

**MERCEDES N. ABELLA, MA. THERESA A. BALLESTEROS AND
MARIANITO N. ABELLA, PETITIONERS, VS. HEIRS OF FRANCISCA C.
SAN JUAN namely: GLICERIA SAN JUAN CAPISTRANO, BENIGNA SAN
JUAN VA...**

G.R. No. 182629. February 24, 2016

Ponente: JARDELEZA, J.

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JARDELEZA, J.:

In this case, we reiterate the prohibition on the transfer of lands under Presidential Decree No. 27[1] (PD 27) except transfer to the Government or by hereditary succession.

The Facts

Francisca C. San Juan (Francisca), was a tenant to a parcel of land consisting of six thousand (6,000) square meters owned by petitioners, and located at Balatas, Naga City, Camarines Sur (Balatas property). The portion was covered by Certificate of Land Transfer (CLT) No. 843 (159301) issued on October 18, 1973.[2]

On January 28, 1981, Dr. Manuel Abella (Dr. Abella) and Francisca entered into an Agreement[3] whereby the Balatas property will be exchanged with a 6,000-square meter agricultural lot situated at San Rafael, Cararayan, Naga City (Cararayan property). The parties agreed that in addition to the Cararayan property, Francisca shall receive from Dr. Abella the amount of P5,250.00 as disturbance compensation and a 120-square meter home lot situated at Balatas, Naga City.[4]

Dr. Abella complied with all the stipulations in the Agreement. The Department of Agrarian Reform (DAR) thru Salvador Pejo, CESO II, Ministry of Agrarian Reform (MAR) Regional Director[5] and later DAR Regional Director Pablo S. Sayson also approved the Agreement.[6]

Subsequently, the Cararayan property was declared in the name of Francisca, under Tax Declaration (TD) No. 01-006-0169.[7] On the other hand, the home lot at Balatas, Naga City, was later sold for P7,200.00 to Felimon Delfino, Jr. (Delfino), on February 26, 1988.[8] However, CLT No. 843 (159301) was not cancelled.

Sometime in 1983, Benigna San Juan Vasquez (Benigna), daughter of Francisca, sought permission from, and was allowed by Mercedes N. Abella (Mrs. Abella), wife of Dr. Abella, to construct a small house on the Balatas property. Thus, on different occasions, Benigna and her children constructed their residential houses on the property.[9] Later, when Mrs. Abella requested Benigna and her children to vacate the property, they refused, claiming ownership. This prompted Mrs. Abella to file an action for unlawful detainer before the Municipal Trial Court (MTC) of Naga City.[10]

On November 26, 2004, the MTC ruled in favor of the heirs of Dr. Abella in the unlawful detainer case.[11] The MTC issued a writ of execution[12] and writ of demolition[13] against Benigna and her sons.

On March 15, 2005, Benigna, for herself and in behalf of the other heirs of Francisca namely: Gliceria San Juan-Capistrano, Evaristo C. San Juan, Benigna San Juan Vasquez, Eduvejes San Juan-Martines, Nieves San Juan-Lustre, Maria San Juan-Banavides and Matilde San Juan-Quilonio (respondents), filed a Complaint with the Regional Trial Court, Branch 23, Naga City (RTC) for quieting of title and declaration of ownership and possession of real property with prayer for a temporary restraining order, preliminary injunction and damages against Mrs. Abella, Theresa A. Ballesteros and Marianito N. Abella (petitioners).[14] The Complaint prayed for a decision declaring respondents as absolute and lawful owners of the Balatas property and holding petitioners jointly and severally liable for moral and exemplary damages, attorney's fees and appearance fee, litigation expenses and costs of suit.[15] The RTC subsequently granted the application for a temporary restraining order.[16]

Petitioners alleged that Dr. Abella and Francisca executed the Agreement for the exchange of lots because the Balatas property was reclassified as a high density commercial, residential and urban area and hence no longer suitable for agriculture.[17] Since the Balatas property was exchanged with the Cararayan property on January 28, 1981, Francisca ceased to be its owner long before she died on November 19, 1996. Thus, respondents could not have inherited the Balatas property.[18]

Respondents countered that the reclassification by the City Government of Naga did not convert the use of the land from agricultural to residential or commercial. The authority to convert the land use of a property is vested by law in the DAR.[19] They further argued that the Agreement is null and void as it contravened the prohibition on transfer under PD 27. Thus, the approval by the DAR was of no moment.[20]

RTC Ruling

The RTC rendered a Decision on April 12, 2005[21] dismissing the complaint for lack of merit. It ruled that with the execution of the Agreement between Dr. Abella and Francisca, the latter's legal or equitable title to, or interest on the Balatas property, ceased to exist. Under the exchange, Francisca gave up her interest in the Balatas property in favor of an interest in the Cararayan property. Respondents as heirs of Francisca, in turn, acquired this interest on the Cararayan property.[22]

The RTC further ruled that the Agreement did not affect the right or interest of Francisca as a tenant. The right was eventually enjoyed by one of her daughters, respondent Maria San Juan-Banavides, who is the present possessor and cultivator of the Cararayan property. The RTC held that although there was no showing that the title to the Balatas property was cancelled or encumbered, most probably due to oversight, the execution of the Agreement, duly approved by the DAR, operates to cancel the certificate of land transfer.[23]

The respondents appealed to the Court of Appeals (CA), contending that under PD 27, title to the Balatas property could not have been acquired by the petitioners since its transfer is limited only to the government or the grantee's heirs by way of succession. Thus, the Agreement is an invalid instrument which casts a cloud on respondents' title.[24]

CA Decision

On October 16, 2007, the CA reversed the RTC Decision and ruled that the Agreement was void, for being violative of (1) PD 27 which provides that title to the land acquired pursuant to the Decree of Land Reform Program of the Government shall not be transferable, except by hereditary succession or to the Government, in accordance with its provisions, the Code of Agrarian Reform and other existing laws and regulations;[25] and (2) Memorandum Circular No. 7, series of 1979 issued by the MAR, which declares as null and void the transfer by the beneficiaries under PD 27 of the ownership, rights and/or possession of their farms/home lots to other

persons.[26] The CA also cited *Toralba v. Mercado*,[27] where this Court ruled that the rights and interests covered by certificates of land transfer are beyond the commerce of man.[28]

The CA further ruled that the DAR approval cannot clothe the void Agreement with validity.[29] In addition, the CA noted that the classification of the Balatas property from agricultural to high density commercial, residential and urban area was done after the Agreement was executed, contrary to petitioners' claim.[30] The dispositive portion of the CA decision reads:

WHEREFORE, the assailed decision dated April 12, 2005 of the RTC, Branch 23, Naga City, in Civil Case No. RTC'2005-0033, is REVERSED and SET ASIDE. A new judgment is entered, declaring plaintiffs-appellants the owners of the subject property covered by CLT No. 843 and quieting their title thereto.

SO ORDERED.[31] (Emphasis in the original.)

Petitioners filed a Motion for Reconsideration which was denied by the CA in a Resolution dated April 14, 2008.[32]

The Petition

Petitioners assail the CA Decision and Resolution on the following grounds:

First, the Agreement, being a mere relocation agreement, did not violate nor contravene the true spirit of PD 27 and other agrarian reform laws, rules and regulations.[33]

Second, the DAR/MAR are agencies tasked to implement PD 27 and other agrarian laws, rules and regulations relative to the disputed land, thus their approval of the Agreement must be accorded great weight by the CA.[34]

Third, *Toralba v. Mercado* is not applicable because Francisca did not surrender the Balatas property to her former landowner, Dr. Abella, as contemplated under PD 27. Instead, she received in return the Cararayan property.[35]

Fourth, PD 27 does not automatically vest ownership of a piece of land to a tenant-farmer beneficiary, contrary to the findings of the CA. Pending compliance with certain conditions set forth by PD 27, a qualified farmer cannot claim the right of absolute ownership over the land because he is considered as a mere prospective owner. Francisca defaulted in the payment of the annual amortizations for more than two years, thus, her status as deemed owner of the landholding covered by CLT No. 843 (159301) had ceased to exist. This holds true even if the cancellation of the CLT was not annotated on the certificate of land transfer and the CLT was not cancelled from the registry book of the Registry of Deeds.[36]

Fifth, petitioners maintain that the respondents are estopped from questioning the Agreement. Benigna knew of the Agreement and yet, she neither complained nor moved to have it cancelled. When Benigna sought permission from Mrs. Abella that she be allowed to stay in the property, she recognized Mrs. Abella and the children as its owners. Benigna even benefited from the benevolence of the petitioners when upon her request, she and her family were allowed to construct their houses on the property without paying any rentals.[37]

Sixth, the decision of the CA would unjustly enrich respondents at the expense of the petitioners. Francisca, the predecessor-in-interest of the respondents had already received, and enjoyed the following properties: (a) 0.600 hectare or 6,000-square meter Cararayan property; (b) disturbance compensation of P5,250.00; and (c) the 120-square meter Balatas home lot, all of which were given by Dr. Abella in exchange for the Balatas property.

And yet, by virtue of the CA decision, the respondents would still be entitled to recover the Balatas property.[38]

Our Ruling

I. The Agreement is void for con/ravening PD 27.

The resolution of this Petition hinges on the determination of whether the Agreement between Dr. Abella and Francisca is void for violating PD 27.

We affirm the CA ruling.

PD 27 provides for only two exceptions to the prohibition on transfer, namely, (1) transfer by hereditary succession and (2) transfer to the Government.[39]

Torres v. Ventura[40] explained the provision, thus:

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The law is clear and leaves no room for doubt. Upon the promulgation of Presidential Decree No. 27 on October 21, 1972, petitioner was DEEMED OWNER of the land in question. As of that date, he was declared emancipated from the bondage of the soil. As such, he gained the rights to possess, cultivate, and enjoy the landholding for himself. Those rights over that particular property were granted by the government to him and to no other. To insure his continued possession and enjoyment of the property, he could not, under the law, make any valid form of transfer except to the government or by hereditary succession, to his successors.

Yet, it is a fact that despite the prohibition, many farmer-beneficiaries like petitioner herein were tempted to make use of their land to acquire much needed money. Hence, the then Ministry of Agrarian Reform issued the following Memorandum Circular:

"Despite the above prohibition, however, there are reports that many farmer-beneficiaries of PD 27 have transferred the ownership, rights, and/or possession of their farms/homelots to other persons or have surrendered the same to their former landowners. All these transactions/surrenders are violative of PD 27 and therefore, null and void." [41] (Citations omitted, emphasis supplied.)

This interpretation is reiterated in Estate of the Late Encarnacion Vda. de Panlilio v. Dizon,[42] where we ruled:

Thus, PD 27 is clear that after full payment and title to the land is acquired, the land shall not be transferred except to the heirs of the beneficiary or the Government. If the amortizations for the land have not yet been paid, then there can be no transfer to anybody since the lot is still owned by the Government. The prohibition against transfers to persons other than the heirs of other qualified beneficiaries stems from the policy of the Government to develop generations of farmers to attain its avowed goal to have an adequate and sustained agricultural production. With certitude, such objective will not see the light of day if lands covered by agrarian reform can easily be converted for non-agricultural purposes.

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Anent the contravention of the prohibition under PD 27, we ruled in Siacor v. Giganktna and more recently in [Calixvug-Carmona] v. Court of Appeals, that sales or transfers of lands made in violation of PD 27 and EO 228 in favor of persons other than the Government by other legal means or to the farmer's successor by hereditary succession are null and void. The prohibition even extends to the surrender of the land to the former landowner. The sales or transfers are void ab initio, being contrary to law and public policy under Art. 5 of the Civil Code that "acts executed against the provisions of mandatory or prohibiting laws shall be void x x x." In this regard, the DAR is duty-bound to take appropriate measures to annul the illegal transfers and recover the land unlawfully conveyed to non-qualified persons for disposition to qualified beneficiaries. In the case at bar, the alleged transfers made by some if not all of respondents Gonzalo Dizon, et al. (G.R. No. 148777) of lands covered by PD 27 to non-qualified persons are illegal and null and void.[43] (Citations omitted.)

In the Agreement, Dr. Abella and Francisca stipulated that the Cararayan property will be placed under Operation Land Transfer and that a new CLT shall be issued in the name of Francisca.[44] The parties also agreed that after the execution of the Agreement, Francisca shall vacate the Balatas property and deliver its possession to Dr.

Abella.[45] Further, the Deed of Donation of Land Covered by Presidential Decree No. 27 dated July 1, 1981 provided that "for and in consideration of the [landowner-donor's] generosity and in exchange of the [tenant-tiller donee's] [farm lot] at Balatas, City of Naga, the [landowner-donor] do hereby transfer and convey to the [tenant-tiller-donee], by way of [donation] the parcel of land above-described." [46]

The intended exchange of properties by the parties as expressed in the Agreement and in the Deed of Donation entailed transfer of all the rights and interests of Francisca over the Balatas property to Dr. Abella. It is the kind of transfer contemplated by and prohibited by law. Thus, petitioners' argument that the Agreement was merely a relocation agreement, or one for the exchange or swapping of properties between Dr. Abella and Francisca, and not a transfer or conveyance under PD 27, has no merit. A relocation, exchange or swap of a property is a transfer of property. They cannot excuse themselves from the prohibition by a mere play on words.

We likewise agree with the CA that the DAR's approval did not validate the Agreement. Under PD 27 and the pronouncements of this Court, transfer of lands under PD 27 other than to successors by hereditary succession and the Government is void.[47] A void or inexistent contract is one which has no force and effect from the beginning, as if it has never been entered into, and which cannot be validated either by time or ratification.[48] No form of validation can make the void Agreement legal.

II. The prohibition under PD 27
applies even if the farmer-beneficiary
has not yet acquired absolute title.

Our ruling in *Torres* is clear that the prohibition applies even if the farmer-beneficiary has not yet acquired absolute title to the land, and the protection begins upon the promulgation of the law, thus:

[T]itle refers not only to that issued upon compliance by the tenant-farmer of the said conditions but also includes those rights and interests that the tenant-farmer immediately acquired upon the promulgation of the law. To rule otherwise would make a tenant-farmer falling in the category of those who have not yet been issued a formal title to the land they till—easy prey to those who would like to tempt them with cash in exchange for inchoate title over the same. Following this, absolute title over lands covered by Presidential Decree No. 27 would end up in the name of persons who were not the actual tillers when the law was promulgated.[49]

Further, as we ruled in *Estate of the Late Encarnacion Vda. de Panlilio*, the prohibition extends to the rights and interests of the farmer in the land even while he is still paying the amortizations on it.[50]

Petitioners merely alleged in their petition that since Francisca defaulted in the payment of the annual amortizations for more than two years, she has given a ground for the forfeiture of her CLT.

We disagree. Even assuming that the respondents defaulted in paying the amortization payments, default or non-payment is not a ground for cancellation of the CLT under the law. Instead, PD 27 provides that "(i)n case of default, the amortization due shall be paid by the farmers' cooperative in which the defaulting tenant-farmer is a member, with the cooperative having a right of recourse against him." In any event, petitioners failed to show the cancellation of the CLT prior to the Agreement which would have removed the deemed owner status of Francisca over the Balatas property.

III. The respondents are not estopped from questioning the Agreement.

Petitioners urge us to deny any equitable relief to the respondents on the ground that they did not complain or have the Agreement cancelled and even benefited from the benevolence of petitioners. Under the theory of the petitioners, estoppel would bar the respondents from recovering the Balatas property.[51]

We are not convinced. Estoppel cannot be predicated on a void contract or on acts which are prohibited by law or are against public policy.[52]

In *Torres*, we refused to apply the principle of *pari delicto* which would in effect have deprived the leasehold tenant of his right to recover the landholding which was illegally disposed of. We ruled that "(t)o hold otherwise will defeat the spirit and intent of [PD 27] and the tillers will never be emancipated from the bondage of the soil." [53] In *Santos v. Roman Catholic Church of Midsayap, et al.*, [54] we explained:

xxx Here appellee desires to nullify a transaction which was done in violation of the law. Ordinarily the principle of *pari delicto* would apply to her because her predecessor-in-interest has carried out the sale with the presumed knowledge of its illegality (8 *Manresa* 4th ed., pp. 717-718), but because the subject of the transaction is a piece of public land, public policy requires that she, as heir, be not prevented from re-acquiring it because it was given by law to her family for her home and cultivation. This is the policy on which our homestead law is predicated (*Pascua vs. Talens*, *supra*). This right cannot be waived. "It is not within the competence of any citizen to barter away what public policy by law seeks to preserve" (*Gonzalo Puyat & Sons, Inc. vs. Pantaleon de las Ama, et al.*, 74 *Phil.*, 3). We are, therefore, constrained to hold that appellee can maintain the present action it being in furtherance of this fundamental aim of our homestead law." [55] (Emphasis supplied.)

Thus, respondents were not estopped from questioning the validity of the Agreement as it contravened the prohibition under PD 27 on the transfer of land. The tenant-farmer cannot barter away the benefit and protection granted in its favor by law as it would defeat the policy behind PD 27.

IV. The nullity of the Agreement requires the return of the parties to the status quo ante to avoid unjust enrichment.

In *Flores v. Undo, Jr.*, [56] we laid down the elements of unjust enrichment as follows:

There is unjust enrichment "when a person unjustly retains a benefit to the loss of another, or when a person retains money or property of another against the fundamental principles of justice, equity and good conscience." The principle of unjust enrichment requires two conditions: (1) that a person is benefited without a valid basis or justification, and (2) that such benefit is derived at the expense of another.

The main objective of the principle against unjust enrichment is to prevent one from enriching himself at the expense of another without just cause or consideration.[57]

The consequence of our declaration that the Agreement is void is that the respondents, as heirs of Francisca, have the right to the Balatas property. This would unjustly enrich respondents at the expense of petitioners, predecessors-in-interest of Dr. Abella. To remedy this unjust result, respondents should return to the petitioners the consideration given by Dr. Abel la in exchange for the Balatas property: a) the Cararayan property; b) P5,250.00 disturbance compensation; and c) the 120-square meter home lot in Balatas, Naga City. We note however, that the 120-square meter home lot in Balatas, Naga City has already been sold and transferred to Delfino who was not impleaded in this case. Thus, without prejudice to whatever right petitioners have against Delfino, respondents should pay petitioners the fair market value of the Balatas home lot at the time it was transferred to respondents. Such fair market value shall be subject to determination by the trial court.

WHEREFORE, the assailed Decision of the CA dated October 16, 2007 and Resolution dated April 14, 2008 are **AFFIRMED** with the **MODIFICATION** that respondents should return to the petitioners the 6,000-square meter parcel of land located in Cararayan, Naga City, Camarines Sur, and the amount of P5,250.00 with legal interest

computed at the rate of 6% per annum reckoned from the finality of this judgment until fully paid. This case is remanded to the Regional Trial Court, Branch 23, Naga City for the determination of the fair market value of the Balatas home lot at the time of donation.

SO ORDERED.

Velasco, Jr., (Chairperson), Peralta, Perez, and Reyes, JJ., concur.

March 15, 2016

NOTICE OF JUDGMENT

Sirs/Mesdames:

Please take notice that on ____February 24, 2016____ a Decision, copy attached hereto, was rendered by the Supreme Court in the above-entitled case, the original of which was received by this Office on March 15, 2016 at 2:50 a.m.

Very truly yours,

(SGD)

WILFREDO V. LAPITAN

Division Clerk of Court

[1] Decreeing the Emancipation of Tenants from the Bondage of the Soil, Transferring to Them the Ownership of the Land They Till and Providing the Instruments and Mechanism Therefor.

[2] Rollo, pp. 114-115.

[3] Id. at 93-94.

[4] Id.

[5] Rollo, p. 161.

[6] Order dated June 18, 1991, id. at 163-165.

[7] Rollo, p. 97.

[8] Deed of Absolute Sale, id at 96.

[9] Rollo, p. 100.

[10] Id at 20.

[11] Id. at 66, 126.

[12] Id. at 122.

[13] Id. at 126-127.

[14] Id. at 76-79.

[15] Id. at 78.

[16] Id. at 66.

[17] Id. at 17, 138-151.

[18] Answer to the Complaint id. at 86-92. Memorandum for Plaintiffs, rollo, p. 108.

[20] Id at 108-110

[21] Id. at 64-67.

[22] Id. at 66-67.

[23] Id. at 67.

[24] Id. at 182-197.

[25] Id. at 58.

[26] Id

[27] G.R. No. 146480, July 14, 2004, 434 SCRA 433.

[28] Rollo, pp. 57-58.

[29] Id. at 59.

[30] Id.

[31] Rollo, p. 59-A.

[32] Id. at 31, 61-62.

[33] Id. at 32-34.

[34] Id. at 34-36.

[35] Id. at 36-38.

[36] Id. at 38-41.

[37] Id. at 41-43.

[38] Id. at 43-45.

[39] PD 27 provides:

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Title to land acquired pursuant to this Decree or the Land Reform Program of the Government shall not be transferable except by hereditary succession or to the Government in accordance with the provisions of this Decree, the Code of Agrarian Reforms and other existing laws and regulations; xxx (Emphasis supplied.)

[40] G.R. No. 86044, July 2, 1990, 187 SCRA 96.

[41] Id. at 104-105.

[42] G.R. No. 148777, October 18, 2007, 536 SCRA 565.

[43] Id. at-600-605.

[44] Rollo, p. 93.

[45] Wat 94.

[46] Id. at 160.

[47] Torres v. Ventura, supra note 40; Estate of the Late Encarnacion Vela, de Panlilio v. Dizon, supra note 42.

[48] Francisco v. Harem, G.R. No. 139982, November 21, 2002, 392 SCRA 317, 323.

[49] Supra note 40 at 105.

[50] Supra note 42 at 604.

[51] Rollo, pp. 41-43.

[52] De los Santos v. De la Cruz, G.R. No. L-29192, February 22, 1971, 37 SCRA 555, 561 citing 17 Am. Jur. 605 and Baltazar v. Lingayen Gulf Electric Power Co., Inc., G.R. Nos. 16236-38, June 30, 1965, 14 SCRA 522.

[53] Supra note 40 at 106.

[54] 94 Phil. 405 (1954).

[55] Id. at 411.

[56] G.R. No. 183984, April 13, 201 1, 648 SCRA 772.

[57] Id. at 782-783 citing Republic v. Cowl of Appeals, G.R. No. 160379, August 14, 2009, 596 SCRA 57 citing Benguet Corporation v. Department of Environment and Natural Resources-Mines Adjudication Board, G.R. No. 163 101, February 13, 2008, 545 SCRA 196; Car Cool Philippines, Inc. v. Ushio Really and Development Corporation, G.R. No. 138088, January 23, 2006, 479 SCRA 404, and P.C. Javier & Sons, Inc. v. Court of Appeals, G.R. No. 129552, June 29, 2005, 462 SCRA 36.

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