

GUZMAN, BOCALING & CO., PETITIONER, VS. RAOUL S. V. BONNEVIE, RESPONDENT.

G.R. No. 86150. March 02, 1992

Ponente: CRUZ, J.

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CRUZ, J.:

The subject of the controversy is a parcel of land measuring six hundred (600) square meters, more or less, with two buildings constructed thereon, belonging to the Intestate Estate of Jose L. Reynoso.

This property was leased to Raoul S. Bonnevie and Christopher Bonnevie by the administratrix, Africa Valdez de Reynoso, for a period of one year beginning August 8, 1976, at a monthly rental of P4,000.00.

The Contract of Lease contained the following stipulation:

20. - In case the LESSOR desires or decides to sell the leased property, the LESSEES shall be given a first priority to purchase the same, all things and considerations being equal.

On November 3, 1976, according to Reynoso, she notified the private respondents by registered mail that she was selling the leased premises for P600,000.00 less a mortgage loan of P100,000.00, and was giving them 30 days from receipt of the letter within which to exercise their right of first priority to purchase the subject property. She said that in the event that they did not exercise the said right, she would expect them to vacate the property not later than March, 1977.

On January 20, 1977, Reynoso sent another letter to private respondents advising them that in view of their failure to exercise their right of first priority, she had already sold the property.

Upon receipt of this letter, the private respondents wrote Reynoso informing her that neither of them had received her letter dated November 3, 1976; that they had advised her agent to inform them officially should she decide to sell the property so negotiations could be initiated; and that they were "constrained to refuse (her) request for the termination of the lease."

On March 7, 1977, the leased premises were formally sold to petitioner Guzman, Bocaling & Co. The Contract of Sale provided for immediate payment of P137,500.00 on the purchase price, the balance of P262,500.00 to be paid only when the premises were vacated.

On April 12, 1977, Reynoso wrote a letter to the private respondents demanding that they vacate the premises within 15 days for their failure to pay the rentals for four months. When they refused, Reynoso filed a complaint for ejectment against them which was docketed as Civil Case No. 043851-CV in the then City Court of Manila.

On September 25, 1979, the parties submitted a Compromise Agreement, which provided inter alia that "the defendant Raoul S.V. Bonnevie shall vacate the premises subject of the Lease Contract, voluntarily and peacefully not later than October 31, 1979."

This agreement was approved by the City Court and became the basis of its decision. However, as the private respondents failed to comply with the above-quoted stipulation, Reynoso filed a motion for execution of the judgment by compromise, which was granted on November 8, 1979.

On November 12, 1979, private respondent Raoul S. Bonnevie filed a motion to set aside the decision of the City Court as well as the Compromise Agreement on the sole ground that Reynoso had not delivered to him the "records of payments and receipts of all rentals by or for the account of defendants xxx." The motion was denied and the case was elevated to the then Court of First Instance. That Court remanded the case to the City Court of Manila for trial on the merits after both parties had agreed to set aside the Compromise Agreement.

On April 29, 1980, while the ejectment case was pending in the City Court, the private respondents filed an action for annulment of the sale between Reynoso and herein petitioner Guzman, Bocaling & Co. and cancellation of the transfer certificate of title in the name of the latter. They also asked that Reynoso be required to sell the property to them under the same terms and conditions agreed upon in the Contract of Sale in favor of the petitioner. This complaint was docketed as Civil Case No. 131461 in the then Court of First Instance of Manila.

On May 5, 1980, the City Court decided the ejectment case, disposing as follows:

WHEREFORE, judgment is hereby rendered ordering defendants and all persons holding under them to vacate the premises at No. 658 Gen. Malvar Street, Malate, Manila, subject of this action, and deliver possession thereof to the plaintiff, and to pay to the latter: (1) The sum of P4,000.00 a month from April 1, 1977 to August 8, 1977; (2) The sum of P7,000.00 a month, as reasonable compensation for the continued unlawful use and occupation of said premises, from August 9, 1977 and every month thereafter until defendants actually vacate and deliver possession thereof to the plaintiff; (3) The sum of P1,000.00 as and for attorney's fees; and (4) The costs of suit.

The decision was appealed to the then Court of First Instance of Manila, docketed as Civil Case No. 132634 and consolidated with Civil Case No. 131461. In due time, Judge Tomas P. Maddela, Jr. decided the two cases as follows:

WHEREFORE, premises considered, this Court in Civil Case No. 132634 hereby modifies the decision of the lower court as follows:

1. Ordering defendants Raoul S.V. Bonnevie and Christopher Bonnevie and all persons holding under them to vacate the premises at No. 658 Gen. Malvar St., Malate, Manila, subject of this action and deliver possessions thereof to the plaintiff; and
2. To pay the latter the sum of P4,000.00 a month from April 1, 1977 up to September 21, 1980 (when possession of the premises was turned over to the Sheriff) after deducting whatever payments were made and accepted by Mrs. Africa Valdez Vda. de Reynoso during said period, without pronouncement as to costs.

As to Civil Case No. 131461, the Court hereby renders judgment in favor of the plaintiff Raoul Bonnevie as against the defendants Africa Valdez Vda. de Reynoso and Guzman and Bocaling & Co., declaring the deed of sale with mortgage executed by defendant Africa Valdez Vda. de Reynoso in favor of defendant Guzman and Bocaling null and void; cancelling the Certificate of Title No. 125914 issued by the Register of Deeds of Manila in the name of Guzman and Bocaling & Co.; ordering the defendant Africa Valdez Vda. de Reynoso to execute in favor of the plaintiff Raoul Bonnevie a deed of sale with mortgage over the property leased by him in the amount of P400,000.00 under the same terms and conditions should there be any other occupants or tenants in the premises; ordering the defendants jointly and severally to pay the plaintiff Raoul Bonnevie the amount of P50,000.00 as temperate damages; to pay the plaintiff jointly and severally the amount of P2,000.00 per month from the time the property was sold to defendant Guzman and Bocaling by defendant Africa Valdez Vda. de Reynoso on March 7, 1977, up to the execution of a deed of sale of the property by defendant Africa

Valdez Vda. de Reynoso in favor of plaintiff Bonnevie; to pay jointly and severally the plaintiff Bonnevie the amount of P20,000.00 as exemplary damages, for attorney's fees in the amount of P10,000.00, and to pay the costs of suit.

Both Reynoso and the petitioner company filed with the Court of Appeals a petition for review of this decision. The appeal was eventually resolved against them in a decision promulgated on March 16, 1988, where the respondent court substantially affirmed the conclusions of the lower court but reduced the award of damages.[1]

Its motion for reconsideration having been denied on December 14, 1988, the petitioner has come to this Court, asserting inter alia that the respondent court erred in ruling that the grant of first priority to purchase the subject properties by the judicial administratrix needed no authority from the probate court; holding that the Contract of Sale was not voidable but rescissible; considering the petitioner as a buyer in bad faith; ordering Reynoso to execute the deed of sale in favor of the Bonnevies; and not passing upon the counterclaim. Reynosa has not appealed.

The Court has examined the petitioner's contentions and finds them to be untenable.

Reynoso claimed to have sent the November 3, 1976 letter by registered mail, but the registry return card was not offered in evidence. What she presented instead was a copy of the said letter with a photocopy of only the face of a registry return card claimed to refer to the said letter. A copy of the other side of the card showing the signature of the person who received the letter and the date of the receipt was not submitted. There is thus no satisfactory proof that the letter was received by the Bonnevies.

Even if the letter had indeed been sent to and received by the private respondents and they did not exercise their right of first priority, Reynoso would still be guilty of violating Paragraph 20 of the Contract of Lease which specifically stated that the private respondents could exercise the right of first priority, "all things and conditions being equal." The Court reads this to mean that there should be identity of the terms and conditions to be offered to the Bonnevies and all other prospective buyers, with the Bonnevies to enjoy the right of first priority.

The selling price quoted to the Bonnevies was P600,000.00, to be fully paid in cash less only the mortgage lien of P100,000.00.[2] On the other hand, the selling price offered to and accepted by the petitioner was only P400,000.00, and only P137,500.00 was paid in cash while the balance of P272,500.00 was to be paid "when the property (was) cleared of tenants or occupants." [3]

The fact that the Bonnevies had financial problems at that time was no justification for denying them the first option to buy the subject property. Even if the Bonnevies could not buy it at the price quoted, Reynoso could not sell it to another for a lower price and under more favorable terms and conditions. Only if the Bonnevies failed to exercise their right of first priority could Reynoso lawfully sell the subject property to others, and at that only under the same terms and conditions offered to the Bonnevies.

The Court agrees with the respondent court that it was not necessary to secure the approval by the probate court of the Contract of Lease because it did not involve an alienation of real property of the estate nor did the term of the lease exceed one year so as to make it fall under Article 1878(8) of the Civil Code. Only if Paragraph 20 of the Contract of Lease was activated and the said property was intended to be sold would it be required of the administratrix to secure the approval of the probate court pursuant to Rule 89 of the Rules of Court.

As a strict legal proposition, no judgment of the probate court was reviewed and eventually annulled collaterally by the respondent court as contended by the petitioner. The order authorizing the sale in its favor was duly issued by the probate court, which thereafter approved the Contract of Sale resulting in the eventual issuance of title in favor of the petitioner. That order was valid insofar as it recognized the existence of all the essential elements of a

valid contract of sale, but without regard to the special provision in the Contract of Lease giving another party the right of first priority.

Even if the order of the probate court was valid, the private respondents still had a right to rescind the Contract of Sale because of the failure of Reynoso to comply with her duty to give them the first opportunity to purchase the subject property.

The petitioner argues that assuming the Contract of Sale to be voidable, only the parties thereto could bring an action to annul it pursuant to Article 1397 of the Civil Code. It is stressed that private respondents are strangers to that agreement and therefore have no personality to seek its annulment.

The respondent court correctly held that the Contract of Sale was not voidable but rescissible. Under Article 1380 to 1381(3) of the Civil Code, a contract otherwise valid may nonetheless be subsequently rescinded by reason of injury to third persons, like creditors. The status of creditors could be validly accorded the Bonnevies for they had substantial interests that were prejudiced by the sale of the subject property to the petitioner without recognizing their right of first priority under the Contract of Lease.

According to Tolentino, rescission is a remedy granted by law to the contracting parties and even to third persons, to secure reparation for damages caused to them by a contract, even if this should be valid, by means of the restoration of things to their condition at the moment prior to the celebration of said contract.[4] It is a relief allowed for the protection of one of the contracting parties and even third persons from all injury and damage the contract may cause, or to protect some incompatible and preferent right created by the contract.[5] Rescission implies a contract which, even if initially valid, produces a lesion or pecuniary damage to someone that justifies its invalidation for reasons of equity.[6]

It is true that the acquisition by a third person of the property subject of the contract is an obstacle to the action for its rescission where it is shown that such third person is in lawful possession of the subject of the contract and that he did not act in bad faith.[7] However, this rule is not applicable in the case before us because the petitioner is not considered a third party in relation to the Contract of Sale nor may its possession of the subject property be regarded as acquired lawfully and in good faith.

Indeed, Guzman, Bocaling and Co. was the vendee in the Contract of Sale. Moreover, the petitioner cannot be deemed a purchaser in good faith for the record shows that it categorically admitted it was aware of the lease in favor of the Bonnevies, who were actually occupying the subject property at the time it was sold to it. Although the Contract of Lease was not annotated on the transfer certificate of title in the name of the late Jose Reynoso and Africa Reynoso, the petitioner cannot deny actual knowledge of such lease which was equivalent to and indeed more binding than presumed notice by registration.

A purchaser in good faith and for value is one who buys the property of another without notice that some other person has a right to or interest in such property and pays a full and fair price for the same at the time of such purchase or before he has notice of the claim or interest of some other person in the property.[8] Good faith connotes an honest intention to abstain from taking unconscientious advantage of another.[9] Tested by these principles, the petitioner cannot tenably claim to be a buyer in good faith as it had notice of the lease of the property by the Bonnevies and such knowledge should have cautioned it to look deeper into the agreement to determine if it involved stipulations that would prejudice its own interests.

The petitioner insists that it was not aware of the right of first priority granted by the Contract of Lease. Assuming this to be true, we nevertheless agree with the observation of the respondent court that:

If Guzman-Bocaling failed to inquire about the terms of the Lease Contract, which includes Par. 20 on priority

right given to the Bonnevis, it had only itself to blame. Having known that the property it was buying was under lease, it behooved it as a prudent person to have required Reynoso or the broker to show to it the Contract of Lease in which Par. 20 is contained.

Finally, the petitioner also cannot invoke the Compromise Agreement which it says canceled the right of first priority granted to the Bonnevis by the Contract of Lease. This agreement was set aside by the parties thereto, resulting in the restoration of the original rights of the private respondents under the Contract of Lease. The Joint Motion to Remand filed by Reynoso and the private respondents clearly declared inter alia:

That without going into the merits of instant petition, the parties have agreed to SET ASIDE the compromise agreement, dated September 24, 1979 and remand Civil Case No. 043851 of the City Court of Manila to Branch IX thereof for trial on the merits.[10]

We find, in sum, that the respondent court did not commit the errors imputed to it by the petitioner. On the contrary, its decision is conformable to the established facts and the applicable law and jurisprudence and so must be sustained.

WHEREFORE, the petition is DENIED, with costs against the petitioner. The challenged decision is AFFIRMED in toto. It is so ordered.

Narvasa, C.J., Griño-Aquino, and Medialdea, JJ., concur.

[1] Rollo, pp. 45-60; Penned by Mendoza, J., with Paras and Limcaoco, JJ., concurring.

[2] Exhibit "5," Original Records, p. 88.

[3] Exhibit "B." Original Records, p. 99.

[4] Tolentino, Commentaries and Jurisprudence on the Civil Code of the Philippines, Vol. IV, p. 571.

[5] Aquino v. Tañedo, 39 Phil. 517.

[6] Id., p. 572.

[7] Cordovero and Alcazar v. Villaruz and Borromeo, 46 Phil. 473.

[8] De Santos v. IAC, 157 SCRA 295.

[9] De la Cruz v. IAC, 157 SCRA 660; Cui and Joven v. Henson, 51 Phil. 606.

[10] Rollo, p. 182.

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