

VICENTE I. SANTOS, PETITIONER, VS. INTERMEDIATE APPELLATE COURT, MARIA REYES, EUGENIO CRUZ, LUCERIA REYES, EDUARDO MEDINA AND MAXIMINO DE LEON, RESPONDENTS.

G.R. No. 75384. June 21, 1990

Ponente: PARAS, J.

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PARAS, J.:

This is a petition for review on certiorari of the April 3, 1986 decision* of the then Intermediate Appellate Court in AC-G.R. CV No. 03516 reversing the appealed decision of the Court of First Instance of Cavite, and the July 15, 1986 resolution of the same court denying the motion for reconsideration.

The controversy in this case involves a residential lot situated in Digman, Bacoar, Cavite, and a house constructed thereon. Herein petitioner Vicente I. Santos and private respondents Maximino de Leon and Valentina Barron all died during the pendency of the case and were all duly substituted.

As found by the trial court, the undisputed facts of this case are as follows:

The late spouses Antonia San Jose and Valentina Barron, who were childless, took custody of the late Maximino de Leon, who was then a baby, without formalities of legal or judicial adoption. Together, they lived in a conjugal house on the land, now in question, in Digman, Bacoar, Cavite, even after Maximino de Leon had gotten married and raised a family. (Rollo, pp. 203--204).

On February 27, 1955, Antonio San Jose died, leaving a last will and testament, which was duly probated by the Court of First Instance of Cavite in a decision rendered on April 20, 1955 in Special Proceedings No. 5668. Among the properties bequeathed by the deceased in his will to Maximino de Leon was a piece of residential lot with a house erected thereon described as "isang loobang tirahan sa baybay dagat sa Digman at kasama ang bahay (materiales mistos) na nakatirik doon" (Rollo, p. 8).

In March, 1955, Valentina Barron, the widow, at her own expense, caused the demolition of the said conjugal house and replaced it with a new one (now in question) on the same spot. Maximino de Leon consented to and even helped in said construction, and thereafter, lived therein with his family. Later, Maximino de Leon and his family moved and settled elsewhere.

In a Project of Partition dated December 15, 1955 (Exhibit "E") duly executed by Maximino de Leon and Valentina Barron, Item "H", consisting of one (1) residential lot at Poblacion Bacoar, Cavite, covered by Tax Declaration No. 6108 and assessed at P740.00, was assigned and adjudicated in favor of Maximino de Leon. Said project of partition was duly approved by the probate court in an Order dated July 12, 1956. Upon motion of the administrator of the estate, the court a quo issued an Order on March 29, 1957 (Exhibit "G") ordering the distribution of the estate of the deceased Antonio San Jose among his heirs in accordance with the aforesaid project of partition (Rollo, p. 9).

When de Leon returned in 1959, he found private respondents spouses Eugenio Cruz and Maria Reyes occupying

the house together with Valentina Barron. When said occupants refused to vacate the premises, Maximino de Leon, on July 16, 1959, filed an ejectment case, Civil Case No. 113, with the Municipal Court of Bacoor, Cavite, claiming ownership of the house in question.

In the answer, it was alleged that Valentina Barron is the true and legitimate owner of the house. She built it at her own expense after the death of her husband and prior to the preparation and approval of the Project of Partition. The house is now covered by Tax Declaration No. 7101 in the name of Valentina Barron as lawful owner thereof. Respondents pointed out that only the residential lot, without any house, has been adjudicated to Maximino de Leon in the Project of Partition dated December 15, 1955 and approved by the Court of First Instance of Cavite in its order dated July 12, 1956, with the express approval of Maximino de Leon. As such, he is in estoppel to impugn the validity and legality of the adjudication to him of the lot only, without the house.

In the alternative, they raised the defense that Valentina Barron is a builder in good faith since that improvement was constructed at a time when said controverted lot was still part of the conjugal property of Valentina Barron and the deceased Antonio San Jose, and that under Article 448 of the Civil Code, Maximino de Leon has the option to pay the value of the improvement which is greater than the lot.

On November 7, 1957, the Justice of the Peace Court of Bacoor, finding that the case involved conflicting claims on the ownership of the house subject of litigation, dismissed the same for lack of jurisdiction. The dismissal was appealed to the Court of First Instance of Cavite, and the same was docketed therein as Civil Case No. 143 (Rollo, p. 205).

Subsequently, on January 2, 1962, while the said Civil Case No. 143 was pending, Maximino de Leon filed Civil Case No. 411 against the same defendants in Civil Case No. 143, for recovery of possession of the lot and house. In both cases, defendants, particularly Valentina Barron, claimed, among other defenses, the right of a builder in good faith under Article 448 of the Civil Code.

While these cases were pending, Valentina Barron died on March 27, 1963 and was substituted by respondents spouses Eugenio Cruz and Maria Reyes on November 6, 1964. Meanwhile, on April 2, 1964, respondent Maximino de Leon, for the sum of P15,700.00, sold the questioned lot (more or less 930 square meters) and the house (Record, pp. 84-85) to Vicente Santos, petitioner herein, without notice to the trial court nor to private respondents. The sale was duly registered with the Registry of Deeds for the Province of Cavite on April 6, 1964 (Exhibit "A-1-A").

On April 25, 1964, petitioner wrote a letter (Exhibit "H") to respondent Maria Reyes, advising her that he had acquired title over the parcel of land, the house and the "camalig" being occupied by them and that he now needs the property in the pursuit of his business, for which reason, he demanded that they vacate the premises and surrender the same to him within ten (10) days from receipt thereof, including the payment of P500.00 monthly rental from April 2, 1964 for the use of the property. This letter was received by the addressee through mail as evidenced by the Registry Return Card presented as Exhibit "H-1" (Rollo, p. 27).

On April 30, 1965, petitioner filed a Complaint in Intervention in Civil Case No. 411 claiming that he bought the litigated land with an area of 930 square meters from Maximino de Leon.

On May 6, 1965, petitioner sent another letter to respondent Maria Reyes (Exhibit "I") reiterating his demand to vacate the premises and the payment of P500.00 monthly rentals from April 2, 1964 within five (5) days from receipt.

In her reply of May 16, 1965 (Exhibit "J"), respondent Maria Reyes stated that petitioner has no right to collect the rental demanded considering that the property acquired is still under litigation, to which, petitioner, in his

letter of May 20, 1965 (Exhibit "K"), made the rejoinder that it is only the house which is the subject of litigation and that the lot is never involved in the suit between respondent and respondent Maximino de Leon.

In the answer to the complaint-in-intervention, the spouses Maria Reyes and Eugenio Cruz claimed that Maximino de Leon had no right to sell the land because of the pendency of a case wherein Maximino sought the annulment of the Project of Partition involving the land where the house is constructed. As counterclaim, respondents invoked the rights of pre-emption appertaining to a builder in good faith.

In the meantime, petitioner had a parcel of land he bought from Maximino de Leon, surveyed. On February 2, 1967, the Director of Lands approved the survey plan over the land, designated as Psu-216172 (Exhibit "B") showing a total area of 1,937 square meters.

On August 29, 1969, the trial court dismissed said Civil Case No. 411 without prejudice.

Aforesaid Civil Cases Nos. 143 and N-411 were revived by the petitioner, filing with the trial court on April 7, 1972, Civil Case No. N-1762 (later known as Civil Case No. B-16), against herein private respondents together with Maximino de Leon for recovery of the subject land, now claimed to be 1,937 square meters.

In their Answer with Counterclaim and a Cross-Claim (Records, pp. 26-34), private respondents aver that the area of the subject land is only 930 square meters, more or less, and that petitioner is estopped from claiming that its area is 1,937 square meters; that the land area in excess of 930 square meters, and north of subject land, is a public land covered by Miscellaneous Sales (III-I) Application No. 633 of respondent Medina, filed with the Bureau of Lands, who actually occupied said public land, introducing improvements thereon; that the court has no jurisdiction over said public land, jurisdiction being with the Bureau of Lands; that as builder in good faith, they are entitled to retention of subject land, without obligation to pay rental until Maximino de Leon shall have exercised the option; that they have preferential rights to buy the subject land; and that the sale of subject land by Maximino de Leon to Vicente Santos is rescissible or annulable. In their cross-claim against their co-respondent Maximino de Leon, they asserted ownership of the house in question, sought enforcement of their rights as builders in good faith, and prayed for a rescission of the sale of subject land for being in fraud of private respondents.

After a protracted trial, the question of ownership of said house was settled, when on October 18, 1973, respondent Maximino de Leon (as cross-defendant) and respondents spouses Maria Reyes and Eugenio S. Cruz (as cross-claimants) filed a Motion to Approve Compromise Agreement (Ibid., pp. 44, 46), wherein Maximino de Leon admitted that: (1) the house in question was constructed by Valentina Barron Reyes, at her own expense, on the portion of the land pertaining to the conjugal partnership property of the spouses Antonio San Jose and Valentina Barron Reyes, prior to his acquisition of the said lot; (2) he was prevailed upon by petitioner, who was aware of the pendency of Civil Cases Nos. 143 and N-411 and was even his financier in the said cases, to sell the land in question to him (petitioner); (3) he did not offer to buy the house from respondents spouses nor from their predecessor-in-interest Valentina Barron Reyes, nor did he offer to sell the questioned land to them; (4) he did not notify them of his intention to sell the land in question; (5) that he decided to sell the land to petitioner; (6) that he sold to petitioner the parcel of land in question with an area of 930 square meters only, and the excess portion is a public land which is actually occupied by respondents spouses Eduardo Medina and Luceria Reyes; (7) that he recognizes the right of private respondents to purchase the land on which the house in question is erected; and (8) that he recognizes their right to a rescission of the contract of sale of subject lot between him and petitioner. Said Compromise Agreement was signed by private respondents Maria Reyes and Eugenio S. Cruz on the one hand and by Maximino de Leon on the other, assisted by their respective counsel. This Compromise Agreement was approved by the trial court in an order dated October 22, 1973 as its judgment (Ibid., pp. 69-70).

In a decision dated July 30, 1982 (*Ibid.*, pp. 91-110), the trial court ruled in favor of petitioner. The decretal portion of the said decision reads:

"WHEREFORE, by preponderance of evidence, judgment is hereby rendered for the plaintiff and against the defendants as follows:

"a) Declaring plaintiff and his successors-in-interest to be the lawful owners of the parcel of land described in the complaint and on the survey plan Psu-216172, including all the improvements now existing thereon;

"b) Ordering defendants to immediately vacate and surrender to plaintiff possession of the aforesaid land and all the improvements found thereon;

"c) Sentencing defendants Maria Reyes and Eugenio Cruz to jointly and severally pay rental to plaintiff for their use and occupation of the premises under litigation at the rate of P500.00 a month from April, 1964 until the plaintiff is fully restored in possession of the same, with interest at the legal rate from the filing of this case;

"d) Requiring the defendants to jointly and severally pay plaintiff attorney's fees in the sum of P10,000.00;

"e) Dismissing defendants' counterclaim and for the latter to pay the costs.

On appeal, public respondent, then Intermediate Appellate Court, in its decision of April 3, 1986 (*Rollo*, pp. 23-32), reversed the appealed decision –

"WHEREFORE, the decision a quo is hereby REVERSED or SET ASIDE and another one is rendered rescinding or declaring as null and void the deed of sale (Exh. A or 23) and ordering Maximino de Leon, his heirs, successors or assigns, to execute a deed of sale conveying the land in question in favor of the defendants-appellants for the sum of ELEVEN THOUSAND SEVEN HUNDRED PESOS (P11,700.00), Philippine Currency, representing the price of the land after deducting the sum of P4,000.00, the price of the house, from the purchase price of both house and lot in the total sum of P15,700.00 as stated in Exh. A or 23, within 30 days from receipt of the order of execution to be issued in this case. No costs."

Petitioner filed a Motion for Reconsideration (*Ibid.*, pp. 34-39), but the same was denied in a resolution dated July 15, 1986 (*Ibid.*, p. 33). Hence, the instant petition.

The Second Division of this Court, after the required pleadings were filed, (*Ibid.*, p. 147) gave due course to the petition in the resolution of January 9, 1989 and required the parties to submit simultaneously their respective memoranda. In compliance therewith, petitioner filed his memorandum on May 29, 1989 (*Ibid.*, pp. 180-192), while private respondents filed their memorandum on July 8, 1989 (*Ibid.*, pp. 203-225).

There is no dispute as to the ownership of the lot bequeathed by the late Antonio San Jose to Maximino de Leon but only as to the ownership of the house built thereon by the surviving spouse Valentina Barron immediately after the death of her husband San Jose.

The question at issue is whether or not Valentina Barron was a builder in good faith and as such, is entitled to the rights of pre-emption prescribed under Article 448 of the Civil Code.

At the outset, it must be stated that pursuant to Article 527 of the Civil Code, which reads:

"Art. 527. Good faith is always presumed, and upon him who alleges bad faith on the part of a possessor rests the burden of proof."

The late Valentina Barron, predecessor-in-interest of private respondents, except Maximino de Leon, has in her favor the presumption that she constructed the house in question in good faith. As aptly argued by private

respondents, there is no allegation in the complaint that even remotely suggests that the late Valentina Barron was a builder in bad faith; that there is not even a scintilla of proof, attempting to show that she was in bad faith; and that in such situation, presumption of good faith remains (*Sideco v. Pascua*, 13 Phil. 342). The reason for the presumption of innocence is given because every person should be presumed honest until the contrary is proved (*U.S. v. Rapinan*, 1 Phil. 294). Moreover, on equitable grounds, she was entitled to the property.

It will be recalled that Valentina Barron constructed the house on the lot in question sometime in March, 1955, less than a month after her husband died on February 27, 1955 and before the approval of a project of partition submitted on or about February 21, 1956 in Sp. Proc. No. 5668, made for the purpose of segregating the house from the land. It is of record that when Barron gave her conformity to the project of partition what was included in the estate of her husband and allotted to Maximino de Leon as one of his shares in the inheritance, is the lot only, now covered by Tax Declaration No. 6108 (Rollo, p. 29).

It, therefore, stands to reason that when Valentina Barron constructed the house she thought that said land was still her conjugal property unknowing that it was the same land bequeathed by her husband to Maximino de Leon, the ownership and possession of which, by the latter, retroacted as of February 27, 1955, the death of the testator (Article 777, Civil Code; Rollo, p. 73). In fact, the error in the identification of the land, if any, is attributable not only to Valentina Barron alone but also to Maximino de Leon who as earlier stated, not only consented but also helped in the construction of the house in litigation. Thus, under similar circumstances, this Court ruled:

"The proof clearly shows that the defendant went into possession of the land in question and erected her house thereon by and with the permission of the plaintiff, and therefor in good faith. The improvement thus made by the defendant, can not become the property of the plaintiff except upon paying a due consideration to the defendant." (*Aringo v. Arena*, 14 Phil. 263, 268 [1909]).

In the final analysis, it is more reasonable to believe that bad faith lies in the actuations of Maximino de Leon as shown by his admissions in a compromise agreement that knowing the rights of Valentina Barron over the property he sold the parcel of land to petitioner without notice.

Neither can de Leon claim that as there is no dispute as to the ownership of the land, the same is not in litigation. Precisely, respondents' claim of pre-emption and right of retention placed the same under litigation and subject to disposition by the trial court. Having opted to sell the land, de Leon is bound under the law to sell the same to Barron and not to petitioner. Hence, the sale of the land to petitioner is rescissible under Article 1381, Civil Code, paragraph 4.

It is likewise established that petitioner is a buyer in bad faith, on the un rebutted testimony of Eugenio Cruz, that he told the petitioner at the wake of Barron that the cases against subject property are still pending and that the same involved both house and land (Rollo, p. 217).

Ultimately, respondent court did not err in declaring the sale of subject land invalid for being in fraud of creditors and rescinded, under Article 1381 of the Civil Code, paragraph 4. More accurately, the sale was rescissible because the property was then under litigation.

PREMISES CONSIDERED, the instant petition is hereby DENIED and the assailed decision of the Intermediate Appellate Court, now Court of Appeals, is hereby AFFIRMED.

SO ORDERED.

Padilla, Sarmiento, and Regalado, JJ., concur.

Melencio-Herrera, J., (Chairman), concur on grounds of equity.

* First Civil Cases Division; penned by Associate Justice Leonor Ines Luciano, and concurred in by Presiding Justice Ramon G. Gaviola, Jr. and Associate Justice Ma. Rosario Quetulio-Losa.

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