WILFREDO AND SWARNIE AROMIN, PETITIONERS, VS. PAULO FLORESCA, VICTOR FLORESCA, JUANITO FLORESCA AND LILIA FLORESCA-ROXAS, RESPONDENTS.

G.R. NO. 160994. July 27, 2006

Ponente: CALLEJO, SR., J.

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CALLEJO, SR., J.:

Before the Court is the petition for review on certiorari filed by the spouses Wilfredo and Swarnie Aromin seeking the reversal of the Decision[1] dated June 6, 2003 of the Court of Appeals in CA-G.R. CV No. 69651. The assailed decision reversed and set aside the joint decision of the Regional Trial Court (RTC) of Bauang, La Union, Branch 67. Likewise sought to be reversed and set aside is the Resolution dated October 24, 2003 of the appellate court denying reconsideration of the assailed decision.

The present case arose from three civil cases pending before the Regional Trial Court (RTC) of Bauang, La Union, Branch 67 (court a quo) involving the same property and parties, namely: the spouses Wilfredo and Swarnie Aromin, Paulo Floresca and his brother's children, Lilia (now surnamed Roxas), Victor and Juanito Floresca.

The first case, Civil Case No. 921-BG, was an action for specific performance filed by the spouses Aromin against Paulo. In their complaint, the spouses Aromin alleged that Paulo was the owner of the following properties:

> a) A parcel of unirrigated riceland situated at Taberna, Bauang, La Union under Cad. Lot No. 4894-pt, with a total area of 68,658 square meters, more or less. x x x Covered by Tax Declaration No. 26377;
>
> b) A parcel of unirrigated riceland situated at Taberna, Bauang, La Union under Cad. Lot No. 4894, with a total area of 34,456 square meters, more or less. x x x Covered by Tax Declaration No. 25257.[2]

On different dates from 1990 up to 1992, Paulo sold to the spouses Aromin several portions of the above-mentioned properties as follows:

- Deed of Sale dated November 22, 1990 covering 12,214 square meters;

- Deed of Sale dated June [undated] 1991 covering 25,656 square meters;

- Deed of Sale dated June 26, 1991 covering 1,656 square meters;

- Deed of Sale dated February 7, 1992 covering 30,313 square meters;

- Deed of Sale dated February 19, 1992 covering 9,436 square meters;

- Deed of Sale dated February 19, 1992 covering 9,759 square meters;

- Deed of Sale dated February 19, 1992 covering 9,123 square meters.[3]

All these deeds of sale were not registered with the Register of Deeds. On September 29, 1992, Paulo executed a receipt acknowledging that he received from the spouses Aromin a total amount of P1,462,000.00 in consideration for the sale of a total of 98,257 square meters of Cad. Lot No. 4894. In their complaint, the spouses Aromin sought to compel Paulo to formally execute the corresponding deed of sale covering the entire property.

The siblings Victor, Juanito and Lilia filed a Motion for Leave to Intervene[4] in Civil Case No. 921-BG alleging that the properties subject thereof actually comprised only one parcel of land designated as Cad. Lot No. 4894 and, although declared in the name of Paulo alone in the tax declarations, it was actually owned in common by him and the siblings. It was further alleged that the said land was the subject of an action for partition involving them (Paulo and the siblings) before the Regional Trial Court of Bauang, La Union, Branch 33. The case was docketed as Civil Case No. 832-BG and a Notice of Lis Pendens to the said effect was filed with the Register of Deeds, San Fernando, La Union. Thereafter, on February 10, 1993, a judgment based on compromise agreement was rendered by the said RTC (Branch 33) in Civil Case No. 832-BG. The share of Paulo with respect to Cad. Lot No. 4894 based on the said judgment was allegedly as follows: one-half of the swampland, one-half of the sandy land, and one-half of the riceland which comprised the said lot.[5]

The second case, Civil Case No. 938-BG, was an action for quieting of title filed by the spouses Aromin against Victor, Juanito, Lilia, and Paulo. In their complaint, the spouses Aromin alleged that they are the owners and in actual physical possession of the subject property which they purchased from Paulo. Further, they just discovered that a judgment based on compromise agreement in Civil Case No. 832-BG had been rendered and that the said case involved the same property as that in Civil Cases Nos. 921-BG and 938-BG. They alleged that the said judgment based on compromise agreement is not binding on them as they were not parties to Civil Case No. 832-BG. They prayed for an injunction to restrain the enforcement of the writ of execution in the said case and instead to declare them as the lawful owners of the subject property.

Victor, Juanito, and Lilia filed their joint answer substantially denying the material allegations of the complaint for quieting of title. They raised the affirmative defense that the judgment based on compromise agreement in Civil Case No. 832-BG had already become final and executory. The said judgment declared them owners of one-half of the land designated as Cad. Lot No. 4894 while Paulo was declared the owner of the other half. The spouses Aromin allegedly had no cause of action because they have not acquired any legal title over the portions of the subject property sold to them by Paulo. Prior to the partition as embodied in the judgment based on compromise agreement, Paulo did not allegedly own a specific portion thereof. Hence, any sale he made to the spouses Aromin was subject to the outcome of the partition in Civil Case No. 832-BG.

In his answer, Paulo alleged that he had yet to determine which parcels of land he had sold to the spouses Aromin. However, he maintained that if he had sold properties to them, such sale pertained only to properties exclusively belonging to him. He also impugned the judgment based on compromise agreement rendered in Civil Case No. 832-BG claiming that he did not understand the import of the said agreement. He was not allegedly assisted by counsel when he agreed thereto.

The third case, Civil Case No. 965-BG, was an action for the annulment of sale filed by Victor, Juanito, and Lilia against their uncle Paulo and the spouses Aromin. The siblings alleged that their father Alberto, his sister Josefa, and his brother Paulo were the co-owners of the subject property as they acquired the same upon the death of their parents Juan and Cornelia Floresca. In 1966, the said co-owners caused the preparation of the survey thereof and, subsequently, the subject property was designated as Cad. Lot No. 4894 with an area of 105,991 square meters. In July 1973, Alberto died leaving his share in the co-ownership to his children Victor, Juanito, and Lilia. On the other hand, Josefa became ill and left the administration of the subject property to Paulo. She died on June 18, 1988, unmarried, and without any child.

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Victor, Juanito, and Lilia alleged that Paulo was able to fraudulently secure Tax Declaration No. 25246 in his name as purported owner of the north portion of the subject property to the exclusion of Victor, Juanito, and Lilia. Using another fraudulent means, Paulo was likewise allegedly able to secure Tax Declaration No. 25244 in his name as purported owner of the south portion of the subject property. Thereafter, with Tax Declarations Nos. 25246 and 25244 in his name, Paulo allegedly obtained Tax Declaration Nos. 25257 and 26377 covering the entire Cad. Lot No. 4894 purportedly as the sole owner thereof.

Victor, Juanito, and Lilia alleged that they filed the complaint for partition in Civil Case No. 832-BG and, during the proceedings therein, they and Paulo entered into a compromise agreement which they submitted to the trial court. On February 10, 1993, acting thereon, the said court rendered the judgment based on compromise agreement and partitioned Cad. Lot No. 4894, thus: "one-half of the area of the riceland, one-half of the area of the sandy land, and one-half of the area of the swampland" belonged to Victor, Juanito, and Lilia while the other half of the said areas belonged to Paulo. The said judgment became final and executory and its execution was pending resolution by the trial court. The spouses Aromin allegedly knew of this fact.

Nonetheless, on February 10, 1994, Paulo and the spouses Aromin allegedly executed a Deed of Sale where the former, purportedly as the true and absolute owner of the subject property, conveyed to the latter the ownership of the same. The said deed was allegedly part of the compromise agreement entered into between Paulo and the spouses Aromin in Civil Case No. 921-BG and which they submitted for the trial court's approval.

Victor, Juanito, and Lilia opposed the approval of the said compromise agreement. They likewise prayed for the annulment of the Deed of Sale dated February 10, 1994, executed by Paulo in favor of the spouses Aromin covering the entire subject property.

In their joint answer, Paulo and the spouses Aromin alleged that the subject property was sold under the deed of sale executed between them on February 10, 1994. The spouses Aromin raised the defense that they were buyers in good faith as they believed that Paulo was the sole owner of the subject property. The spouses Aromin further alleged that they have been in actual and physical possession thereof, and have been actually appropriating for themselves the fruits thereof for the past years. They have also allegedly introduced improvements thereon.

These three civil cases (Civil Cases Nos. 921-BG, 938-BG and 965-BG) were jointly tried before the court a quo. Incidentally, while the case was pending resolution, Paulo died and was accordingly substituted by his heirs, namely, Jose Floresca, Angelina Floresca-Dumpit, Eliseo Floresca, Consolacion Floresca, and Cecilio Floresca.

During the pre-trial of the cases, the parties stipulated on the following facts:

- Both parties stipulated and admitted that there is a Decision in Civil Case No. 832-BG dated February 10, 1993 at RTC, Br. 33, Bauang, La Union;

- Both parties stipulated and admitted that Wilfredo and Swarnie Aromin are not parties to Civil Case No. 832-BG;

- Both parties stipulated and admitted the fact that there is a Notice of Lis Pendens duly registered on August 16, 1991;

- Both parties stipulated and admitted that Wilfredo and Swarnie Aromin, and Dr. Paulo J. Floresca were not given that notice of lis pendens;

- Both parties stipulated and admitted the existence of seven (7) Deeds of Sale executed between the Aromins and Dr. Paulo J. Floresca, all unregistered and the last four (4) Deeds of Sale were allegedly executed after the date of the institution of Civil Case No. 832-BG;

- Both parties stipulated and admitted that the acknowledgment receipt of March 9, 1993 and the Deed of Sale of February 24, 1994, all came after the institution of Civil Case No. 832-BG;

- Both parties stipulated and admitted the existence of a Deed of Sale dated February 10, 1994, executed by and between Dr. Paulo J. Floresca and the Aromins which covers the entire lot 4894;

- Both parties stipulated and admitted that the Aromins never obtained a [t]ax declaration of the property either in parts or in whole over Cadastral lot 4894;

- Both parties stipulated and admitted that the Deed of Sale was the basis of the Compromise Agreement.[6]

After due trial, the court a quo rendered the Decision dated September 15, 2000 on the consolidated Civil Cases Nos. 921-BG, 938-BG and 965-BG in favor of the spouses Aromin. The court a quo disbelieved the claim of Victor, Juanito, and Lilia that they were co-owners of the subject property. Instead, it gave credence to Paulo's testimony that when he signed the compromise agreement in Civil Case No. 832-BG, which was made the basis of the judgment thereof, he was of the belief that the said agreement did not include those properties that he had already disposed of. The court a quo likewise noted that Paulo was not assisted by counsel when he entered into the said agreement. It opined that Victor, Juanito, and Lilia surreptitiously prepared the compromise agreement and that they took advantage of Paulo's advanced age and weak mental faculties during the execution thereof.

The court a quo found that the subject property was Paulo's share in the estate of their parents and, thus, was exclusively owned by him. Alberto, Paulo's brother, and the father of Victor, Juanito, and Lilia, no longer had a share therein because his own share consisted in the properties situated in San Agustin, Bauang, La Union. Relying on the testimonies of tenants who stated that they delivered the produce of the subject property to Paulo and not to the siblings Victor, Juanito, and Lilia, the court a quo concluded that this proved that Paulo was the sole owner thereof.

Moreover, it believed Paulo's claim that the subject property was previously declared for tax purposes in the name of his sister Josefa but she subsequently donated the same to his daughter Angelina Floresca Dumpit who, in turn, donated it to him. On the other hand, the court a quo rejected the allegation that the spouses Aromin acted in bad faith. This was the contention of Victor, Juanito, and Lilia pointing out that some of the transactions of the spouses Aromin with Paulo involving the subject property were made after the institution of the complaint for partition in Civil Case No. 832-BG and a notice of lis pendens had been recorded. According to the court a quo, the siblings failed to adduce any evidence to support their contention that the spouses Aromin were purchasers in bad faith. On the other hand, it gave credence to Wilfredo Aromin's testimony that he and his spouse Swarnie did not have any knowledge about Civil Case No. 832-BG.

It is the view of the court a quo that the spouses Aromin rightfully relied on Paulo's assurance that he was the sole owner of the subject property on the basis of the tax declarations in his name. The first sale was made between Paulo and the spouses Aromin on November 12, 1990 covering an area of 12,314 square meters of the subject property and forthwith the latter built their house thereon. The failure of the Floresca siblings to take any action against this act of adverse possession was interpreted by the court a quo as indicative of their recognition of Paulo's right to dispose his own property.

The court a quo posited that Victor, Juanito, and Lilia were claiming co-ownership over the subject property only because its value has considerably increased by reason of the improvements introduced thereon by the spouses Aromin. It also faulted the siblings for not impleading the spouses Aromin as parties to Civil Case No. 832-BG despite their knowledge that several portions of the subject property had already been sold to the latter. Moreover, the notice of lis pendens in the said case was not served on either Paulo or the spouses Aromin.

The court a quo declared the spouses Aromin as buyers in good faith of the subject property. It likewise held that the Deed of Sale dated February 10, 1994 entered into by the said spouses and Paulo prevailed over the judgment on compromise agreement in Civil Case No. 832-BG.

The dispositive portion of the court a quo's decision reads:

> WHEREFORE, in view of the foregoing, judgment is hereby rendered:
>
> - Declaring the decision in Civil Case No. 832-BG not binding upon the Spouses Wilfredo and Swarnie Aromin and has no legal effect upon said spouses;
>
> - Declaring that the Spouses Wilfredo and Swarnie Aromin being buyers in good faith, are the owners of the whole property sold to them by Dr. Paulo J. Floresca;
>
> - No pronouncement as to the amount of damages as Spouses Aromin failed to adduce evidence in support thereto;
>
> - With costs.
>
> SO ORDERED.[7]

On appeal by Victor, Juanito, and Lilia, the Court of Appeals (CA) rendered the assailed Decision dated June 6, 2003 reversing the court a quo's decision.

With respect to the issue of co-ownership, the appellate court ruled that it was erroneous for the court a quo to impugn the judgment based on compromise agreement rendered by the RTC (Branch 33) in Civil Case No. 832-BG. Under the terms thereof, the subject property had been partitioned such that one-half of the riceland, sandy land, and swampland belonged to Paulo while the other half of the said areas belonged to the siblings Victor, Juanito, and Lilia.

The appellate court explained that "a judicial compromise has the effect of res judicata and is immediately executory and not appealable unless a motion to set aside the same is filed on the ground of fraud, mistake, or duress, in which event an appeal may be filed from an order denying the same. A court cannot set aside a judgment based on compromise without having declared in an incidental hearing that such a compromise is vitiated by any of the grounds for nullity enumerated in Article 2038 of the Civil Code."[8]

Following these precepts, the appellate court stated that it was not within the ambit of the court a quo's judicial power to disturb, much more to nullify, absent any appeal or motion to set aside the judgment, the co-ownership of the subject property between Paulo and the siblings which was the subject of the judgment based on compromise agreement rendered by the RTC (Branch 33) in Civil Case No. 832-BG. It was also noted that Paulo himself recognized the existence of the said co-ownership because in his answer with compulsory counterclaim in Civil Case No. 921-BG, he admitted the sale of the subject property to the spouses Aromin "only to the extent of his share in the parcels described therein, considering that the said parcels are not owned exclusively by defendant (referring to Paulo) but co-owned with his deceased brother and sister Alberto Floresca and Josefa Floresca, respectively x x x."[9]

The claim of the spouses Aromin that they were buyers in good faith was not given credence by the appellate court. It found that when portions of the subject property were being offered for sale, the spouses Aromin merely relied on the representations made by Paulo that he was the sole owner thereof. The appellate court faulted them for not making any inquiries with the Register of Deeds or the Assessor's Office in their province about the ownership of the subject property.

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According to the appellate court, when the three deeds of sale pertaining to some portions of the subject property were executed in November 1990 and June 1991,[10] the spouses Aromin already knew of the existence of the co-ownership over the subject property. This knowledge should have impelled them to verify the extent of Paulo's ownership rights. Their failure to do so, the appellate court held, indicated negligence on their part and such negligence precluded them from claiming that they were buyers in good faith.

With respect to the other four deeds of sale that were executed in February 1992,[11] the appellate court observed that Civil Case No. 832-BG had already been filed at the time and, in connection therewith, a notice of lis pendens had also been filed with the register of deeds. These facts should have put the spouses Aromin on notice that the lots they were buying were not solely owned by Paulo. Addressing the spouses Aromin's argument that they should have been served with a copy of the notice of lis pendens, the appellate court stated that the said notice filed with the register of deeds already constituted constructive notice to all. Moreover, there is nothing in Section 14,[12] Rule 13 of the Rules of Court that requires the parties to a pending case to furnish a copy of the complaint and of the notice of lis pendens to any person, other than the register of deeds of the municipality or province where the property is situated.

Despite the absence of good faith, the sale made by Paulo in favor of the spouses Aromin was declared valid but only to the extent of his one-half share of the subject property. The appellate court cited the settled rule that even if a co-owner sells the whole property as his, the sale will affect only his own share but not those of the other co-owners who did not consent to the sale.[13]

The appellate court held Paulo liable to pay moral damages and attorney's fees to Victor, Juanito, and Lilia. It mentioned that it was likewise inclined to direct Paulo to reimburse to the spouses Aromin the amount equivalent to one-half of the total purchase price that they paid to him corresponding to the one-half portion of the subject property which must be returned to the siblings, as co-owners thereof. The appellate court nonetheless did not so because the spouses Aromin did not appeal from the decision of the court a quo, hence, were not entitled to any relief.

The dispositive portion of the assailed CA decision reads:

> WHEREFORE, PREMISES CONSIDERED, the assailed Decision is hereby REVERSED and judgment is hereby rendered:
>
> - Declaring the Decision in Civil Case No. 832-Bg binding upon Spouses Wilfredo and Swarnie Aromin;
>
> - Declaring that the Spouses Wilfredo and Swarnie Aromin are not buyers in good faith and their ownership over the subject properties must be limited to the one-half share of Paulo Floresca as stipulated by the appellants in Civil Case No. 832-Bg;
>
> - Ordering the Spouses Wilfredo and Swarnie Aromin to restore the ownership and possession over one-half of the subject properties in favor of the appellants [referring to Victor, Juanito and Lilia] who are the owners thereof as stipulated by the appellants in Civil Case No. 832-Bg;
>
> - Adjudging Paulo Floresca liable for moral damages in favor of the appellants in the amount of P250,000.00 and attorney's fees of P50,000.00.
>
> - With costs against Paulo Floresca.
>
> SO ORDERED.[14]

The spouses Aromin sought to reconsider the said decision but the appellate court, in the assailed Resolution dated October 24, 2003, denied their motion for reconsideration. Hence, the recourse to this Court.

In support of their petition for review on certiorari, the spouses Aromin (the petitioners) allege that the judgment based on compromise agreement rendered in Civil Case No. 832-BG does not bind them because they were not parties to the said case. In the same manner, the principle of res judicata does not apply because the element of identity of parties is not present. The petitioners insist that as to the effects and scope of the judgment based on compromise agreement, its effectivity is limited to the parties thereto.

The petitioners posit that assuming arguendo that the subject property is co-owned, they should have been impleaded as parties in Civil Case No. 832-BG. They invoke Article 497[15] of the Civil Code of the Philippines contending that when the complaint for partition in Civil Case No. 832-BG was filed by Victor, Juanito and Lilia, the petitioners were already assignees of Paulo and, as such, deemed to be co-owners of the subject property. Victor, Juanito, and Lilia therefore should have allegedly notified the petitioners about the partition and impleaded them as parties in Civil Case No. 832-BG.

The petitioners likewise invoke Article 499[16] of the Civil Code as they argue that the partition under the judgment based on compromise agreement did not prejudice their rights as owners of the subject property. They point out that when the said judgment was registered on June 9, 1993, the entire subject property had already been sold to them by Paulo.

The petitioners characterize themselves as indispensable parties within the meaning of Section 1,[17] Rule 69 of the Rules of Court. Since they were not impleaded as parties in Civil Case No. 832-BG, the judgment based on compromise agreement therein cannot allegedly attain finality. Further, the said judgment could not have the effect of res judicata on the issue of ownership of the subject property.

The petitioners maintain that the CA's findings that the subject property is co-owned by Paulo and the siblings cannot be given weight. On the other hand, the petitioners submit that the court a quo's finding that Paulo is the sole owner of the subject property is correct as it is based on the latter's testimony that the same is his share from the estate of their parents. His testimony was allegedly corroborated by the testimonies of the tenants that they delivered the produce of the subject property to Paulo.

The CA's finding that they were purchasers in bad faith was also impugned by the petitioners. Quoting extensively from the court a quo's decision, they insist that its finding that they were purchasers in good faith should be accorded respect. It is also their submission that the registration of the notice of lis pendens and, subsequently, the judgment based on compromise agreement in the register of deeds did not prejudice their right because they acquired the ownership of the subject property even before the said registration. On this point, the petitioners cite Section 113[18] of Presidential Decree No. 1529 and the commentary of Noblejas thereon that "the registration of any instrument under this system shall be understood to be without prejudice to a third party with a better right."

By way of conclusion, the petitioners aver that in the event that they are obliged to return one-half of the subject property to Victor, Juanito, and Lilia, in the interest of justice and equity, the heirs of Paulo should be directed to reimburse to the petitioners the amount equivalent thereto.

The contentions of the petitioners shall be addressed in seriatim.

The petitioners vigorously assert that they are not bound by the judgment based on compromise agreement rendered in Civil Case No. 832-BG. The said judgment was rendered when Victor, Juanito, and Lilia, as plaintiffs therein, and Paulo, as defendant therein, agreed to the settlement of the case. The pertinent judgment based on compromise agreement provided, in part, as follows:

x x x x

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SETTLEMENT OF THE THIRD CAUSE OF ACTION:

- The parcel of land, Lot No. 4894, declared under Tax Declaration No. 26377 which cancelled No. 25236, and Tax Declaration No. 25257 (both Tax Declarations bear the same descriptions) consisting of riceland, sandyland, and swampland is partitioned between the plaintiffs and the defendant as follows:

- Share of the plaintiffs: The share of the plaintiffs is one-half of the area of the riceland, one-half of the area of the sandyland, and one- half of the area of the swampland.

- Share of the defendant: The share of the defendant is also one- half of the area of the riceland, one-half of the area of the sandy land, and one-half of the area of the swampland.

- That within a reasonable time from the execution of this settlement the plaintiffs and the defendant, or at the instance of either of them but both sharing in the cost, a land survey be made and sketch plan be prepared to determine the exact boundaries and definite limits of their respective one-half share of the riceland, one-half share of the sandyland, and one-half share of the swampland.

- That in consideration of this settlement, the defendant waives, quitclaim, and renounce forever, absolutely and unconditionally, unto the plaintiffs, their heirs and assigns, their above-stated one-half share of the riceland, one-half share of the sandyland, and one-half share of the swampland.

That with this COMPROMISE AGREEMENT, the plaintiffs and the defendant have waived and renounce[d] forever any and all claims that each of them have or may have against each of them in this instant case, monetary or otherwise, and both agreed to work jointly for the issuance to them of their respective shares' tax declaration and other documents.

That the plaintiffs and the defendant executed this COMPROMISE AGREEMENT freely, voluntarily, with their sound minds, without any force, duress, threat, intimidation, mistake or undue influence exerted upon them from anyone, in the presence of the Honorable Claudio de Guzman, Barangay Captain of Barangay Central West, Bauang, La Union. Two barangay councilmen signed as witnesses.

That in their earnest and sincere desire to terminate this case the soonest, the plaintiffs and the defendant agreed to submit this COMPROMISE AGREEMENT to this Honorable Court even without the concurrence of their respective counsels. A copy for each is furnished for their information.

WHEREFORE, the plaintiffs and the defendant most respectfully submit this COMPROMISE AGREEMENT to this Honorable Court and pray for its kind approval and the rendition of a judgment based on the same." x x x

the terms and conditions of which are not contrary to law, morals and public policy, the Court hereby approves the same, renders judgment in accordance therewith and enjoins the parties to comply with their respective undertakings.

SO ORDERED.[19]

Contrary to their claim, the petitioners, even if they were not parties to Civil Case No. 832-BG, are bound by the judgment based on compromise agreement rendered therein under the principle of res judicata. It is well settled that a judicial compromise has the effect of res judicata and is immediately executory and not appealable unless set aside on grounds of nullity under Article 2038[20] of the Civil Code.[21] Further, a judgment based on a compromise agreement is a judgment on the merits, wherein the parties have validly entered into stipulations and the evidence was duly considered by the trial court that approved the agreement.[22]

The principle of res judicata is embodied in Section 47, Rule 39 of the Rules of Court thus:

Sec. 47. Effect of judgments or final orders. - The effect of a judgment or final order rendered by a court of the

> Philippines, having jurisdiction to pronounce the judgment or final order, may be as follows:
>
> (a) In case of a judgment or final order against a specific thing, or in respect to the probate of a will, or the administration of the estate of the deceased person, or in respect to the personal, political or legal condition or status of a particular person or his relationship to another, the judgment or final order is conclusive upon the title to the thing, the will or administration, or the condition, status or relationship of the person; however, the probate of a will or granting of letters of administration shall only be prima facie evidence of the death of the testator or intestate;
>
> (b) In other cases, the judgment or final order is, with respect to the matter directly adjudged or as to any other matter that could have been raised in relation thereto, conclusive between the parties and their successors in interest by title subsequent to the commencement of the action or special proceeding, litigating for the same thing and under the same title and in the same capacity; and
>
> (c) In any other litigation between the same parties or their successors in interest, that only is deemed to have been adjudged in a former judgment or final order which appears upon its face to have been so adjudged, or which was actually and necessarily included therein or necessary thereto.

The doctrine of res judicata embraces two concepts: the first is "bar by prior judgment" under paragraph (b) of Section 47, Rule 39, and the second is "conclusiveness of judgment" under paragraph (c) thereof. In the present case, the second concept - conclusiveness of judgment - applies. The said concept is explained in this manner:

> x x x conclusiveness of judgment - states that a fact or question which was in issue in a former suit and there was judicially passed upon and determined by a court of competent jurisdiction, is conclusively settled by the judgment therein as far as the parties to that action and persons in privity with them are concerned and cannot be again litigated in any future action between such parties or their privies, in the same court or any other court of concurrent jurisdiction on either the same or different cause of action, while the judgment remains unreversed by proper authority. It has been held that in order that a judgment in one action can be conclusive as to a particular matter in another action between the same parties or their privies, it is essential that the issue be identical. If a particular point or question is in issue in the second action, and the judgment will depend on the determination of that particular point or question, a former judgment between the same parties or their privies will be final and conclusive in the second if that same point or question was in issue and adjudicated in the first suit. Identity of cause[s] of action is not required but merely identity of issues.[23]

The question on the co-ownership of the subject property was already settled in the judgment based on compromise agreement in Civil Case No. 832-BG which categorically stated that the subject property, "consisting of a riceland, sandy land and swampland," is partitioned such that one-half of the said areas belongs to Victor, Juanito and Lilia while the other half belongs to Paulo.

The petitioners are bound by the said judgment based on compromise agreement, particularly on the question of the co-ownership of the subject property by Paulo, on one hand, and the siblings, on the other, as they (the petitioners) are privies-in-interest or successors-in-interest of Paulo. Case law, both here and in the United States, recognizes privity of interest under the following situations:

> The historic and most common situation in which privity is upheld exists when a person acquires an interest in the subject matter of the suit after it was filed or decided. Successors-in-interest, whether they obtain their interests by virtue of an assignment, by inheritance or by law are bound along with their predecessors by the rules of res judicata and collateral estoppel. This is necessary in order to preserve the finality of judgments; otherwise a person confronted with an adverse decision might subject the winning party to the prospect of continual litigation simply by transferring his interest in the subject matter of the suit to another who could begin the suit anew.

> A second well-defined privity relationship arises when legal appointed representative parties, such as trustees and executors, are involved; those individuals are deemed in privity with those whom they represent. Since parties litigating in representative capacity have no interests of their own, but either sued or are sued on behalf of the beneficiaries whom they serve.
>
> Privity also has been universally recognized when it is determined that the newly named party in the second suit actually controlled or participated in litigating the first action. Although the non-party will not be bound by res judicata because different claims are involved, identical issues that were necessarily and actually litigated will be precluded. Having received one opportunity to defend or prosecute those issues, he may not be allowed another.[24]

The petitioners fall under the first category, i.e., they are Paulo's privies-in-interest or successors-in-interest who acquired most of the portions of the subject property after the filing of the complaint in Civil Case No. 832-BG on August 13, 1991. In connection with their complaint for partition against Paulo in the said case, Victor, Juanito, and Lilia likewise filed a notice of lis pendens with the register of deeds on August 16, 1991 and the said notice was annotated on the face of Tax Declarations Nos. 26377 and 25257 covering the subject property. As shown earlier, four out of the seven deeds of sale[25] were executed by Paulo in favor of the petitioners in February 1992 or after the filing of the complaint for partition in Civil Case No. 832-BG. Consequently, the petitioners are Paulo's privies-in-interest or successors-in-interest and, as such, are bound by the judgment based on compromise agreement rendered therein.

As persons whose interest over the subject property is deemed in privity to the interest of Paulo, the petitioners could not be considered indispensable parties to Civil Case No. 832-BG. The following discussion on who is or is not an indispensable party is apropos:

> An indispensable party is one whose interest will be affected by the court's action in the litigation, and without whom no final determination of the case can be had. The party's interest in the subject matter of the suit and in the relief sought are so inextricably intertwined with the other parties' that his legal presence as a party to the proceeding is an absolute necessity. In his absence there cannot be a resolution of the dispute of the parties before the court which is effective, complete, or equitable.
>
> Conversely, a party is not indispensable to the suit if his interest in the controversy or subject matter is distinct and divisible from the interest of the other parties and will not necessarily be prejudiced by a judgment which does complete justice to the parties in court. He is not indispensable if his presence would merely permit complete relief between him and those already parties to the action or will simply avoid multiple litigation.[26]

With respect to Civil Case No. 832-BG, Paulo was an indispensable party thereto as well as the siblings Victor, Juanito, and Lilia as it involved the subject property which they acquired from their ascendants, the deceased parents of Paulo and Alberto. It was, in fact, a partition of the estate of their ascendants. Paulo and, in representation of their father Alberto, Victor, Juanito, and Lilia, as the heirs, may be properly considered indispensable parties thereto. Indeed, a final determination could be had therein even without the petitioners as their claim of interest was merely derived from Paulo's interest. In other words, they merely stepped into his shoes as his successors-in-interest.

To invoke res judicata, absolute identity of parties is not required. A substantial identity of parties is sufficient. And there is substantial identity of parties when there is a community of interest between a party in the first case and that in the second one, even if the latter party was not impleaded in the first.[27] As his privies-in-interest or successors-in-interest, the petitioners clearly had a community of interest with that of Paulo who was party to Civil Case No. 832-BG. Res judicata applies and the petitioners' argument that the judgment based on compromise agreement rendered in Civil Case No. 832-BG was null and void because they were not impleaded as

indispensable parties thereto must perforce fail.

Thus, the appellate court correctly held that it was not within the court a quo's power to disturb, much more nullify, the stipulation on the co-ownership of the subject property as contained in the judgment based on compromise agreement in Civil Case No. 832-BG absent any appeal or motion to set aside the said judgment. As explained earlier, the said judgment based on compromise agreement constitutes res judicata particularly on the question or issue of the co-ownership of the subject property among Paulo and the siblings.

Moreover, the petitioners' claim that they were purchasers in good faith is untenable. The issue of good faith or bad faith of a buyer is relevant only where the subject of the sale is a registered land but not where the property is an unregistered land. One who purchases an unregistered land does so at his peril.[28]

It bears noting that when the petitioners bought portions of the subject property from Paulo, it was not a registered land.[29] In fact, in the deeds of sale covering portions of the subject property, it was referred to as Cad. Lot No. 4894 and covered by tax declarations in Paulo's name. In other words, the petitioners bought portions of the subject land even if Paulo never presented to them a title over the same in his name. The petitioners' claim of having bought the subject property in good faith is thus irrelevant.

In any case, the petitioners are clearly not buyers in good faith of the subject property as revealed from petitioner Wilfredo's own testimony. During cross-examination, he admitted to having prior knowledge that the subject property was co-owned by Paulo, his brother Alberto and sister Josefa but, relying solely on Paulo's word that the subject property became exclusively his, the petitioners bought the subject property from him piece by piece. Petitioner Wilfredo testified, thus:

> ATTY. ESTIGOY:
> Cross-examination:
> Continuing:
>
> Q. And you know then, Mr. Aromin that that property was owned by the brothers of Dr. Floresca, sister of Dr. Floresca and Dr. Floresca himself?
> A. Yes, Sir.
>
> Q. So you know then that it being a co-ownership, Mr. Aromin, it will be subject to a partition, is that right?
> A. Well, that is really hard to answer because Dr. Floresca told me that he is already the sole owner of those properties and I also believed it because I was out of the country for a long time and it might be divided already and he is the sole owner.
>
> Q. Alright, Mr. Aromin, when you executed - when Dr. Floresca executed the Deeds of Sale which were presented by you as Exhibits "A" to "F", you were already aware that the case for partition was being tried in this Honorable Court? Is that right?
> A. I did not under[stand] the question, Sir. Will you please repeat?
>
> Q. hen you executed with Dr. Floresca the Deed of Sale, particularly the Deeds of Sale which [were] executed only in 1992 "
>
> ATTY. LIBATIQUE:
>
> No, misleading, Your Honor. The Deeds of Sale [were] executed in 1990 and 1991.
>
> ATTY. ESTIGOY:
> Well, let us see, Exhibits "A" to "F."
>
> COURT:

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You see the date, what is Exhibit "A"?

ATTY. ESTIGOY:

Yes, Exhibit "A" is dated 1992, your honor.

ATTY. LABATIQUE:

Exhibit "A" is the Acknowledgment Receipt, it is not a Deed of Sale. The Deed of Sale is Exhibit "B" up to Exhibit "B".

ATTY. ESTIGOY:
Cross-examination:
Continuing:

Q. Alright, Mr. Aromin, it seems that your Exhibit "B" which had been executed by you and Dr. Floresca is in blank date in 1991 "

COURT:

Q. How about the month?
A. It is June and with blank date, Your Honor, of 1991.

Cross-examination:
Continuing:

Q. Which refers to a portion of Lot 4894, were you aware at the time that Dr. Floresca is not the true owner alone of the property?
A. Not really, he told me " what he told me is that, he is the sole owner of the property.

Q. No, what I mean is, since you are a " no " you said a while ago, Mr. Aromin, that you actually worked on that land?
A Yes, I worked on that land long time ago and passed it to my nieces and nephews when I started working outside the country, that is, in 1963.

Q. You know then that it was formerly a co-ownership?
A. Yes, but that was a long time back. What I know is, they have shared already. They have already divided their properties that before he sold me this property, he is already the sole owner as that was what he told me; that is it.

Q. And you know that that lot was covered by Cadastral Lot No. 4894, is that correct?
A. Yes, Sir, I am sure and "

Q. And you did not know that "
A. I got the number, but I do not know the meaning of these numbers.

Q. I see. And did you not know, as a tenant of that property, that this Lot 4894 is a co-ownership of the three (3) brothers and sisters?
A. I told you before, Sir, that I was a tenant before. I know that it was a co-ownership but I was away a long time and when I came back he offered me to buy this lot and he told me about that, that he is the sole owner already.

Q. And did you not inquire from the Register of Deeds or the Assessor's Office before you bought this property, whether this property is still a co-ownership?
A. My Attorney [has] been the one dealing on it, Sir.

Q. So, you answer the question, Mr. Witness.
A. I passed it on to Atty. Hipol to deal on it, Sir.

COURT:
No, this refers to the question, you answer the question.

ATTY. LIBATIQUE:
There is no question yet, Sir.

ATTY. ESTIGOY:
No, there is no answer yet to my question, Your Honor.

COURT:

That is why I am asking him to answer the question, - did you not, before you bought this property, this parcel of land, [and] executed a Deed of Sale without date, in June 1991, did you not inquire from the Register of Deeds or from the Assessor's Office whether this property is a co-ownership?

Witness:

A. Well, I took the word of Dr. Paulo J. Floresca, Your Honor.

COURT:
You answer with "yes" or "no."

WITNESS:

A. No, Sir.[30]

An innocent purchaser for value is one who buys the property of another without notice that some other person has a right to or interest in that same property, and who pays a full and fair price at the time of the purchase or before receiving any notice of another person's claim. The honesty of intention that constitutes good faith implies freedom from knowledge of circumstances that ought to put a prudent person on inquiry.[31]

The petitioners' knowledge that the subject property was, at one time, co-owned by Paulo, his brother Alberto and sister Josefa should have impelled them to inquire and investigate, as any prudent vendee should, about the status of the co-ownership before buying the subject property. The petitioners' reliance on Paulo's word alone that he was the sole owner of the subject property when they bought the same, despite their knowledge of facts that should have put them on guard, constitutes gross negligence amounting to bad faith. They cannot therefore rightfully claim that they are buyers in good faith.

Having established that the subject property was owned in common by Paulo and the siblings, it necessarily follows that Paulo could only dispose to the petitioners his share in the subject property. Article 493 of the Civil Code provides that "[e]ach co-owner shall have the full ownership of his part and of the fruits and benefits pertaining thereto, and he may therefore alienate, assign or mortgage it, and even substitute another person in its enjoyment, except when personal rights are involved. But the effect of the alienation or the mortgage, with respect to the co-owners, shall be limited to the portion which may be allotted to him in the division upon the termination of the co-ownership."

Under the said provision, while a co-owner has the right to freely sell and dispose of his undivided interest, nevertheless, as a co-owner he cannot alienate the shares of his other co-owners - nemo dat qui non habet.[32] Paulo, however, sold the entire subject property to the petitioners without the consent of the co-owners. Following the well-established principle that the binding force of a contract must be recognized as far as it is legally possible

to do so - quando res non valet ut ago, valeat quantum valere potest[33] - the disposition affects only Paulo's share pro indiviso, and the transferee, in this case the petitioners, gets only what corresponds to Paulo's share in the partition of the subject property, i.e., one-half of the areas described as riceland, sandy land and swampland which constitute the subject property.

Finally, the Court cannot accede to the petitioners' plea that, in the interest of equity and justice, the heirs of Paulo should be directed to reimburse to them the amount equivalent to one-half of the total purchase price of the subject property. Under the circumstances, the petitioners have no one else to blame for the consequences of their imprudent purchase of the subject property. They did so at their peril and the consequences would have to be borne by them alone because, unfortunately for them, Paulo had already passed away. It would be unfair to Paulo's heirs if they themselves would be required to reimburse the petitioners the amount equivalent to one-half of the purchase price that Paulo received for the subject property absent any showing that they had received any amount for the transactions between the petitioners and Paulo.

WHEREFORE, the petition is DENIED for lack of merit. The Decision dated June 6, 2003 and Resolution dated October 24, 2003 of the Court of Appeals in CA-G.R. CV No. 69651 are AFFIRMED in toto.
SO ORDERED.

Panganiban, C.J., (Chairperson), Ynares-Santiago, Austria-Martinez, and Chico-Nazario, JJ., concur

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[1] Penned by Associate Justice Andres B. Reyes, Jr., with Associate Justices Bienvenido L. Reyes and Regalado E. Maambong concurring; rollo, pp. 45-69.

[2] Records, Vol. I, p. 5.

[3] Per Exhibits "A," "A-1" up to "A-6" annexed to the spouses Aromin's complaint in Civil Case No. 921-BG; Records, Vol. II, pp. 399-400.

[4] Records, Vol. I, p. 9.

[5] Id. at 11-14.

[6] Records, Vol. IV, pp. 414-415.

[7] CA rollo, p. 106.

[8] Citing Salvador v. Ortoll, 397 Phil. 731, 743-744 (2000).

[9] Rollo, p. 61.

[10] Supra note 3.

[11] Supra note 3.

[12] The provision reads:

> Sec. 14. Notice of lis pendens. - In an action affecting the title or the right of possession of real property, the plaintiff and the defendant, when affirmative relief is claimed in his answer, may record in the office of the registry of deeds of the province in which the property is situated a notice of the pendency of the action. Said notice shall contain the names of the parties and the object of the action or defense, and a description of the property in that province affected thereby. Only from the time of filing such notice for record shall a purchaser, or encumbrancer of the property affected thereby, be deemed to have constructive notice of the pendency of the action, and only of its pendency against the parties designated by their real names.

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> The notice of lis pendens hereinabove mentioned may be cancelled only upon order of the court, after proper showing that the notice is for the purpose of molesting the adverse party, or that it is not necessary to protect the rights of the party who cause it to be recorded.

[13] Citing Tomas Claudio Memorial College, Inc. v. Court of Appeals, 374 Phil. 859, 865 (1999).

[14] Rollo, pp. 67-68.

[15] The provision reads:

> Art. 497. The creditors or assignees of the co-owners may take part in the division of the thing owned in common and object to its being effected without their concurrence. But they cannot impugn any partition already executed, unless there has been fraud, or in case it was made notwithstanding a formal opposition presented to prevent it, without prejudice to the right of the debtor or assignor to maintain its validity.

[16] The provision reads:

> Art. 499. The partition of a thing owned in common shall not prejudice third persons, who shall retain the rights of mortgage, servitude or any other real rights belonging to them before the division was made. Personal rights pertaining to third persons against the co-ownership shall also remain in force, notwithstanding the partition.

[17] The provision reads:

> Sec. 1. Complaint in action for partition of real estate. - A person having the right to compel the partition of real estate may do so as provided in this Rule, setting forth in his complaint the nature and extent of his title and an adequate description of the real estate of which partition is demanded and joining as defendants all other persons interested in the property.

[18] The provision reads:

> Sec. 113. Recording of instruments relating to unregistered lands. - No deed, conveyance, mortgage, lease, or other voluntary instrument affecting land not registered under the Torrens system shall be valid, except as between the parties thereto, unless such instrument shall have been recorded in the manner herein prescribed in the office of the Register of Deeds for the province or city where the land lies.
>
> x x x x

[19] Records, Vol. I, pp. 13-14.

[20] The provision reads in part:

> Art. 2038. A compromise in which there is mistake, fraud, violence, intimidation, undue influence, or falsity of documents, is subject to the provisions of article 1330 of this Code.
>
> x x x

[21] Romero v. Tan, G.R. No. 147570, February 27, 2004, 424 SCRA 108, 123.

[22] Id.

[23] Cayana v. Court of Appeals, G.R. No. 125607, March 18, 2004, 426 SCRA 10, 21, citing Calalang v. Register of Deeds of Quezon City, 231 SCRA 80 (1994).

[24] Salud v. Court of Appeals, G.R. No. 100156, June 27, 1994, 233 SCRA 384, 390-391, citing Friedenthal, Kane, Miller, Civil Procedure, Hornbook Series, West Publishing Co., 1985 ed., pp. 614-615.

[25] Supra note 3.

[26]Philippine National Bank v. Heirs of Estanislao Militar and Deogracias Militar, G.R. No. 164801, August 18, 2005, 467 SCRA 377, 384.

[27] Luzon Development Bank v. Conquilla, G.R. No. 163338, September 21, 2005, 470 SCRA 533, 555.

[28] Acabal v. Acabal, G.R. No. 148376, March 31, 2005, 454 SCRA 555, 585.

[29] The petitioners themselves state in their petition that the subject property is an unregistered land. Rollo, p. 38.

[30] TSN, August 10, 1993, pp. 38-45.

[31] Domingo v. Reed, G.R. No. 157701, December 9, 2005, 477 SCRA 227, 241.

[32] He who hath not cannot give. Black's Law Dictionary (6th ed.) quoted in Acabal v. Acabal, supra note 27, at 582.

[33] When a thing is of no effect as I do it, it shall have effect as far as [or in whatever way] it can; id.

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