

EUSEBIO C. LU, PETITIONER, VS. THE INTERMEDIATE APPELLATE COURT, HEIRS OF SANTIAGO BUSTOS AND JOSEFINA ALBERTO, RESPONDENTS.

G.R. No. 70149, January 30, 1989

Ponente: PARAS, J.

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PARAS, J.:

Before Us is a Petition for Review by way of appeal by certiorari of the 1) judgment[1] dated October 4, 1984 of the Intermediate Appellate Court (IAC, for brevity, now known as the court of Appeals) in AC-G.R. CV. NO. 57020[2] and 2) its Resolution of February 22, 1985[3] denying petitioner Lu's Motion for Reconsideration, which reversed the decision[4] dated December 23, 1974 of the Court of First Instance of Pangasinan in Civil Case No. 144-R, entitled Santiago Bustos vs. Eusebio C. Lu and Josefina Alberto.

The undisputed background facts of the case are aptly summarize by the trial court in its decision as follows:

"Defendant Josefina Alberto was the owner of a parcel of land containing an area of 1,760 square meters situated at Barrio Carmen, Rosales, Pangasinan, as evidenced by TCT No. 45787 (13622-P) of the land records of Pangasinan. This property was subsequently subdivided into several lots, one of which is designa- ted as Lot. No. 6, PLA LRC Pcs-7703, consisting of 102 square meters, more or less, to which TCT No. 74567 was issued by the Register of Deeds of Panga-sinan, in the name of Alberto. This is the subject-matter of the instant controversy between the parties.

"In the version of the plaintiff, the whole lot covered by TCT No. 74567 was leased some twenty-five (25) years ago to several tenants, each covering a definite portion of said lot, among whom is the plaintiff who has been occupying that disputed portion of 102 square meters.

"On February 3, 1967, defendant Alberto leased the entire 1,760 square meters to her co-defendant Lu by virtue of a "Contract of Lease Agreement" ratified by Notary Public Valeriano V. Santos in Manila (Exhibit 1-Lu', par. 11, Stipulation of Facts). The lease agreement contains the following salient provisions; the lease was to extend for a period of 25 years commencing on February 2, (Exhibit '1? Lu'); the annual rental was fixed at P12,000.00 (par. 3, supra), the rental for the first year having been advanced by the lessee (par. 1, supra); that the old building and/or improvements existing on the lease property shall be demolished and a new two-storey building of strong materials shall be constructed by the lessee at his own expense (par. 4, supra); the lessor is given one year within which to eject all present tenants on the premises and pending their ejection, all rentals collected thereon shall be turned over to the lessee (par. 5, supra); that after the expiration of the lease agreement, all buildings and/or improvements introduced by the lessee shall automatically belong to the lessor without the obliga- tion of reimbursing the amounts spent for said build- ing or improvements (par. 6, supra); and* finally, in the event that the lessor desires to sell the leased property, the lessee shall be given the priority right therefor (par. 8, supra). This lease agreement was duly annotated on TCT No. 45787 (13622-P) as Entry No. 301258 (Exhibit '11-a Lu').

"The period of one year mentioned in par. 5 of the Contract of Lease Agreement (Exhibit '1-Lu') expired without the tenants on the leased property being ejected because they refused to vacate the respective portions

of the property occupied by them. By reason of this refusal, the projected demolition of the existing improvements on the property and the eventual construction of a two-storey building by the lessee were not pushed through (t.s.n., pp. 5-6, Sept. 23, 1974).

"On July 12, 1967, Alberto granted to Lu 'the sole disposition in matters relating to tenants of the apartment to be constructed as well as the author-ity to collect rentals thereon (Exhibit '1-Pabalan').

"On April 27, 1968, Alberto had the leased pro-perty surveyed and subdivided into several small lots and one of the resulting lots is Lot No. 6 of PLA LRC Pcs-7703 consisting of 102 square meters, more or less.

"On June 8, 1968, Alberto wrote plaintiff Bustos the following note:

'June 8, 1968

'Mr. Santiago Bustos,

'Kailangan ko ang tulong mo pahiramin mo ako ng P2,000 dos mil pesos, aawasin sa bayad ng lote na binibili mo sa akin dian sa Carmen.

15450 price
2000

—————
13450
5450

—————
8000

'Salamat,

's/t/ JOSEFINA ALBERTO"

Exhibit 'A'; and on July 21, 1968, Alberto executed in favor of Bustos the following receipt:

'Received from Mr. Santiago Bustos the amount of five thousand pesos P5,000.00 in check #79833

'Philippine Bank of Commerce plus cash of four hundred fifty & fifty pesos only

'P5450.00 five thousand four hundred fifty pesos

partial payment for one (1) lot situated in Carmen known as Lot #6 TCT 74567 in Pangasinan leaving a balance of P8,000.00

'Eight thousand pesos only

's/ JOSEFINA ALBERTO'

(Exhibit 'B').

"Believing that the obligation to eject the tenants within one (1) year, which had already ex-pired, was transferred to Lu by virtue of the certification dated July 12, 1967 (Exhibit '1-Pabalan'), Alberto filed an action for 'Rescission of Contract and Damages' against Lu on August 16, 1968, docketed as Civil Case No. U-2041 of the Court of First Ins-tance of Pangasinan, Urdaneta Branch (Exhibit '2- Lu). Lu filed a motion to dismiss

(Exhibit '3-Lu') said case for lack of cause of action and improper venue, and after its denial, Lu filed a 'Petition for Prohibition' with the Court of Appeals (par. 13, Stipulation of Facts). The Court of Appeals, on June 9, 1970, promulgated its decision providing for the issuance of a writ of prohibition enjoining the lower Court from taking cognizance of Civil Case No. U-2041 unless it will dismiss the same (Exhibit '4-Lu').

"On September 3, 1968, defendant Lu executed an adverse claim (Exhibit '10-Lu') over the entire property covered by TCT No. 45787 and had it annotated at the back of said title as Entry No. 303600 (Exhibit '11-b Lu').

"Prior to the promulgation of the decision of the Court of Appeals in Civil Case No. U-2041, defendant Lu, on September 23, 1968, filed a suit in the Court of First Instance of Manila against Alberto for 'Damages with Preliminary Attachment' which suit was docketed as Civil Case No. 74305 (Exhibit '5?Lu'). This case culminated in a 'Compromise Agreement' (Exhibit '6-Lu') submitted by the parties on February 16, 1972 (Exhibit '7-Lu'). In said compromise agreement, the defendant agreed to sell, and the plaintiff agreed to buy portions of the property subject of the litigation, particularly the parcels of land described in TCT No. 74566, 74567, 74568, 74569, 74570, 74571 and 74572 of the land records of Pangasinan, all of which are the exclusive properties of, and registered in the name of Alberto.

"A day before the submission in court of said Compromise Agreement, Alberto, for a consideration of P125,000.00, executed in favor of Lu a 'Deed of Absolute Sale (Exhibit '8-Lu') covering the properties described in the aforementioned titles in favor of Lu. Also, on the same date, Alberto executed in favor of Lu a 'Deed of Transfer' (Exhibit '9-Lu') over all her rights and interests over all existing building, accessories and improvements found on the lots covered by the Deed of Absolute Sale (Exhibit '8-Lu') for a consideration of P1,000.00.

"The sale in favor of Lu was registered with the Office of the Register of Deeds on February 2, 1972, resulting in the cancellation of all the seven titles in the name of Alberto and the issuance of a single consolidated title TCT No. 4485 dated February 28, 1972, in the name of Lu (Exhibit '12-Lu').

"It appears that while there were three (3) annotated encumbrances on the transfer certificate of title covering the land subject matter of this litigation, namely, Entry No. 301258, which is the registered Contract of Lease Agreement in favor of Lu, Entry No. 303600, which is an Affidavit of Adverse Claim of Lu registered on September 3, 1968, and Entry No. 359210, which is an adverse Claim executed by Santiago Bustos and registered on February 21, 1972 (Exhibits 'E-1', '11-a' and '11-b', respectively) when the Register of Deeds cancelled the old title, these encumbrances were not carried over insofar as this particularly lot is concerned such that the new consolidated title, TCT No. 4485 in the name of Lu (Exhibit '12-Lu') bears no annotation of any encumbrances whatsoever." (pp. 53-60, Record on Appeal; p. 68, Rollo).

On August 6, 1973, Santiago Bustos filed a complaint seeking to annul the Deed of Sale in favor of Lu executed by Alberto and to compel her to execute a Deed of Sale in plaintiff's (Bustos) favor over that portion of the questioned parcel of land consisting of 102 square meters covered by TCT No. 74567, upon payment of the balance in the amount of Eight Thousand (P8,000.00) Pesos by Bustos to Alberto.

The trial court after weighing the facts and evidence presented, rendered a decision, the dispositive portion of which is quoted hereunder:

"IN VIEW OF ALL THE FOREGOING CONSIDERATIONS, judgment is hereby rendered as follows:

"1. Dismissing the instant complaint;

"2. Confirming the ownership of defendant Lu over the property identified as Lot No. 6 of the Consolidated Subdivision Plan (LRC) Pcs-7703, formerly covered by TCT No. 74567 and now consolidated in TCT No. T-4485 of the Register of Deeds of Pangasinan;

"3. Ordering defendant Alberto to reimburse to plaintiff Bustos the amount of P3,535.00;

"4. Ordering the plaintiff to pay the costs of this suit.

"SO ORDERED.

"Done at Rosales, Pangasinan, this 23rd day of December 1974.

NARCISO A. AQUINO

Judge"

(pp. 70-71, Record on Appeal, p. 68, Rollo)

Assailing the decision of the lower court, plaintiff San-tiago Bustos appealed to the Intermediate Appellate Court which rendered a decision, the dispositive portion of which reads as follows:

"WHEREFORE, the decision appealed from is hereby reversed; Josefin Alberto is hereby ordered to execute an effective deed of absolute sale over the parcel of land in dispute in favor of Santiago Bustos upon payment by the latter of the balance of P8,000.00 on the sale price thereof; Directing the Register of Deeds of Pangasinan to cancel any and all titles in the names of the defendants over the property in question, and issue a new one in lieu thereof in the name of Santiago Bustos upon presentation of proof of payment by him to the Albertos of the aforesaid amount of P8,000.00.

"The sale of the disputed property in favor of Eusebio C. Lu is hereby declared null and void.

"With costs against the defendants.

"SO ORDERED." (p. 54, Rollo)

Defendant-Appellee Eusebio C. Lu now comes to Us on a petition for certiorari arguing that the IAC has decided questions of substance clearly contrary to law and the applicable decisions of the Supreme Court because:

"1. The Prior Registration of Lu's Lease Contract and Adverse Claim Creates a Preference over Bustos' Belated Adverse Claim.

"2. Lu is an Innocent Purchaser in GOOD Faith and for Value;

"3. Being Res Judicata the sale to LU cannot be Annulled in a Collateral Proceeding;

"4. There was no Valid, Binding or Perfected Sale of the Property to Bustos;

5. In Restraining the Ejectment Court to Act on LU's Motion for Execution based on a Final Order of the

Supreme Court, the IAC Acted in Excess of its Jurisdiction. (pp. 9-11, Rollo)

Petitioner's contentions deserve our consideration. The Appellate Court drew the conclusion that a contract of sale was perfected between Alberto and Bustos from a consideration of Exhibits "A" and "B" dated June 8, 1968 and July 21, 1968 respectively. The Appellate Court relied heavily on the registration of BUSTOS' adverse claim on February 21, 1972, disregarding completely the judicial admissions of the parties contained in the Stipulation of Facts and documentary exhibits presented in support thereof during the Pre-trial on October 8, 1973, submitted by the parties, the relevant provisions of which read:

"1. That the instant case involves a parcel of land consisting of 102 square meters, identified as Lot No. 6 of Pla LRC Pcs-7703, originally covered by T.C.T. No. 74567 of the Register of Deeds of Pangasinan"; (p. 41, RA)

"2. That at the back of TCT No. 74567, the following encumbrances appeared:

("a)

Entry No. 301258 - Contract of Lease Agreement;

“(b)

Entry No. 303600 - Affidavit of Adverse Claim by defendant Eusebio C. Lu dated September 3, 1968 and registered on the same date; and

“(c) Entry No. 359210 - Adverse Claim executed by plaintiff Santiago Bustos dated February 21, 1972, registered on the same date.” (p. 41, RA)

"11. That on February 3, 1967 defendant Josefina Alberto de Pabalan and co-defendant Eusebio C. Lu executed a 'Contract of Lease Agreement' covering, among others, the property in question in the instant case, under the terms and conditions therein stated;

"19. That on September 3, 1968, defendant Eusebio C. Lu executed an affidavit of Adverse Claim over twelve (12) parcels of land owned by defendant Jose-fina Alberto de Pabalan, including the property in question in the instant case, which was duly annotated at the back of T.C.T. No. 74567 of the Register of Deeds of Pangasinan as stated above;

"20. That the contract of lease agreement dated February 3, 1967, mentioned above was likewise duly registered and annotated at the back of transfer Certificate of title of the properties, subject matter thereof including the property in question in the instant case." (pp. 46-47, RA) (pp. 21-22, Rollo)

Paragraph 8 of the Contract of Lease dated February 3, 1967 (Exhibit I-Lu) which covered the entire 1,760 square meters originally under TCT No. 45787 (13622-P) in the name of Alberto, and of which the property in question herein forms part, provides:

"8. That in the event that the LESSOR (Alberto) desires to sell the leased property the LESSEE (LU), shall be given the priority right therefor." (p.23, Rollo)

Lu registered an Affidavit of Adverse Claim (Exhibit 10-Lu) to protect his preferential right to purchase the same upon learning of the subsequent subdivision of the property into 12 separate lots covered by individual certificates of title on September 3, 1968.

On the other hand, private respondent claims that as one of the lessees of Alberto in 1961, he was also given priority to buy the portion of the land occupied by him. However, no document of any kind was presented in support of his claim.

It is therefore, a foregone conclusion that Lu's priority right to purchase the questioned property arose as early as February 3, 1967 per Contract of Lease with ALBERTO, long before the registration of the adverse claim of BUSTOS on February 21, 1972. It is well-settled in this jurisdiction that prior registration of a lien creates a preference, (PNB vs. Javellana, 92 Phil. 525) since the act of registration shall be the operative act to convey and affect the land. There can be no question that as of February 14, 1972, when the Deed of Sale in favor of LU was executed, the only registered liens affecting TCT No. 74567 were the lease contract granting LU the preferential right to purchase the property and his own adverse claim over the same. Bustos adverse claim was registered only on February 21, 1972 4 years after the execution of Exhibits "A" and "B". There is no showing that LU had any knowledge of the said execution of Exhibits "A" and "B" when he agreed to buy the lot in question under the terms of the previous Contract of Lease. Prior to the consummation of the sale in Manila, as a precautionary measure, petitioner LU's brother, Atty. Jose Lu, went to the Office of the Register of Deeds of Pangasinan to verify the titles of the seven subdivided lots and found them to be clean (t.s.n. Sept. 23, 1974).

Again worth mentioning is the fact that after 3 separate suits (Civil Case No. U-2041 entitled "Josefina Alberto de Pabalan vs. Eusebio C. Lu" CFI of Pangasinan at Urdaneta, CA--G.R. NO. 42603-R entitled "Eusebio C. Lu vs. Hon. Amado S. Santiago and Josefina Alberto; and Civil Case No. 74305 entitled "Eusebio C. Lu vs. Josefina Alberto de Pabalan", CFI-Manila- see paragraphs 12, 14 and 15, Stipulation of Facts, pp. 44-45, Record on Appeal; Exhs. 2-Lu, 4-Lu and 4-Lu) and 4 years of litigations, a Compromise Agreement between the parties (ALBERTO and LU) was arrived at and submitted to the Manila Court on February 15, 1972 (Exh. 6-Lu). In consideration of the withdrawal of all claims and counterclaims between them arising from the Lease Contract dated February 3, 1967, ALBERTO agreed to sell, and LU agreed to purchase, the remaining 7 out of the 12 subdivided lots formerly covered by TCT No. 45787 (13622-P). Lu paid the amount of P125,000.00 for the subdivided lots (Exh. 8-Lu) and P1,000.00 for the old existing improvements thereon (Exh. 9-Lu). Hence, there was valuable consideration paid for the sale.

Unquestionably, therefore, LU was a buyer in good faith, merely exercising a right previously and expressly granted to him under the Lease Contract between him and Josefina Alberto Vda. de Pabalan, duly recognized by the trial court by approving their Compromise Agreement on February 15, 1972.

If ever there was a failure on the part of the Register of Deeds to annotate BUSTOS' adverse claim on LU's new title, LU should or could not be faulted for such omission and be attributed with bad faith in buying the property.

Petitioner LU relied on the certificate of title of the registered owner (Alberto), which did not contain the alleged claim of BUSTOS at the time of the sale. As such, LU as purchaser should not be required to inquire beyond what the certificate of title indicates. Moreover, assuming that there was indeed a sale of the questioned lot to BUSTOS based on the two (2) private receipts (Exhs. A & B), and since admittedly no formal Deed of Sale was executed and no corresponding title delivered to him, and that since the transaction in favor of LU was recorded in the registry, the latter must prevail over the former holding that the ownership of the property was lawfully transferred from ALBERTO to LU.

The appellate court's decision therefore was not in line with Our settled doctrines and principles because the decisive legal circumstance was not whether or not the private receipts (Exhs. A & B), bore the elements of a sale. The real controversy was on whether the contract arising from said receipts could be enforced in the light of the priority right of petitioner under the registered contract of 1967. Respondent BUSTOS was not able to show how

petitioner LU lost his priority right in favor of respondent.

No sale between BUSTOS and ALBERTO could have been perfected since the condition precedent and accepted by BUSTOS for the sale of the property failed to materialize. ALBERTO's consent to sell was predicated on the rescission of LU's right to buy. During the appreciation of facts ALBERTO explained to the trial court the real intent and purpose of Exhs. A and B. She clarified that because she wanted to disengage herself from the priority right of petitioner, urged by the insistence of BUSTOS, among other lessees, to exercise their alleged verbal priority rights, she had to file an action for the rescission of the contract of lease with LU, but needing money to finance said action, she had to ask for advance money from BUSTOS, on the condition that if she succeeded, the advances would be charged to the purchase price, but if she failed they would be in payment of rentals. The Court of Appeals, on appeal by certiorari of the original action for rescission (Civil Case U-2041 in the Court of First Instance of Pangasinan) in its decision dated June 9, 1970 issued a writ of prohibition enjoining the Pangasinan Court from further taking cognizance of said case unless it would be to dismiss the same. It is clear therefore that ALBERTO lost her suit for rescission. Such dismissal of the action for rescission preceded the compromise agreement in Civil Case No. 74305 instituted in Manila. In other words, when the compromise agreement between LU and ALBERTO was submitted to the court in Civil Case No. 74305, and approved by it and when correspondingly, the sale to LU was executed by ALBERTO pursuant to the compromise, there was no legal impediment present to block the validity of its execution. The trial court's finding in this matter which we are adopting reads as follows:

"The alleged sale in favor of Bustos as evidenced by the written note (Exhibit "A"), and receipt (Exhibit "B") were executed very much later than the Contract Lease Agreement (Exhibit "1-Lu") in favor of Lu. Having given the priority right to purchase the disputed lot to Lu in 1967 in a duly notarized document, it would appear unnatural for Alberto to sell the same property to Bustos one year later while the preferential right of Lu to purchase still exist. The Court is more inclined to believe the version of Alberto, as corroborated by Atty. Sansano, that prior to the institution of the Urdaneta case which seeks to rescind the lease contract in favor of Lu and thus eradicate the latter's preferential right to buy the property in dispute, arrangements were made with the tenants-occupants of the entire lot of 1,760 square meters to generate funds to finance the litigation with the understanding that should the case succeed, the amounts advanced would be considered as part payments of the lots occupied by them, but if the suit fails, said advances would be deducted from the accruing rentals in the respective areas occupied by them (t.s.n. p. 41, July 15, 1974; t.s.n., pp. 8-11, September 23, 1974). Alberto expressly declared that this condition was personally conveyed to Bustos (t.s.n., p. 46, July 15, 1974) and this finds corroboration in the tenor of the written note (Exhibit "A") which states: "Kailangan ko ang tulong mo pahiramin mo ako ng P2,000.00 dos mil pesos, aawasin sa bayad ng lote na binibili mo sa akin sa Carmen". Obviously, Alberto know that she had no right whatsoever to dispose said properties to third persons other than to Lu to whom she gave the priority right to purchase under the lease contract of February 3, 1967, unless the same be first cancelled or rescinded. Further corroboration is supplied by the fact that from the time Bustos gave these advances, no rentals were collected from, or paid by, him (t.s.n., p. 20, November 16, 1973; t.s.n., p. 41, July 15, 1974) which also confirms the arrangement entered into. Besides, if there was no condition attached to the acceptance of the amounts embodied in Exhibits "A" and "B", Bustos would have insisted in the execution of a deed of sale on installment basis by Alberto." (pp. 144-146, Rollo)

WHEREFORE, finding merit in the appeal of petitioner, the assailed decision is hereby REVERSED and the decision of the then Court of First Instance of Pangasinan in Civil Case No. 144-R, dated December 23, 1974 is hereby REINSTATED.

SO ORDERED.

Melencio-Herrera, (Chairman), Padilla, Sarmiento, and Regalado, JJ., concur.

[1]Penned by Justice Marcelino R. Veloso, concurred in by Justices Floreliaana Castro-Bartolome and Abdulwahid A. Bidin.

[2]Entitled as Santiago Bustos, plaintiff-appellant vs. Josefina Alberto and Eusebio C. Lu, defendants-appellants.

[3]Same Ponente and concurring members.

[4]Decided by Judge Narciso A. Aquino.

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