

GAUDENCIO VALERIO FOR HIMSELF AND AS ATTORNEY-IN-FACT OF BIENVENIDO VALERIO, CONRADO VALERIO, DIONISIO VALERIO, EFEPANIA PRESENT: VALERIO AND CARLOTA DE LEON VALENZUELA, PETITIO...

G.R. NO. 163687. March 28, 2006

Ponente: PUNO, J.

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PUNO, J.:

Narciso Valerio, married to Nieves Valerio, owned two (2) adjacent agricultural lots in Calamba, Laguna, with a total area of 6.5 hectares. One of these lots, Lot 428, was a four-hectare land. A portion thereof, consisting of 511 sq. m. and known as Lot 428-A, is the subject of the petition in the case at bar.

It is undisputed that as early as 1963, spouses Alejandro and Vicenta Refresca started cultivating the 6.5-hectare land as tenants. In 1968, Narciso Valerio acquired ownership over the land. The tenancy relations between the Valerios and Refrescas were established and their harmonious relations continued uninterrupted. In 1974, the Valerios entered into a leasehold contract [2] with tenant Alejandro Refresca whereby the latter was allowed to continue tilling the 6.5-hectare land in exchange for fixed rentals.

On February 10, 1975, Narciso Valerio, with the consent of his wife Nieves, executed a Deed of Sale whereby he sold his 6.5-hectare landholding to his heirs, namely: Susana de Leon, Leslie de Leon, petitioners Carlota de Leon Valenzuela, and Bienvenido, Dionisio, Conrado, Gaudencio, and Efevania, all surnamed Valerio. Narciso likewise conveyed 511 sq. m. of his landholding, known as Lot 428-A, in favor of his tenant Alejandro Refresca in recognition of his long service and cultivation of the subject land. On February 15, 1975, Narciso Valerio died.

On December 13, 1982, the parties to the Deed of Sale, as co-owners, subdivided the 6.5-hectare land and executed a Deed of Agreement of Subdivision. [3] The same 511 sq. m. of land was granted to tenant Alejandro Refresca. Individual titles over the apportioned areas were subsequently issued to the vendees.

Nieves Valerio, widow of Narciso, entered into another leasehold agreement with the Refrescas over the 6.5-hectare landholding for the period 1984-1985 in exchange for the latter's payment of rentals.

On March 4, 1987, petitioners' mother, Nieves Valerio, died. After tenant Alejandro's demise in 1994, his widow, respondent Vicenta Refresca, succeeded him by operation of law in tilling the land.

Thereafter, petitioners demanded that the respondents vacate the land. They alleged that the 511 sq. m. lot was given to the respondents on the condition that they will surrender their tenancy rights over the entire land but respondents failed to do so. In 1995, the Department of Agrarian Reform (DAR), Legal Division, in Sta. Cruz, Laguna, issued a Resolution recognizing the right of respondent Vicenta Refresca, widow of tenant Alejandro, to continue her peaceful possession and cultivation of the 6.5-hectare land.

In 1998, despite the DAR ruling, petitioners sent a demand letter to respondents to vacate the land. Respondents

refused. Petitioners filed a complaint [4] before the Regional Trial Court (RTC) of Calamba, Laguna, against respondents — widow and children of Alejandro Refresca — for the annulment of documents of transfer and title of Alejandro. They alleged that the cause or consideration for the transfer of the 511 sq. m. lot to the Refrescas was an agreement between Narciso and Alejandro that conveyance of said portion would serve as disturbance compensation in favor of the latter, i.e., the 511 sq. m. lot was granted to the Refrescas in exchange for the surrender of their tenancy rights over the entire 6.5-hectare land; that Alejandro allegedly obliged himself to return the 6.5-hectare land he was tilling as a tenant; that Alejandro failed to fulfill his promise and instead continued to till the land until his death; that respondents succeeded in cultivating the entire land; that as the cause for the cession of the land was not complied with, the transfer of the 511 sq. m. lot to Alejandro should be declared void as a contract without cause or consideration produced no effect.

In their Answer, [5] respondents maintained that the 511 sq. m. lot was granted by Narciso to tenant Alejandro as a homelot due to the generosity of the Valerio spouses with whom they had always maintained good relations; that the lot was given to them in recognition of their long years of cultivating the land; that in the 1975 Deed of Sale, Narciso apportioned his 6.5-hectare land among petitioners as his heirs and Alejandro Refresca as his tenant; that as co-owners, petitioners and Alejandro subdivided the land in order that separate titles may be issued to them; that, thereafter, respondent Vicenta succeeded her husband in tilling the 6.5-hectare land; that as tenant, she paid lease rentals to petitioners who initially accepted them; and, that upon the death of petitioners' mother, Nieves Valerio, petitioners demanded the Refrescas to return the 511 sq. m. land as the former intended to sell the entire land which shall then be converted to commercial use. Respondents likewise invoked prescription and estoppel in their defense.

At the pre-trial conference, the parties stipulated that the transfer of the 511 sq. m. lot to Alejandro was without monetary consideration. At the trial, petitioners themselves admitted that they did not pay monetary consideration for the transfer of the specific portions of the land to them.

After the trial, the RTC ruled in favor of petitioners. [6] It held that as the Deed of Sale executed by Narciso Valerio is absolutely simulated or fictitious and, as both parties were in *pari delicto*, petitioners could not demand the surrender of the 511 sq. m. lot nor could respondents retain possession thereof. The RTC ordered that the 511 sq. m. lot be reverted to the estate of the deceased Valerio spouses. The dispositive portion reads:

ACCORDINGLY, judgment is hereby rendered as follows:

- a) the Deed of Absolute Sale and its resultant document, the Deed of Agreement of Subdivision[,] are hereby declared null and void and with no further force and effect;
- b) Transfer Certificate of Title No. T-151186 covering lot no. 428 of the Calamba Friar Land Estate with an area of five hundred eleven (511) square meters issued in the name of Alejandro Refresca married to Vicenta Refresca is likewise declared null and void;
- c) the said 511[-]square meter lot is ordered reverted to the estate of the deceased Narciso Valerio and Nieves Valerio.

The prayer for damages by the plaintiffs and the counterclaim interposed by defendants are likewise ordered DISMISSED for lack of merit.

With costs against plaintiffs and defendants.

SO ORDERED. [7]

On appeal, the Court of Appeals reversed the decision of the RTC. It ruled that the Deed of Sale was not absolutely, but relatively simulated as the parties intended to be bound by it. On the issue of consideration, the

Court of Appeals held that although the Deed of Sale was not supported by monetary consideration, a cause exists although the parties could not agree on what it was, i.e., while petitioners maintained that the lot was granted to Alejandro in exchange for his tenancy rights, respondents claimed that the lot was granted to them out of the generosity of the Valerio spouses. It also ruled that the remedy of petitioners for breach of contract was to either ask for rescission of the sale or specific performance within ten (10) years from the alleged breach of contract. However, as petitioners' action was filed thirteen (13) years after the alleged breach, their present action has prescribed. In any case, it ruled that petitioners were estopped from assailing the deed of sale after they have agreed to subdivide the land as co-owners, thus acknowledging its provision transferring ownership of the 511 sq. m. lot to respondents. [8]

In this appeal, petitioners impugn the Decision of the Court of Appeals on the following grounds:

THE COURT OF APPEALS COMMITTED AN ERROR OF LAW IN NOT HOLDING [THAT] THE AGREEMENT DATED FEBRUARY 10, 1975 BY AND BETWEEN NARCISO VALERIO AND ALEJANDRO REFRESCA [IS] ABSOLUTELY SIMULATED AND FICTITIOUS.

THE COURT OF APPEALS COMMITTED AN ERROR OF LAW IN DECLARING THAT PETITIONERS' ACTION [HAS] ALREADY PRESCRIBED.

On the first issue, petitioners contend the 1975 Deed of Sale between Narciso and Alejandro is absolutely simulated or fictitious and produced no legal effect as there was no monetary consideration involved. [9] Petitioners further argue that as the Deed of Sale is void, it cannot be ratified by the subsequent execution of a deed of partition among the parties.

Petitioners' arguments fail to impress.

Article 1345 of the Civil Code [10] provides that the simulation of a contract may either be absolute or relative. In absolute simulation, there is a colorable contract but it has no substance as the parties have no intention to be bound by it. The main characteristic of an absolute simulation is that the apparent contract is not really desired or intended to produce legal effect or in any way alter the juridical situation of the parties. [11] As a result, an absolutely simulated or fictitious contract is void, and the parties may recover from each other what they may have given under the contract. However, if the parties state a false cause in the contract to conceal their real agreement, the contract is relatively simulated and the parties are still bound by their real agreement. Hence, where the essential requisites of a contract are present and the simulation refers only to the content or terms of the contract, the agreement is absolutely binding and enforceable between the parties and their successors in interest. [12]

In the case at bar, the records reveal that the clear intent of Narciso Valerio in executing the 1975 Deed of Sale was to transfer ownership of the apportioned areas of his 6.5-hectare land to petitioners as his heirs and to his tenant Alejandro. Although no monetary consideration was received by landowner Narciso from any of the vendees, it cannot be said that the contract was not supported by a cause or consideration or that Narciso never intended to transfer ownership thereof.

Indeed, the primary consideration in determining the true nature of a contract is the intention of the parties. If the words of a contract appear to contravene the evident intention of the parties, the latter shall prevail. Such intention is determined not only from the express terms of their agreement, but also from the contemporaneous and subsequent acts of the parties. [13] In the case at bar, the circumstances reveal that when landowner Narciso executed the 1975 Deed of Sale, he intended to transfer ownership of his entire 6.5-hectare landholding and apportion the area among Alejandro and the petitioners. Neither he nor his wife, during their lifetime, exerted effort to evict respondents when the latter allegedly failed to comply with the condition to surrender their tenancy

rights after the sale. That petitioners and tenant Alejandro then took possession of their respective portions of the land additionally shows that Narciso divested himself of his title and control over the property. Truly, one of the most striking badges of absolute simulation is the complete absence of any attempt on the part of a vendee to assert his right of dominion over the property. [14] In the case at bar, petitioners and respondents were not amiss in claiming their right over their respective lots.

Petitioners urge that the transfer of the lot to Alejandro was subject to the condition that the latter shall waive his tenancy rights over the 6.5-hectare land. They now impugn the transfer of ownership as the Refrescas allegedly failed to abide by the condition. Respondents, on the other hand, assert that it was generosity that motivated Narciso to cede the 511 sq. m. land to Alejandro Refresca, as an acknowledgment of his long years of cultivating the land as tenant. As the contract is one of pure beneficence, the respondents contend that the cause or consideration therefor is the liberality of the benefactor Narciso Valerio.

We find that the transfer of the lot to petitioners and Alejandro is supported by a cause or consideration. If, as alleged by petitioners, the transfer was conditioned on the surrender of respondents of their tenancy rights, said condition is the consideration for the contract. If no such condition was imposed by Narciso prior to the execution of the deed of sale, the cause for the transfer of the lot to Alejandro is clearly the liberality or generosity of landowner Narciso. In either case, we agree with the ruling of the Court of Appeals that there was a cause or consideration for the transfer of the land although the parties cannot agree on what it is.

On the issue of consideration, the Court is more inclined to give credence to respondents' claim that the cause of the contract is the generosity of Narciso Valerio who intended to divest himself of ownership over the land. The alleged condition imposed by Narciso on respondents, i.e., for the latter to surrender their tenancy rights in exchange for the transfer of the 511 sq. m. lot to them, is belied by the records. Respondents testified that no such condition attached to the transfer as after the execution of the Deed of Sale and even after Alejandro's death, respondents were allowed to continue cultivating the entire land as tenants. The records show that after the 1975 Deed of Sale, Nieves Valerio, widow of Narciso, executed a leasehold contract in favor of Vicenta Refresca, widow of Alejandro, allowing her to continue tilling the land in exchange for payment of the rentals. In fact, the tenancy right of the respondents to succeed Alejandro in tilling the land has been recognized by the DAR. Petitioners themselves admitted that Narciso transferred ownership of the 511 sq. m. land to Alejandro and the other apportioned lots to them out of the liberality of Narciso as neither the petitioners nor Alejandro paid monetary consideration therefor. [15] Clearly, Narciso was motivated by generosity when he divested himself of ownership over the land. This was the true intent of the parties although they tried to conceal it with the execution of a deed of sale, when the contract is in reality one of donation inter vivos.

We likewise agree with the findings of the Court of Appeals that petitioners are estopped in impugning the sale as they overtly recognized the validity of the transfer of the apportioned lot to tenant Alejandro. Indeed, subsequent to the execution of the Deed of Sale, petitioners and Alejandro, as co-owners, voluntarily partitioned the 6.5-hectare lot which became the basis for the issuance of separate titles in their names. [16] By this explicit act, petitioners clearly intended to be bound by the 1975 Deed of Sale which transferred the subdivided lots to each of the parties.

Thus, we rule that the 1975 Deed of Sale between the parties is a relatively simulated contract as the clear intent was to transfer ownership over the land. Hence, the contract binds the parties to their true agreement, i.e., to cause the transfer of the specific apportioned areas to Alejandro and petitioners. Petitioners failed to discharge the burden of proving their allegation that the 1975 Deed of Sale is a void contract for being absolutely simulated.

As this Court has ruled on the validity of the 1975 Deed of Sale, we find no reason to pass upon the issue of

prescription raised by petitioners.

IN VIEW WHEREOF, the petition is dismissed. No pronouncement as to costs.

SO ORDERED.

Sandoval-Gutierrez, Corona, Azcuna, and Garcia, JJ., concur.

[1] As per the Answer filed by respondents before the Regional Trial Court of Calamba, Laguna, the correct names of some of the respondents are: Marianito (instead of Mariano), Soledad (instead of Oly) and Eulalia (instead of Lalet), all surnamed Refresca. See Rollo, p. 27.

[2] Kasunduan Buwisan sa Sakahan which respondent Vicenta Refresca and petitioner Dionisio Valerio signed as witnesses; Original Records, p. 240.

[3] Rollo, pp. 23-24.

[4] Id., pp. 18-22.

[5] Id., pp. 27-32.

[6] Penned by Judge Antonio M. Eugenio, Jr., Regional Trial Court, 4th Judicial Region, Branch 34, Calamba, Laguna; Id., pp. 42-47.

[7] Id., p. 47.

[8] Court of Appeals Decision, dated February 4, 2004; Penned by Associate Justice Andres B. Reyes, Jr. and concurred in by Associate Justices Buenaventura J. Guerrero and Regalado E. Maambong; Id., pp. 77-85.

[9] Citing Articles 1318, 1352 and 1409 of the Civil Code.

[10] Art. 1345. Simulation of a contract may be absolute or relative. The former takes place when the parties do not intend to be bound at all; the latter, when the parties conceal their true agreement.

[11] Loyola v. Court of Appeals, G.R. No. 115734, February 23, 2000, 326 SCRA 285.

[12] Heirs of the late spouses Aurelio and Esperanza Balite v. Lim, G.R. No. 152168, December 10, 2004, 446 SCRA 56.

[13] Ramos v. Heirs of Honorio Ramos, Sr., G.R. No. 140848, April 25, 2002, 381 SCRA 594.

[14] Id.

[15] June 15, 1999 TSN, p. 13.

[16] Deed of Agreement of Subdivision, Rollo, pp. 23-24.

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