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FIRST DIVISION

[G.R. No. L-41233. November 21, 1979]

J.M. TUASON & CO., INC., *petitioner*, *vs.* **HON. COURT OF APPEALS, ALFONSO DE LEON and ROSARIO G. DE LEON**, *respondents*.

SYLLABUS

1. **CIVIL LAW; SPECIAL CONTRACTS; SALES; GOOD FAITH; DEFINED; CASE AT BAR.**— We have no hesitation to give to petitioner the benefit of the doubt of its having acted in good faith, which is always presumed, without any intention of taking advantage of the other party dealing with it. "Good faith consists in an honest intention to abstain from taking any unconscientious advantage of another. Good faith is an opposite of fraud and of bad faith and its non-existence must be established by competent proof. " (*Leung Yee vs. Strong Machinery Company*, 37 Phil. 645; *Cui vs. Henson*, 51 Phil. 606, 612; *Fule vs. De Legare*, 7 SCRA 351). Moreover, at the time of the execution of the contract to sell, it is an admitted fact that Ricardo de Leon knew that a third party was occupying a part of the lot subject of the sale. Ricardo de Leon ought to have known that he was buying a property with the distinct possibility of not being able to possess and own the land due to the occupancy of another person on the same. So there had to be an understanding between him and the petitioner for the latter to eject the occupant, something which, by the facts then obtaining and the law relevant thereto, would make the ejectment more speculative than certain. Nonetheless, Ricardo de Leon knowingly assumed the risk when he bought the land and was even called a vendee in bad faith by the Court of Appeals in doing so, clearly not an innocent purchaser in good faith.

2. **ID.; ID.; ID.; ONE WHO PURCHASES REAL ESTATE WITH KNOWLEDGE OF A DEFECT OR LACK OF TITLE IN HIS VENDOR CANNOT CLAIM THAT HE HAS ACQUIRED TITLE THERETO IN GOOD FAITH.**— One who purchases real estate with knowledge of a defect or lack of title in his vendor cannot claim that he has acquired title thereto in good faith, as against

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the true owner of the land or of an interest therein; and *the same rule must be applied to one who has knowledge of facts which should have put him upon such inquiry and investigation as might be necessary to acquaint him with the defects in the title of his vendor. A purchaser cannot close his eyes to facts which should put a reasonable man upon his guard and then claim that he acted in good faith* under the belief that there was no defect in the title of the vendor (*Leung Yee vs. Strong Machinery Company, supra; Manacop, Jr. vs. Cansino*, 1 SCRA 572; *Paylago vs. Jarabe*, 22 SCRA 1247; *Barrios vs. Court of Appeals*, 78 SCRA 427).

APPEARANCES OF COUNSEL

Araneta, Mendoza & Papa for petitioner.
Martin B. Laurea for private respondents.

D E C I S I O N

DE CASTRO, *J.*:

Appeal by *certiorari* from the decision of respondent Court of Appeals (CA-G.R. No. 54695-R) affirming with modification the decision of the Court of First Instance of Manila in Civil Case No. 89119, which is an action based on warranty against eviction, and to recover the value of a subdivision lot at the time of eviction, plus damages.

The following facts may be regarded as without any dispute:

On January 31, 1952, petitioner J.M. Tuason & Co., Inc. executed, in favor of Ricardo de Leon, a contract to sell Lot No. 15, Block 460 of the Sta. Mesa Heights Subdivision containing an area of 1,703.6 square meters with the agreed price of ₱24.60 per square meter or a total of ₱41,908.56. At the execution of the contract, Ricardo de Leon paid the down-payment ₱4,190.86 and agreed to pay the balance in the monthly installment of ₱498.63 including the agreed annual interest of 10% (Exhibit A).

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Meanwhile, on April 10, 1953, petitioner signed a compromise agreement with the Deudors (in another Civil Case No. Q-135, captioned *Florencio Deudor, et al. vs. J.M Tuason, et al.*).

On July 19, 1965 with the consent of the petitioner, Ricardo de Leon transferred all his rights to the lot in favor of his parents, herein private respondents Alfonso and Rosario de Leon (Exhibit B). On the same date, private respondents paid the outstanding balance of the purchase price (Exhibit 1-B). On August 5, 1965 petitioner executed in favor of private respondents the deed of sale over the lot (Exhibit C) and upon its registration, the Register of Deeds issued to the respondents the Transfer Certificate of Title No. 96143 (Exhibit 3; Annex B, *Rollo*, 39-40).

At the time of the execution of the contract to sell, the contracting parties knew that a portion of the lot in question was actually occupied by Ramon Rivera. However, it was their understanding that the latter will be ejected by the petitioner from the premises (Annex B, *id.*).

On May 13, 1958, herein petitioner filed a complaint of ejectment against Ramon Rivera before the Court of First Instance of Rizal (Civil Case No. Q-2989) and later petitioner impleaded Ricardo de Leon and respondents Alfonso and Rosario de Leon as necessary parties. In this Civil Case No. Q-2989, the decision of the lower court, principally based on the compromise agreement executed in another Civil Case No. Q-135 entitled *Florencio Deudor, et al. vs. J.M. Tuason, et al.* has the following dispositive portion:

"WHEREFORE, the complaint against the defendant Ramon Rivera is hereby DISMISSED, *ordering the plaintiff to enter into an agreement with Ramon Rivera allowing said defendant to purchase 1,050 square meters of land* now covered by Lot 15, Block 460 of the Sta. Mesa Heights Subdivision *to be priced at the prevailing costs in the year 1958 which is placed by this Court to be ₱60.00 per square meters*; to pay attorney's fees of ₱3,000.00 to defendant Ramon Rivera, with costs against the plaintiff." x x x (Italics supplied).

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The Court of Appeals wholly affirmed this decision with costs against plaintiff-appellant J.M, Tuason & Co., Inc. (CA-G.R. No. 38212-R), and denied the motion for reconsideration filed by the other plaintiffs-appellants Alfonso and Rosario de Leon, stating among others: "x x x We believe, however, that these questions should be properly ventilated in the proper action which the plaintiffs-appellants, the De Leons, may file against the plaintiff-appellant (J.M. Tuason & Co., Inc.) for failure of the latter to deliver to them the possession of the whole of Lot 15, Block 460 of the Sta. Mesa Heights Subdivision. x x x." (Annex E, 4-5).

This decision of the Court of Appeals became final and executory in September, 1971 when the De Leons were evicted from the premises in question (Annex E, 6).

Pursuing the step as suggested by the Court of Appeals advising herein private respondents to file the proper action, the latter instituted on December 5, 1972 before the Court of First Instance of Manila, Branch XXIX, Civil Case No. 89119, an action against J.M. Tuason & Co., Inc. to enforce the vendor's warranty against eviction or to recover the value of the land amounting to ₱315,000.00, plus damages.

The lower court decided the case against herein petitioner J.M. Tuason & Co., Inc. (defendant below) disposing as follows:

"WHEREFORE, judgment is hereby rendered in favor of the plaintiffs and against the defendant:

(1) Ordering defendant to pay plaintiffs the sum of TWO HUNDRED TEN THOUSAND (₱210,000.00) PESOS representing the value of the 1,050 square meters at ₱200.00 per square meter, from which the latter were evicted, with legal interest from December 5, 1972, the date of filing of the complaint;

(2) Ordering defendant to pay plaintiffs the sum of TWENTY FIVE THOUSAND (₱25,000.00) PESOS, by way of moral damages, TEN THOUSAND (₱10,000.00) PESOS, by way of exemplary damages, and FIFTEEN THOUSAND (₱15,000.00) PESOS, for and as attorney's fees; and

(3) For costs of this suit."

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This decision of the lower court was appealed to herein respondent Court of Appeals (CA-G.R. No. 54695-R), which on July 2, 1975 affirmed it with the sole modification on the reduction of the awarded moral damages from ₱25,000.00 to ₱5,000.00 (Annex B, *Rollo*, p. 52).

Hence, this petition before Us with the prayer that the decision of respondent court be reversed and another rendered, dismissing the complaint and ordering respondents De Leons to accept from petitioner J.M. Tuason & Co., Inc. the sum of ₱60.00 per square meter for the 1,050 square meters which the petitioner was ordered to sell to Ramon Rivera, and to pay petitioner ₱30,000.00 as attorney's fees plus costs.

Petitioner J. M. Tuason & Co., Inc. alleges that respondent court erred: (1) in holding that the compromise agreement was the proximate cause of its failure to comply with its contract to sell in favor of Ricardo de Leon; (2) in holding that it entered into the compromise agreement without the knowledge and behind the back of Ricardo de Leon and thereafter continued the collection of the installments until the purchase price was fully paid and thus it wilfully committed fraud against him; (3) in not considering that Ricardo de Leon was guilty of bad faith in entering into the contract to sell and therefore he is not entitled to the warranty against eviction; and (4) in granting moral and exemplary damages.

The real point in issue is whether respondents De Leon are entitled to the vendor's warranty against eviction and damages.

The appellate court, in this action of warranty against eviction, found that petitioner J.M. Tuason & Co., Inc. failed to comply with its obligation to transfer ownership over the lot to the De Leons due to the compromise agreement it entered with the Deudors, and that petitioner is guilty of "willful deception, intentional forsaking of one to whom defendant was bound in a contract to convey, and worse yet, even at that, after the compromise, defendant still continued to collect installments from buyer x x x."

Contrary to these findings, this Court holds that it was not petitioner's own making that it executed the compromise

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agreement with the Deudors. This agreement was sanctioned by the court after the Deudors filed an action against petitioner in Civil Case No. Q-135 entitled "*Florencio Deudor, et al. vs. J.M. Tuason, et al.*" The prior right of Ramon Rivera to purchase the lot in litigation was based more on his prior occupancy to the same since 1949, about which fact respondents De Leon were informed by petitioner at the time of the execution of the contract to sell. The execution of the compromise agreement merely recognized this prior right, under the condition as stipulated in said agreement, that it was possible to do so.

Petitioner claims, without having been contradicted, that it executed the compromise agreement with the Deudors in the honest belief that the lots it already sold, like the lot in question, were excluded from the coverage of the agreement. This claim finds support in paragraph "SEVENTH" of the compromise agreement which reads "x x x It shall be the joint and solidary obligation of the Deudors to make the buyers of the lots purportedly sold by them recognize the title of the OWNERS over the property purportedly bought by them, and to make them sign, *whenever possible*, new contracts of purchase for the said property at the current prices and terms specified by the OWNERS in their sales of lots in their subdivision known as Sta. Mesa Heights Subdivision x x x" (Annex C, *Rollo*, p. 55). In fact, in their brief as appellants in CA-G.R. No. 38212-R, private respondents stated that "as correctly pointed out in the brief for plaintiff-appellant, it was not the intention of the signatories of the Compromise Agreement to include within its coverage those parcels of land already sold by plaintiff-appellant (petitioner herein) to third parties," and "We reproduce herein by way of reference the arguments in pp. 12 to 39 of plaintiffs-appellants' brief. " (See Annex C, Petition, pp. 3-4). Private respondents should not be allowed to turn back from what they stated in their brief in CA-G.R. No. 38212-R, to impute "wilful deception," as the respondent court said in its decision under review.

This particular stipulation in the compromise agreement discloses an understanding between the petitioner and the Deudors

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that the buyers of lots from the Deudors, like Ramon Rivera, may acquire lots from the subdivision being sold by petitioner and sign new contracts of purchase with the latter "whenever possible," or only when said lots have not already been sold to third parties. Relying on the above-quoted provision, petitioner believed in good faith that said lot already sold to the De Leons would not be adversely affected. Nonetheless, with the inevitable and admitted fact that Ramon Rivera was a prior occupant thereof, petitioner was compelled, by judicial fiat in Civil Case No. 2989 of the Court of First Instance of Rizal, to recognize the preferential right of Rivera to rightfully purchase the lot. This fact is not of itself a proof under the circumstance just cited, of bad faith on the part of the petitioner or that it is guilty of committing fraud and deception upon the respondents, as the respondent court found. Its good faith in dealing with Ricardo de Leon who was the one branded as a "buyer in bad faith" by the Court of Appeals in its decision affirming that of the Court of First Instance of Rizal in CA-G.R. No. 38212-R seems beyond question.

If petitioner continued the collection of the outstanding monthly installments after the execution of the compromise agreement on April 10, 1953 pursuant to the agreements embodied in the contract to sell (Exhibit A), its act only proved its honest belief that it found no barrier against the enforceability of the contract to sell, the terms of which have the force of law between the parties and must be complied with in good faith (*Lazo vs. Republic Surety & Insurance Co., Inc.*, 311 SCRA 329; *Ramos vs. Central Bank of the Philippines*, 41 SCRA 565; *Enriquez vs. Ramos*, 73 SCRA 116; *De Cortes vs. Venturanza*, 79 SCRA 709). The collection of the monthly installment payments terminated upon the full payment of the purchase price on July 19, 1965, long before the ejectment case against Ramon Rivera was finally resolved by the appellate court in September, 1971 (Civil Case No. Q-2989; CA-G.R. No. 38212-R). As properly claimed by the petitioner, it had the right to hopefully expect to win the ejectment case. It was not exactly its fault that it lost the case. Private respondents joined in a common cause with it.

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The subsequent execution of a deed of sale upon the total payment of the purchase price in favor of herein respondents on August 5, 1965 in lieu of the previous contract to sell made in favor of Ricardo de Leon, through which deed of sale the respondents acquired a transfer certificate of title over the questioned lot, is further evidence of the honesty and good faith of petitioner in dealing with private respondents. Petitioner owns vast tracts of land, with the lot in question possibly put an insignificant part in terms of value, and it would be much too difficult to make the serious imputations made to petitioner.

In fulfillment of the assurance made to eject the occupant from the lot, petitioner, on May 13, 1958, later joined by Ricardo de Leon and respondents Alfonso and Rosario de Leon, instituted a complaint of ejectment against Ramon Rivera in Civil Case No. Q-2989. Unfortunately, however, the decision of the lower court dismissing the complaint of ejectment was affirmed by the appellate court in CA-G.R. No. 38212-R, which decision of the latter upon its finality in September, 1971 resulted in the eviction of herein respondents from the lot. It is meet, at this juncture, to repeat that in its decision, the Court of Appeals branded Ricardo de Leon as a buyer in bad faith.

In manifesting its desire to compensate respondents, as disclosed by prayer in the instant petition in the sum of ₱60.00 per square meter for the 1,050 meters which it was ordered by the courts, in Civil Case No. Q-2989 and CA-G.R. No. 38212-R, to sell to Ramon Rivera, again reveals how fair petitioner would want to be to private respondents, not to defraud them as the respondent court would ascribe such base intent to petitioner, which is by no means not a disreputable, but a respectable, corporation.

For all the foregoing circumstances, We have no hesitation to give to petitioner the benefit of the doubt of its having acted in good faith, which is always presumed, without any intention of taking advantage of the other party dealing with it. "Good faith consists in an honest intention to abstain from taking any unconscientious advantage of another. Good faith is an opposite of fraud and of bad faith and its non-existence must be established

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by competent proof." (*Leung Yee vs. Strong Machinery Company*, 37 Phil. 645; *Cui vs. Henson*, 51 Phil. 606, 612; *Fule vs. De Legare*, 7 SCRA 351).

Moreover, at the time of the execution of the contract to sell, it is an admitted fact that Ricardo de Leon knew that a third party was occupying a part of the lot subject of the sale. Ricardo de Leon ought to have known that he was buying a property with the distinct possibility of not being able to possess and own the land due to the occupancy of another person on the same. So there had to be an understanding between him and the petitioner for the latter to eject the occupant, something which, by the facts then obtaining and the law relevant thereto, would make the ejectment more speculative than certain. Nonetheless, Ricardo de Leon knowingly assumed the risk when he bought the land, and was even called a vendee in bad faith by the Court of Appeals in doing so, clearly not an innocent purchaser in good faith. If petitioner assumed that it would eject Ramon Rivera, he did so, not knowing that the compromise agreement would stand on the way, as it had thought, in all good faith, that paragraph 7 of the compromise agreement excluded the lot in question, having been already sold to Ricardo de Leon before the agreement was executed in court.

This Court is impelled to declare that private respondents were lacking in good faith for knowing beforehand, at the time of the sale, the presence of an obstacle to their taking over the possession of the land, which, in effect, would amount to eviction from said land, and still they bought the land without first removing that obstacle. (*Angelo vs. Pacheco*, 56 Phil. 70; *Andaya vs. Manansala*, 107 Phil. 1151).

One who purchases real estate with knowledge of a defect or lack of title in his vendor cannot claim that he has acquired title thereto in good faith, as against the true owner of the land or of an interest therein; and *the same rule must be applied to one who has knowledge of facts which should have put him upon such inquiry and investigation as might be necessary to acquaint him with the defects in the title of his vendor. A purchaser cannot close his eyes to facts which*

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should put a reasonable man upon his guard and then claim that he acted in good faith under the belief that there was no defect in the title of the vendor (*Leung Yee vs. Strong Machinery Company, supra*; *Manacop, Jr. vs. Cansino*, 1 SCRA 572; *Paylago vs. Jarabe*, 22 SCRA 1247; *Barrios vs. Court of Appeals*, 78 SCRA 427; Italics Ours).

Without being shown to be vendees in good faith, herein respondents are not entitled to the warranty against eviction, nor are they entitled to recover damages (Article 1555 of the Civil Code). However, for justice and equity sake, and in consonance with the salutary principle of non-enrichment at another's expense, herein petitioner J.M. Tuason & Co., Inc. should compensate respondents De Leons in the total sum of ONE HUNDRED TWENTY SIX THOUSAND (₱126,000.00) PESOS, representing the aggregate value of the 1,050 square meters (which petitioner was judicially ordered to sell to Ramon Rivera at the year 1958 prevailing rate of ₱60.00 per square meter) at the value of ₱120.00 per square meter, doubling the price of ₱60.00 per square meter which amount petitioner voluntarily offered to pay herein respondents following how indemnity for death had been raised from ₱6,000.00 to ₱12,000.00 (*People vs. Pantoja*, 25 SCRA 468, 474 [1968]) based on grounds of equity, due to the reduced purchasing power of the peso, with the legal rate of interest from December 5, 1972, the date respondents filed their complaint, until the said total sum is fully paid.

WHEREFORE, the judgment of respondent court is hereby modified by ordering petitioner J.M. Tuason & Co., Inc. to pay the respondents the amount of ONE HUNDRED TWENTY-SIX THOUSAND (₱126,000.00) PESOS plus the legal rate of interest from December 5, 1972, the date of filing the complaint, until the said total sum is fully paid. No costs.

SO ORDERED.

Teehankee (Chairman), Fernandez, and *Guerrero, JJ.*, concur.

Makasiar, J., concurs in the result.

Melencio-Herrera, J., took no part.