

**STARBRIGHT SALES ENTERPRISES, INC., PETITIONER, VS.
PHILIPPINE REALTY CORPORATION, MSGR. DOMINGO A. CIRILOS,
TROPICANA PROPERTIES AND DEVELOPMENT CORPORATION AND
STANDARD REALTY...**

G.R. No. 177936. January 18, 2012

Ponente: ABAD, J.

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ABAD, J.:

The present case involves a determination of the perfection of contract of sale.

The Facts and the Case

On April 17, 1988 Ramon Licup wrote Msgr. Domingo A. Cirilos, offering to buy three contiguous parcels of land in Parañaque that The Holy See and Philippine Realty Corporation (PRC) owned for P1,240.00 per square meter. Licup accepted the responsibility for removing the illegal settlers on the land and enclosed a check for P100,000.00 to "close the transaction." [1] He undertook to pay the balance of the purchase price upon presentation of the title for transfer and once the property has been cleared of its occupants.

Msgr. Cirilos, representing The Holy See and PRC, signed his name on the conforme portion of the letter and accepted the check. But the check could not be encashed due to Licup's stop-order payment. Licup wrote Msgr. Cirilos on April 26, 1988, requesting that the titles to the land be instead transferred to petitioner Starbright Sales Enterprises, Inc. (SSE). He enclosed a new check for the same amount. SSE's representatives, Mr. and Mrs. Cu, did not sign the letter.

On November 29, 1988 Msgr. Cirilos wrote SSE, requesting it to remove the occupants on the property and, should it decide not to do this, Msgr. Cirilos would return to it the P100,000.00 that he received. On January 24, 1989 SSE replied with an "updated proposal." [2] It would be willing to comply with Msgr. Cirilos' condition provided the purchase price is lowered to P1,150.00 per square meter.

On January 26, 1989 Msgr. Cirilos wrote back, rejecting the "updated proposal." He said that other buyers were willing to acquire the property on an "as is, where is" basis at P1,400.00 per square meter. He gave SSE seven days within which to buy the property at P1,400.00 per square meter, otherwise, Msgr. Cirilos would take it that SSE has lost interest in the same. He enclosed a check for P100,000.00 in his letter as refund of what he earlier received.

On February 4, 1989 SSE wrote Msgr. Cirilos that they already had a perfected contract of sale in the April 17, 1988 letter which he signed and that, consequently, he could no longer impose amendments such as the removal of the informal settlers at the buyer's expense and the increase in the purchase price.

SSE claimed that it got no reply from Msgr. Cirilos and that the next thing they knew, the land had been sold to Tropicana Properties on March 30, 1989. On May 15, 1989 SSE demanded rescission of that sale. Meanwhile, on August 4, 1989 Tropicana Properties sold the three parcels of land to Standard Realty.

Its demand for rescission unheeded, SSE filed a complaint for annulment of sale and reconveyance with damages before the Regional Trial Court (RTC) of Makati, Branch 61, against The Holy See, PRC, Msgr. Cirilos, and Tropicana Properties in Civil Case 90-183. SSE amended its complaint on February 24, 1992, impleading Standard Realty as additional defendant.

The Holy See sought dismissal of the case against it, claiming that as a foreign government, it cannot be sued without its consent. The RTC held otherwise but, on December 1, 1994,[3] the Court reversed the ruling of the RTC and ordered the case against The Holy See dismissed. By Order of January 26, 1996 the case was transferred to the Parañaque RTC, Branch 258.

SSE alleged that Licup's original letter of April 17, 1988 to Msgr. Cirilos constituted a perfected contract. Licup even gave an earnest money of P100,000.00 to "close the transaction." His offer to rid the land of its occupants was a "mere gesture of accommodation if only to expedite the transfer of its title." [4] Further, SSE claimed that, in representing The Holy See and PRC, Msgr. Cirilos acted in bad faith when he set the price of the property at P1,400.00 per square meter when in truth, the property was sold to Tropicana Properties for only P760.68 per square meter.

Msgr. Cirilos maintained, on the other hand, that based on their exchange of letters, no contract of sale was perfected between SSE and the parties he represented. And, only after the negotiations between them fell through did he sell the land to Tropicana Properties.

In its Decision of February 14, 2000, the Parañaque RTC treated the April 17, 1988 letter between Licum and Msgr. Cirilos as a perfected contract of sale between the parties. Msgr. Cirilos attempted to change the terms of contract and return SSE's initial deposit but the parties reached no agreement regarding such change. Since such agreement was wanting, the original terms provided in the April 17, 1988 letter continued to bind the parties.

On appeal to the Court of Appeals (CA), the latter rendered judgment on November 10, 2006,[5] reversing the Parañaque RTC decision. The CA held that no perfected contract can be gleaned from the April 17, 1988 letter that SSE had relied on. Indeed, the subsequent exchange of letters between SSE and Msgr. Cirilos show that the parties were grappling with the terms of the sale. Msgr. Cirilos made no unconditional acceptance that would give rise to a perfected contract.

As to the P100,000.00 given to Msgr. Cirilos, the CA considered it an option money that secured for SSE only the privilege to buy the property even if Licup called it a "deposit." The CA denied SSE's motion for reconsideration on May 2, 2007.

The Issue Presented

The only issue in this case is whether or not the CA erred in holding that no perfected contract of sale existed between SSE and the land owners, represented by Msgr. Cirilos.

The Court's Ruling

Three elements are needed to create a perfected contract: 1) the consent of the contracting parties; (2) an object certain which is the subject matter of the contract; and (3) the cause of the obligation which is established.[6] Under the law on sales, a contract of sale is perfected when the seller, obligates himself, for a price certain, to deliver and to transfer ownership of a thing or right to the buyer, over which the latter agrees.[7] From that moment, the parties may demand reciprocal performance.

The Court believes that the April 17, 1988 letter between Licup and Msgr. Cirilos, the representative of the property's owners, constituted a perfected contract. When Msgr. Cirilos affixed his signature on that letter, he

expressed his conformity to the terms of Licup's offer appearing on it. There was meeting of the minds as to the object and consideration of the contract.

But when Licup ordered a stop-payment on his deposit and proposed in his April 26, 1988 letter to Msgr. Cirilos that the property be instead transferred to SSE, a subjective novation took place.

A subjective novation results through substitution of the person of the debtor or through subrogation of a third person to the rights of the creditor. To accomplish a subjective novation through change in the person of the debtor, the old debtor needs to be expressly released from the obligation and the third person or new debtor needs to assume his place in the relation.[8]

Novation serves two functions - one is to extinguish an existing obligation, the other to substitute a new one in its place - requiring concurrence of four requisites: 1) a previous valid obligation; 2) an agreement of all parties concerned to a new contract; 3) the extinguishment of the old obligation; and 4) the birth of a valid new obligation.[9]

Notably, Licup and Msgr. Cirilos affixed their signatures on the original agreement embodied in Licup's letter of April 26, 1988. No similar letter agreement can be found between SSE and Msgr. Cirilos.

The proposed substitution of Licup by SSE opened the negotiation stage for a new contract of sale as between SSE and the owners. The succeeding exchange of letters between Mr. Stephen Cu, SSE's representative, and Msgr. Cirilos attests to an unfinished negotiation. Msgr. Cirilos referred to his discussion with SSE regarding the purchase as a "pending transaction." [10]

Cu, on the other hand, regarded SSE's first letter to Msgr. Cirilos as an "updated proposal." [11] This proposal took up two issues: which party would undertake to evict the occupants on the property and how much must the consideration be for the property. These are clear indications that there was no meeting of the minds between the parties. As it turned out, the parties reached no consensus regarding these issues, thus producing no perfected sale between them.

Parenthetically, Msgr. Cirilos did not act in bad faith when he sold the property to Tropicana even if it was for a lesser consideration. More than a month had passed since the last communication between the parties on February 4, 1989. It is not improbable for prospective buyers to offer to buy the property during that time.

The P100,000.00 that was given to Msgr. Cirilos as "deposit" cannot be considered as earnest money. Where the parties merely exchanged offers and counter-offers, no contract is perfected since they did not yet give their consent to such offers. [12] Earnest money applies to a perfected sale.

SSE cannot revert to the original terms stated in Licup's letter to Msgr. Cirilos dated April 17, 1988 since it was not privy to such contract. The parties to it were Licup and Msgr. Cirilos. Under the principle of relativity of contracts, contracts can only bind the parties who entered into it. It cannot favor or prejudice a third person. [13] Petitioner SSE cannot, therefore, impose the terms Licup stated in his April 17, 1988 letter upon the owners.

WHEREFORE, the Court DISMISSES the petition and AFFIRMS the Court of Appeals Decision dated November 10, 2006 in CA-G.R. CV 67366.

SO ORDERED.

Velasco, Jr., (Chairperson), Peralta, Mendoza, and Perlas-Bernabe, JJ., concur.

[1] Rollo, p. 14.

[2] Id. at 65.

[3] Holy See, The v. Rosario, Jr., G.R. No. 101949, December 1, 1994, 238 SCRA 524.

[4] CA rollo, p. 100.

[5] Penned by Associate Justice Monina Arevalo-Zeñarosa with the concurrence of Associate Justices Martin S. Villarama, Jr. and Lucas P. Bersamin (both Members of the Court), rollo, pp. 157-184.

[6] Civil Code, Article 1318.

[7] Ang Yu Asuncion v. Court of Appeals, G.R. No. 109125, December 2, 1994, 238 SCRA 602, 611.

[8] Ajax Marketing & Development Corporation v. Court of Appeals, G.R. No. 118585, September 14, 1995, 248 SCRA 222, 227.

[9] Quinto v. People, 365 Phil. 259, 266 (1999).

[10] Rollo, p. 64.

[11] See note 2.

[12] XYST Corporation. v. DMC Urban Properties Development, Inc., G.R. No. 171968, July 31, 2009, 594 SCRA 598, 605.

[13] Ramos v. Court of Appeals, 362 Phil. 205, 215 (1999).

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