

Title: Rosencor Development Corporation v. Inquing

Facts:

1. **Background Information:**

- Plaintiffs (respondents in this review) Paterno Inquing, Irene Guillermo, and Federico Bantugan, have been lessees of a two-story residential apartment at No. 150 Tomas Morato Ave., Quezon City since 1971.
- Initially owned by spouses Faustino and Cresencia Tiangco, the lease was informal and oral. The tenants claimed they were verbally granted a pre-emptive right to purchase the property if it was ever sold.
- Management of the property shifted to the heirs (including Eufrocina de Leon) upon the death of the original owners in 1975, who allegedly reaffirmed the pre-emptive right.

2. **Sequence of Events Leading to Litigation:**

- June 1990: Lessees received a demolition notice from Atty. Erlinda Aguila.
- De Leon refused rent payments citing logistical issues and later offered the property to the tenants at Php 2,000,000.00.
- Lessees offered Php 1,000,000.00, which de Leon said would be reviewed by the heirs. No response was received.
- November 1990: Rene Joaquin introduced himself as the new owner.
- January 1991: Another eviction notice was issued.
- February 1991: Notification of the sale to Rosencor was received.
- April 1992: Interventions by the barangay revealed the property was sold for Php 726,000.00 on September 4, 1990.
- Lessees offered to pay Php 1,000,000.00, which was rejected.

3. **Procedural History:**

- December 10, 1993: Initial complaint for annulment of sale filed, later amended for rescission.
- Case admitted intervention from Fernando Magbanua and Danna Lizza Tiangco.
- **Trial Court Ruling (RTC Decision, May 13, 1996):** Dismissed the complaint on the basis that the oral right of first refusal was unenforceable.
- **Court of Appeals (Appeal Decision, June 25, 1999):** Reversed the RTC decision and ordered the rescission of the deed, reconveyance to the heirs, and allowed lessees the first refusal.

****Issues:****

1. ****Applicability of the Statute of Frauds:****

- Is a right of first refusal covered by the Statute of Frauds requiring certain agreements to be in writing to be enforceable?

2. ****Existence and Enforcement of Right of First Refusal:****

- Did the respondents adequately prove an enforceable right of first refusal?

3. ****Good Faith or Bad Faith of Petitioners:****

- Did petitioners act in bad faith, knowing the tenants' pre-emptive right?

4. ****Proper Remedy:****

- Can rescission of the sale be ordered, allowing the exercise of the right of first refusal?

****Court's Decision:****

1. ****Statute of Frauds:****

- The court clarified that a right of first refusal is not covered by the Statute of Frauds and thus does not itself constitute a sale. As such, it need not be in writing to be enforceable.

2. ****Proof of Right of First Refusal:****

- Respondents proved their right of first refusal through testimonies and an offer from Eufrocina de Leon validating their claim.

3. ****Good Faith of Petitioners:****

- The court determined that petitioners acted in good faith, as there was no clear evidence proving they knew about the tenants' right of first refusal before acquiring the property. Eufrocina de Leon's bad faith did not impute to petitioners.

4. ****Rescission Remedy:****

- Despite the good faith, owing to the historical legal precedence that rescission can be ordered due to violation of the first refusal right, here it was deemed inappropriate against petitioners, who lawfully possessed the property.

5. ****Alternative Remedy:****

- Respondents are entitled to damages against the heirs for violating the first refusal right rather than rescinding the sale contract.

****Doctrine:****

1. ****Statute of Frauds and Oral Agreements:****

- Oral agreements pertaining to a right of first refusal are not within the Statute of Frauds and can be enforced even when not in writing.

2. ****Good Faith in Real Property Transactions:****

- A bona fide purchaser without notice of an existing right is protected, and good faith is presumed unless controverted.

3. ****Remedies for Breach of Pre-emptive Rights:****

- While parties in bad faith violating a pre-emptive right can face rescission of the offending sale, parties in good faith are insulated from such effects, limiting aggrieved parties to damages.

****Class Notes:****

- ****Key Doctrines and Principles:****

- ****Statute of Frauds (Article 1403, New Civil Code):**** Requires certain contracts to be in writing.

- ****Right of First Refusal:**** Recognized even if orally granted, falling outside the Statute of Frauds?

- ****Good Faith Presumption:**** Must be rebutted by clear evidence to establish bad faith.

- ****Remedies (Rescission vs. Damages):**** Context-dependent; good faith buyers protect from rescission but not from compensating damages.

- ****Relevant Civil Code Articles:****

- ****Article 1403:**** Defines unenforceable contracts under the Statute of Frauds.

- ****Article 1381:**** Discusses the conditions for rescissible contracts.

- ****Article 1385:**** Prevents rescission if objects are under third-party lawful possession in good faith.

****Historical Background:****

- This case highlights evolving jurisprudence on modern lease contracts, oral agreements of pre-emptive rights, and the significance of good faith purchases.

- The court balances between protecting expectant rights under common business practices and ensuring equity and fairness in property transactions.