50,000.00) PESOS by way of moral damages;
- c) THIRTY THOUSAND (P30,000.00) PESOS as exemplary damages;
- d) TWENTY THOUSAND (P20,000.00) PESOS as attorney's fees and cost of suit.

The counterclaim interposed by the defendants in their responsive pleading is hereby dismissed for lack of merit.

SO ORDERED.[17]

Respondents thereupon filed their respective appeals with the CA.

Petitioner Rodolfo Rosales, in the meantime, died on December 7, 2001. His heirs Rodolfo, Jr., Romeo Allan, Lillian Rhodora, Roy Victor, Roger Lyle and Alexander Nicolai, all surnamed Rosales, filed their Appearance^[18] as his substitute.

By Decision of October 2, 2002, the CA granted the appeal and set aside the April 21, 1999 RTC Decision. The dispositive portion of the Decision reads, quoted verbatim:

WHEREFORE, premises considered, the instant appeal is hereby GRANTED and the assailed decision of the court a quo REVERSED AND SET ASIDE. In accordance with the cases of *Technogas Philippines Manufacturing Corp. vs. Court of Appeals* and *Depra vs. Dumlao*, applying Article 448 of the Civil Code, this case is REMANDED to the Regional Trial Court of Calamba, Laguna, Branch 34, for further proceedings, as follows:

1. to determine the present fair price of appellees' 315 square meter area of land and the amount of the expenses actually spent by the appellants for building the house as of 21 August 1995, which is the time they were notified of appellees' rightful claim over Lot 17.
2. to order the appellees to exercise their option under the law (Article 448, Civil Code), whether to appropriate the house as their own by paying to the appellants the amount of the expenses spent for the house as determined by the court a quo in accordance with the limitations as aforesaid or to oblige the appellants to pay the price of the land.

In case the appellees exercise the option to oblige the appellants to pay the price of the land but the latter reject such purchase because, as found by the court, the value of the land is considerably more than that of the house, the court shall order the parties to agree upon the terms of a forced lease, and give the court a quo a formal written notice of such agreement and its provisos. If no agreement is reached by the parties, the court a quo shall then fix the terms of the forced lease, provided that the monthly rental to be fixed by the Court shall not be less than Two Thousand Pesos (P2,000.00) per month, payable within the first five (5) days of each calendar month and the period thereof shall not be more than two (2) years, counted from the finality of the judgment.

Upon the expiration of the forced lease, or upon default by the appellants in the payment of rentals for two (2) consecutive months, the appellees shall be entitled to terminate the forced lease, to recover their land, and to have the improvement removed by the appellants at the latter's expense. The rentals herein provided shall be tendered by the appellants to the court for payment to the appellees, and such tender shall constitute evidence of whether or not compliance was made within the period fixed by the court.

In any event, the appellants shall pay the appellees the amount of Two Thousand Pesos (P2,000.00) as reasonable compensation for their occupancy of the encroached property from the time said appellants' good faith cease (sic) to exist until such time the possession of the property is delivered to the appellees subject to the reimbursement of the aforesaid expenses in favor of the appellants or until such time the payment of the purchase price of the said lot be made by the appellants in favor of the appellees in case the latter opt for the compulsory sale of the same.

SO ORDERED.^[19] (Emphasis in the original)

In reversing the trial court, the CA held:

x x x

x x x A perusal of the records readily reveals that said court instead relied on flimsy, if not immaterial, allegations of the appellees, which have no direct bearing in the determination of whether the appellants are builders in bad faith.

For one, the pivotal issue to be resolved in this case, i.e. whether appellant Miguel is a builder in good faith, was ignored by the court a quo. The instant case does not in any way concern the personal and property relations of spouses-appellants and Elizabeth Yson Cruz which is an altogether different matter that can be ventilated by the concerned parties through the institution of a proper action. xxx The court a quo should have focused on the issue of whether appellant Miguel built, in good faith, the subject house without notice of the adverse claim of the appellees and under the honest belief that the lot which he used in the construction belongs to him. xxx

xxx As it is, appellant Miguel relied on the title which the intervenor showed to him which, significantly, has no annotation that would otherwise show a prior adverse claim. Thus, as far as appellant Miguel is concerned, his title over the subject lot, as well as the title of the intervenor thereto, is clean and untainted by an adverse claim or other irregularities.

For another, the appellants' failure to secure a building permit from the Municipal Engineer's Office on their construction on Lot 17 does not impinge on the good faith of the appellants. In fact, it can be told that a building permit was actually filed by appellant Miguel with respect to Lot 16 and it was only due to the confusion and misapprehension by the intervenor of the exact parameters of the property which caused appellant's belief that Lot 17 [the questioned lot], is his. This fact bolsters appellant Miguel's good faith in building his house on appellees' lot under the mistaken belief that the same is his property. Otherwise, he should have secured a building permit on Lot 17 instead or should not have bothered to take the necessary measures to obtain a building permit on Lot 16 in the first place.

By and large, the records show that, as testified to by Engr. Rebecca T. Lanuang, appellant Miguel had already applied for a building permit as early as February 1994 and was in fact issued a temporary building permit pending the completion of the requirements for said permit. Although the building permit was belatedly issued in January 1996, this does not in any way detract from appellant Miguel's good faith.

x x x

In holding the appellants as builders in bad faith, the court a quo defied law and settled jurisprudence considering that the factual basis of its findings and the incontrovertible evidence in support thereof prove that the appellant Miguel, in good faith, built the house on appellees' land without knowledge of an adverse claim or any other irregularities that might cast a doubt as to the veracity of the assurance given to him by the intervenor. Having been assured by the intervenor that the stone monuments were purposely placed, albeit wrongfully, by the land surveyor in said land to specifically identify the lot and its inclusive boundaries, the appellants cannot be faulted for having relied on the expertise of the land surveyor who is more equipped and experienced in the field of land surveying. Although under the Torrens system of land registration, the appellant is presumed to have knowledge of the metes and bounds of the property with which he is dealing, appellant however, considering that he is a layman not versed in the technical description of his property, cannot be faulted in his reliance on the survey plan that was delivered to him by the intervenor and the stone monuments that were placed in the encroached property.

x x x

Peremptorily, contrary to the flawed pronouncements made by the court a quo that appellant Miguel is deemed as a builder in bad faith on the basis of a mere assertion that he built his house without initially satisfying himself that he owns the said property, this Court finds reason to maintain good faith on the part of the appellant. Admittedly, the appellants' house erroneously encroached on the property of the appellees due to a mistake in the placement of stone monuments as indicated in the survey plan, which error is directly attributable to the fault of the geodetic engineer who conducted the same. This fact alone negates bad faith on the part of appellant Miguel.

x x x

Moreover, it is quite illogical for appellant Miguel to knowingly build his house on a property which he knew belongs to another person. x x x

x x x

In view of the good faith of both parties in this case, their rights and obligations are to be governed by Article 448, which has been applied to improvements or portions of improvements built by mistaken belief on land belonging to the adjoining owner. x x x

x x x[20] (Emphasis and underscoring supplied)

Petitioners' Motion for Reconsideration[21] dated October 22, 2002 having been denied by the CA by Resolution of March 13, 2002, the present petition was filed raising the following issues:

I.

WHETHER OR NOT THE HONORABLE COURT OF APPEALS COMMITTED A GRAVE ABUSE OF DISCRETION IN MAKING A FINDING THAT IS CONTRARY TO THE ADMISSIONS BY THE PARTIES

II.

WHETHER OR NOT THE HONORABLE COURT OF APPEALS COMMITTED A REVERSIBLE ERROR OF LAW IN CONCLUDING THAT THE TRIAL COURT, IN DECIDING THE CASE, RELIED ON FLIMSY, IF NOT IMMATERIAL, ALLEGATIONS OF THE PETITIONERS, WHICH HAVE NO DIRECT BEARING IN THE DETERMINATION OF WHETHER THE RESPONDENTS ARE BUILDERS IN GOOD FAITH

III.

WHETHER OR NOT THE HONORABLE COURT OF APPEALS COMMITTED A REVERSIBLE ERROR OF LAW IN RENDERING A DECISION THAT IS UNENFORCEABLE AGAINST BOTH RESPONDENT JUDITH CASTELLTORT AND THIRD-PARTY ELIZABETH CRUZ[22]

Petitioners initially hammer against respondents' proving that Castelltort and a certain Elizabeth Cruz are the builders of the house on the subject property, they faulting them with estoppel for alleging in their Answer before the trial court that "they (respondents Castelltort and Judith) caused the construction of their house which they bought from a certain Lina Lopez-Villegas."

Petitioners rely on the following doctrine established in *Elayda v. Court of Appeals*:[23]

"an admission made in the pleadings cannot be controverted by the party making such admission and are conclusive as to him and that all proofs submitted by him contrary thereto or inconsistent therewith, should be ignored, whether objection is interposed by the party or not x x x"

Petitioners' contention is hardly relevant to the case at bar. Whether it was Castelltort and Judith or Castelltort and Elizabeth Cruz who purchased the property from Lina is not material to the outcome of the instant controversy. As found by the CA:

The fact remains that appellant [Castelltort] is the builder of the house on Lot 17 xxx The court a quo should have focused on the issue of whether appellant Miguel built, in good faith, the subject house without notice of the adverse claim of the appellees and under the honest belief that the lot which he used in the construction belongs to him. xxx it cannot be gainsaid that appellant Miguel has a title over the land that was purchased from the intervenor x x x[24]

At all events, as this Court held in the case of *Gardner v. Court of Appeals*:^[25]

In its Resolution reversing the original Decision, respondent Court discredited the testimony of Ariosto SANTOS for being at variance with the allegations in his Answer. The fact, however, that the allegations made by Ariosto SANTOS in his pleadings and in his declarations in open Court differed will not militate against the findings herein made nor support the reversal by respondent Court. As a general rule, facts alleged in a party's pleading are deemed admissions of that party and binding upon it, but this is not an absolute and inflexible rule. An Answer is a mere statement of fact which the party filing it expects to prove, but it is not evidence. As Ariosto SANTOS himself, in open Court, had repudiated the defenses he had raised in his Answer and against his own interest, his testimony is deserving of weight and credence.^[26] (Underscoring supplied)

The issue determinative of the controversy in the case at bar hinges on whether Castelltort is a builder in good faith.

A builder in good faith is one who builds with the belief that the land he is building on is his, or that by some title one has the right to build thereon, and is ignorant of any defect or flaw in his title.^[27]

Article 527 of the Civil Code provides that good faith is always presumed, and upon him who alleges bad faith on the part of a possessor rests the burden of proof.^[28]

In the case at bar, Lot 16 was sold by Lina, through her attorney-in-fact Villegas, to Castelltort and a certain Elizabeth Cruz^[29] for a consideration of P500,000.00. While prior to the sale, what Villegas showed Castelltort as evidence of his mother Lina's ownership of the property was only a photocopy of her title TCT No. (T-42171) T-18550^[30] he explaining that the owner's duplicate of the title was lost and that judicial reconstitution thereof was ongoing, Castelltort acted in the manner of a prudent man and went to the Registry of Deeds of Laguna to procure a certified true copy of the TCT.^[31] The certified true copy bore no annotation indicating any prior adverse claim on Lot 16.

The records indicate that at the time Castelltort began constructing his house on petitioners' lot, he believed that it was the Lot 16 he bought and delivered to him by Villegas.

In his cross-examination, Villegas testified:

Q: You said the surveyor placed a mujon along boundary of the property?

A: Yes.

Q: When were the mujons placed in the boundary of the property?

A: These mujons were the basis for my locating the property in pointing to Mr. Castelltort.

X X X

Q:

Is it not a fact that before Miguel Castelltort started constructing that house he sought your advice or permission to construct the same over that particular lot?

A: Yes.

Q: And you gave your consent?

A: Yes, because based on my knowledge also that that was the lot as pointed by Engr. Rivera.

x x x

Q:

Was there any remarkable difference between lot 16 and 17 at the time that this particular lot was sold to Miguel Castelltort and Elizabeth Cruz?

x x x

A:

Both lots 16 and 17 are practically the same. The (sic) have the same frontage. There is only a difference of 4 square meters, one is 311 square meters and the other 315 square meters. Both sides were fenced, as drawn they were facing the same road. They are practically the same.

Q:

But at the time or immediately before Mr. Castelltort started the construction of the house, was there any remarkable distinction between these two properties? A: None.[32] (Emphasis and underscoring supplied)

The confusion in the identification of Lot 16 was eventually traced to the error committed by geodetic engineer Augusto Rivera's employees in placing stone monuments on petitioners' property, instead of on Lot 16, the lot sold to Castelltort, based on the survey made by the engineer in 1992.

The engineer so testified:

Q:

Now, aside from inspecting personally the site, what else did your men or assistants do?

A:

After computing the subdivision lots, they went back to the field to plant those subdivision corners with concrete monuments.

Q:

Which is (sic) also called as "mohons"?

A:

Yes, sir.

Q:

Now, can you point to this Honorable Court where exactly did your men place these additional mohons and how many?

A:

Later on we discovered that they placed the mohons in the adjoining lot, lot 17.

x x x

Q:

x x x when again did you meet Mr. Rene Villegas or after how many months or year?

A:

Maybe after a year, sir.

Q:

And you met him again because he had a problem regarding the property of one Engr. Rosales?

A:

Yes, sir.

Q:

And when he confided to you this matter, did you go to the site of Lot 16 or 17?

A:

Yes, sir.

Q:

And what did you see there?

A:

A house being constructed then I rechecked the location of the house and it turned out to be in Lot 17.

x x x

Q:

Considering that you found out that a mistake was actually made by your assistants Dennis Orencio, Mario Carpio and Sovejano when you allowed them to proceed on their own to make this computation, did you confront these men of yours afterwards?

A: Yes, sir.

Q: In what manner?

A: I actually reprimanded them verbally and also I dismissed Mario Carpio from my office.

x x x

Q:

And did you investigate how your men committed this mistake of planting these monuments on another lot when corners 4 & 1 were clearly planted on the ground?

A: I myself rechecked it and found out that they committed an error.

x x x

Q:

And now, you are saying that your men committed a mistake by placing thereon monuments by planting these monuments not on Lot 16 but on Lot 17?

A:

When I investigated how did they commit (sic) a mistake it came to be like this. Before when we surveyed first this in 1992, at that time Dante Villegas contracted my services there was a fence here then when we went back, the road was already removed so they committed an error that this point is Lot 19, they thought that it was Lot 19, the back portion.

x x x

Q: In this particular case, did you find out how your men checked the succeeding lots, how they determine (sic)

the exact location of lot 16?

A: They just relied on one side of the subdivision.

Q: By just counting the number of lots?

A: Yes, sir.

Q: Without making any actual measurement?

A:

They made an actual measurement but the reference point is not the one, the correct one because they also checked it with the other corner of the road going back.

x x x

Q: And how did they commit a mistake when you said they checked the lot at the back of Lot 16?

A:

Because they were quite confident since we had already relocated the property two years ago so they thought that they get (sic) the right lot without checking the other side of the subdivision.

x x x

Q:

Now, you said that when you went to the place because you heard from Rene Villegas that there was a mistake you no longer could find the monuments on lines 1 and 4 and according to you the reason is that a fence was already constructed?

A: Yes, sir.

Q: For clarification, is this line 1 & 4 on Lot 16 a common line 1 & 4 on Lot 17?

A: Yes, sir a common line.

Q: In other words, this line 1 & 4 divides (sic) Lot 16 & 17?

A: Yes, sir.

Q:

So that when these monuments were placed on lines 1 & 4 somebody could mistake it for Lot 17 also because there were monuments now 1 & 4 for lot 16 since these are common lines for Lot 17 also with Lot 16, it could also be construed that these are monuments for Lot 17?

A: Yes, sir possible.[33] (Underscoring supplied)

As correctly found by the CA, both parties having acted in good faith at least until August 21, 1995, the applicable provision in this case is Article 448 of the Civil Code which reads:

Art. 448. 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 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.

Under the foregoing provision, the landowner can choose between appropriating the building by paying the proper indemnity or obliging the builder to pay the price of the land, unless its value is considerably more than that of the structures, in which case the builder in good faith shall pay reasonable rent.[34] If the parties cannot come to terms over the conditions of the lease, the court must fix the terms thereof.

The choice belongs to the owner of the land, a rule that accords with the principle of accession, i.e., that the accessory follows the principal and not the other way around. Even as the option lies with the landowner, the grant to him, nevertheless, is preclusive.[35] The landowner cannot refuse to exercise either option and compel instead the owner of the building to remove it from the land.[36]

The *raison d'être* for this provision has been enunciated thus:

Where the builder, planter or sower has acted in good faith, a conflict of rights arises between the owners, and it becomes necessary to protect the owner of the improvements without causing injustice to the owner of the land. In view of the impracticability of creating a state of forced co-ownership, the law has provided a just solution by giving the owner of the land the option to acquire the improvements after payment of the proper indemnity, or to oblige the builder or planter to pay for the land and the sower the proper rent. He cannot refuse to exercise either option. It is the owner of the land who is authorized to exercise the option, because his right is older, and because, by the principle of accession, he is entitled to the ownership of the accessory thing.[37]

Possession acquired in good faith does not lose this character except in the case and from the moment facts exist which show that the possessor is not unaware that he possesses the thing improperly or wrongfully.[38] The good faith ceases or is legally interrupted from the moment defects in the title are made known to the possessor, by extraneous evidence or by suit for recovery of the property by the true owner.[39]

In the case at bar, Castelltort's good faith ceased on August 21, 1995 when petitioners personally apprised him of their title over the questioned lot. As held by the CA, should petitioners then opt to appropriate the house, they should only be made to pay for that part of the improvement built by Castelltort on the questioned property at the time good faith still existed on his part or until August 21, 1995.

The CA, however, failed to qualify that said part of the improvement should be pegged at its current fair market value consistent with this Court's pronouncement in *Pecson v. Court of Appeals*.^[40]

And, as correctly found by the CA, the commencement of Castelltort's payment of reasonable rent should start on August 21, 1995 as well, to be paid until such time that the possession of the property is delivered to petitioners, subject to the reimbursement of expenses, that is, if such option is for petitioners to appropriate the house.

This Court quotes the CA's ratiocination with approval:

x x x Generally, Article 448 of the Civil Code provides that the payment of reasonable rent should be made only up to the date appellees serve notice of their option as provided by law upon the appellants and the court a quo; that is, if such option is for appellees to appropriate the encroaching structure. In such event, appellants would have a right to retain the land on which they have built in good faith until they are reimbursed the expenses incurred by them. This is so because the right to retain the improvements while the corresponding indemnity is not paid implies the tenancy or possession in fact of the land on which it is built, planted or sown.

However, considering that appellants had ceased as builders in good faith at the time that appellant Miguel was notified of appellees' lawful title over the disputed property, the payment of reasonable rent should accordingly commence at that time since he can no longer avail of the rights provided under the law for builders in good faith.^[41]

If the option chosen by petitioners is compulsory sale, however, the payment of rent should continue up to the actual transfer of ownership.^[42]

Respecting petitioners' argument that the appellate court erred in rendering a decision that is "unenforceable against Judith who is not the owner of the house and Elizabeth Cruz who was found to be a part owner of the house built on their lot but is not a party to the case," the same does not lie.

While one who is not a party to a proceeding shall not be affected or bound^[43] by a judgment rendered therein,^[44] like Elizabeth Cruz, this does not detract from the validity and enforceability of the judgment on petitioners and respondents Castelltorts.

WHEREFORE, the petition is DENIED. The Decision dated October 2, 2002 and Resolution dated February 6, 2003 of the Court of Appeals are AFFIRMED with MODIFICATION such that the trial court shall include for determination the increase in value ("plus value") which petitioners' 315 square meter lot may have acquired by reason of the existence of that portion of the house built before respondents Miguel and Judith Castelltort were notified of petitioners' rightful claim on said lot, and the current fair market value of said portion.

SO ORDERED.

Panganiban, (Chairman), Sandoval-Gutierrez, Corona, and Garcia, JJ., concur.

[1] Rollo at 50-65.

[2] *Id.* at 67.

[3] CA Rollo at 24-30.

[4] Exhibit "A", Records at 131.

[5] TSN, February 26, 1997 at 6.

[6] TSN, February 10, 1998 at 19.

[7] Id. at 21.

[8] Ibid.

[9] Exhibit "C", Records at 133.

[10] Records at 13.

[11] Id. at 36-38.

[12] Id. at 53-54.

[13] Id. at 59.

[14] Id. at 60-62.

[15] Id. at 61, Exhibit "3", Id. at 63.

[16] CA Rollo at 26-27.

[17] Id. at 29-30.

[18] Id. at 157-161.

[19] Rollo at 64-65.

[20] Id. at 55-61.

[21] CA Rollo at 181-215.

[22] Rollo at 21.

[23] 199 SCRA 349 (1991).

[24] Rollo at 56.

[25] 131 SCRA 585 (1984).

[26] Id. at 600 (citation omitted).

[27] Macasaet v. Macasaet, 439 SCRA 625, 644 (2004) (citation omitted); Orquiola v. Court of Appeals, 386 SCRA 301, 310 (2002) (citations omitted), Evadel Realty and Development Corporation v. Soriano, 357 SCRA 395, 403 (2001) (citation omitted), Tecnogas Philippines Manufacturing Corporation v. Court of Appeals, 268 SCRA 5, 15 (1997) (citation omitted), Pleasantville Development Corporation v. Court of Appeals, 253 SCRA 10, 18 (1996) (citation omitted).

[28] Ballatan v. Court of Appeals, 304 SCRA 34, 45 (1999), Pleasantville Development Corporation v. Court of Appeals, 253 SCRA 10, 18 (1996).

[29] TSN, February 10, 1998 at 13.

[30] Exhibit "2", Records at 624-625.

[31] TSN, February 25, 1998 at 25, TSN, January 12, 1999 at 20.

[32] TSN, February 25, 1998 at 11, TSN, March 24, 1998 at 11-13.

[33] TSN, September 22, 1998 at 14, 17-18, 23, 25-28, 37-38.

[34] Macasaet v. Macasaet, 439 SCRA 625, 646 (2004).

[35] Philippine National Bank v. De Jesus, 411 SCRA 557, 560 (2003).

[36] Tecnogas Philippines Manufacturing Corporation v. Court of Appeals, 268 SCRA 5, 17 (1997) (citations omitted).

[37] II A. Tolentino, Civil Code Of The Philippines, 110-111 (1998 ed), Depra v. Dumlao, 136 SCRA 475, 483 (1985).

[38] Civil Code, art. 528.

[39] Tecnogas Philippines Manufacturing Corporation v. Court of Appeals, 268 SCRA 5, 16 (citation omitted), Ortiz v. Kayanan, 92 SCRA 146, 159 (1979) (citations omitted).

[40] 244 SCRA 407, 415-416 (1995) providing:

x x x The respondent court and the private respondents espouse the belief that the cost of construction of the apartment building in 1965, and not its current market value, is sufficient reimbursement for necessary and useful improvements made by the petitioner. This position is, however, not in consonance with previous rulings of this Court in similar cases. In Javier vs. Concepcion, Jr. [94 SCRA 212 (1979)], this Court pegged the value of the useful improvements consisting of various fruits, bamboos, a house and camarin made of strong material based on the market value of the said improvements. In Sarmiento vs. Agana [129 SCRA 122 (1984)], despite the finding that the useful improvement, a residential house, was built in 1967 at a cost of between eight thousand pesos (P8,000.00) to ten thousand pesos (P10,000.00), the landowner was ordered to reimburse the builder in the amount of forty thousand pesos (P40,000.00), the value of the house at the time of the trial. In the same way, the landowner was required to pay the "present value" of the house, a useful improvement, in the case of De Guzman vs. De la Fuente [55 Phil. 501 (1930)], cited by the petitioner.

x x x it is therefore the current market value of the improvements which should be made the basis of reimbursement. A contrary ruling would unjustly enrich the private respondents who would otherwise be allowed to acquire a highly valued xxx building for a measly amount. Consequently, the parties should therefore be allowed to adduce evidence on the present market value of the xxx building upon which the trial court should base its finding as to the amount of reimbursement to be paid by the landowner. (Underscoring supplied)

[41] Rollo at 14.

[42] Tecnogas Philippines Manufacturing Corporation v. Court of Appeals, 268 SCRA 5, 22 (1997).

[43] Vide: St. Dominic Corporation v. Intermediate Appellate Court, 151 SCRA 577, 584 (1987) which held:

Indeed, a judgment cannot bind persons who are not parties to the action. It is elementary that strangers to a case are not bound by the judgment rendered by the court and such judgment is not available as an adjudication either against or in favor of such other person. A decision of a court will not operate to divest the rights of a person who has not and has never been a party to a litigation, either as plaintiff or defendant. Verily, execution of a judgment can only be issued against one who is a party to the action, and not against one who, not being a party in the case, has not yet had his day in court.

[44] Orquiola v. Court of Appeals, 386 SCRA 301, 311 (2002).

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