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FIRST DIVISION

[G.R. No. 217148; December 7, 2021]

RAPID CITY REALTY AND DEVELOPMENT CORPORATION, *Petitioner*, *v*. **LOURDES ESTUDILLO PAEZ-CLINE alias LOURDES PAEZ-VILLA, ORLANDO VILLA, DEPARTMENT OF PUBLIC WORKS AND HIGHWAYS, DEPARTMENT OF ENVIRONMENT AND NATURAL RESOURCES, REGISTER OF DEEDS OF ANTIPOLO, AND OFFICE OF THE SOLICITOR GENERAL,** *Respondents*.

R E S O L U T I O N

CAGUIOA, *J.*:

Before the Court is a Petition for Review on *Certiorari*[1] (Petition) under Rule 45 of the Rules of Court (Rules) assailing the Decision[2] dated July 1, 2014 (Decision) and Resolution[3] dated February 23, 2015 (Resolution) of the Court of Appeals[4] (CA) in CA-G.R. CV No. 96330, which granted the appeals of respondents spouses Lourdes Paez-Cline also known as Lourdes Paez-Villa (Lourdes) and Orlando Villa (collectively Spouses Villa) and respondents Office of the Solicitor General (OSG) and Department of Public Works and Highways (DPWH), reversed and set aside the Decision[5] dated September 4, 2007 of the Regional Trial Court

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[1] *Rollo*, pp. 33-100, excluding Annexes.

[2] Id. at 102-118. Penned by Associate Justice Amelita G. Tolentino, with Associate Justices Leoncia R. Dimagiba and Carmelita Salandanan Manahan concurring.

[3] Id. at 153-157. Penned by Associate Justice Carmelita Salandanan Manahan, with Associate Justices Jane Aurora C. Lantion and Leoncia R. Dimagiba concurring.

[4] Special Fourth Division and Former Special Fourth Division, respectively.

[5] *Rollo*, pp. 504-519. Penned by Judge Bayani Y. Ilano.

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of Antipolo City, Branch 71 (RTC) in Civil Case No. 04-7350, and dismissed the complaint filed by plaintiff Sta. Lucia Realty and Development, Inc. (Sta. Lucia Realty) and petitioner Rapid City Realty and Development Corporation (Rapid City Realty or petitioner) with the RTC. The CA Resolution denied petitioner's motion for reconsideration (MR).

The Facts

The CA Decision narrates the antecedents as follows:

> This case stemmed from a complaint for the *Declaration of Nullity of Subdivision, Consolidation/Subdivision Plans and Transfer Certificate of Titles, Specific Performance, Reformation of Deed of Sale, Quieting of Titles, Declaratory Relief, Mandamus and Damages*, filed by x x x Sta. Lucia Realty x x x and x x x Rapid City Realty x x x against x x x Spouses Villa x x x[,] DPWH x x x, Department of Environment and Natural Resources (DENR), Register of Deeds of Antipolo and x x x OSG x x x [(collectively, the defendants)].
>
> Sta. Lucia Realty and Rapid City Realty [(the plaintiffs)] seek the annulment and cancellation of Transfer Certificates of Title (TCT) Nos. 409502, 409503 and 409504 and derivative titles, x x x TCT x x x Nos. 364390, 364391, 364392, 364393, R-13668, 3512, 351253 issued by the Register of Deeds of Marikina (now Antipolo City). Moreover, they seek the *cancellation* of subdivision plans Psd-04-118781 and Pcs-04-015503 approved by the DENR and for the nullification of the Deed of Absolute Sale dated February 26, 2003 executed by the Republic of the Philippines through the DPWH and x x x Lourdes x x x.
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> The aforesaid titles, plans, deed of absolute sale involved the property known as Lot 2, (LRC) Psd-214777 with an area of 21,437 square meters located in Barangay San Isidro (Brgy. Inarawan and Brgy. San Luis), Antipolo City which is identical to Lot 10467, Mcad-585 Lungsod Silangan Cadastre[.]
>
> x x x Sta. Lucia Realty and Rapid City Realty are the developers of the subdivision project in Antipolo, Rizal known as Parkehills Executive Village situated along x x x Marcos Highway, while x x x Lourdes x x x is the surviving heir of the late Emilia Estudillo, also known as Emilia Estudillo Paez, who was the registered owner of a parcel of land located at San Isidro, Antipolo, Rizal (now Antipolo City) with an area of 157,114 [square] meters, originally covered by Original Certificate of Title (OCT) No. 724 of then Register of Deeds of Rizal issued on

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March 12, 1954. [Sta. Lucia Realty and Rapid City Realty] claimed that the disputed property (Lot 2) is a road lot which formed part of the Marikina-Infanta Road, now known as Marcos Highway and it is the point of egress and ingress to and from Parkehills Executive Village to Marcos Highway or vice versa.

On September 27, 2004, summons together with copies of complaints were served upon x x x [Spouses Villa] and upon x x x [the] DPWH. On September 28, 2004, summons together with copies of complaints were likewise served upon x x x [the] DENR, the Register of Deeds of Antipolo City and [the] OSG x x x.

On October 29, 2004, the OSG and the DPWH filed a Motion to Dismiss the complaint on the ground that it failed to state a cause of action. On May 3, 2005, the RTC issued an order, which declared x x x Spouses Villa in default and also, denied the OSG and [DPWH's] motion to dismiss. The RTC directed the x x x OSG and DPWH to file a responsive pleading within ten (10) days from receipt of said order. Instead of filing an answer or responsive pleading, the OSG and DPWH filed [an MR] dated June 7, 2005, which was denied by the RTC in its order dated September 22, 2005.

On January 30, 2006, [Spouses Villa] filed a Motion to Lift Order of Default, claiming that on January 27, 2006 they **officially received** all the pertinent papers such [as the] complaint and annexes, motion to dismiss of the Solicitor General, and order dated May 3, 2005, which granted the Motion to Declare them in default. However, they denied the existence of the two househelps who allegedly refused to sign and acknowledge receipt of the summons.

On July 17, 2006, the RTC issued an order, which set aside the order of default and gave the Spouses Villa five (5) days to file their responsive pleading from receipt of the order. In the same order, due to their failure to file an answer or responsive pleading, the DENR, OSG, DPWH and Register of Deeds of Antipolo City were declared in default.

Still, the Spouses Villa failed to comply with the order dated July 17, 2006. Sta. Lucia Realty and Rapid City Realty filed anew a Motion to Declare the Spouses Villa in Default, which the RTC again granted in its order dated February 21, 2007.

Since all the [defendants] did not file any responsive pleading, all were declared in default by the RTC and the [plaintiffs] were allowed to present their evidence *ex-parte* on April 24, 2007 at 2:00 o'clock in the afternoon.

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An Omnibus Motion (For Reconsideration and to Vacate Proceedings) dated April 11, 2007 was filed by the x x x Spouses Villa. On May 22, 2007, the RTC issued an order, which denied the said motion and proceeded to receive evidence *ex-parte* for x x x Sta. Lucia Realty and Rapid City Realty.

On May 24, 2007 and June 4, 2007, Sta. Lucia Realty and Rapid City Realty were allowed to present their evidence *ex-parte*.

Veronica Iniguez Lee, the President and General Manager of Rapid City Realty x x x, and Engr. Robert C. Pangyarihan, former Chief of the Surveys Division of the DENR, Region IV and Chief of the Cadastral Survey Team for the Lungsod Silangan Cadastral Survey testified.

After the presentation of evidence *ex-parte*, the [plaintiffs] filed their Formal Offer of Evidence (Exhibits "A" to "QQ" inclusive of their sub-markings) which was admitted by the [RTC] in its order dated July 19, 2007.

On September 4, 2007, the RTC rendered [a] decision[6] in favor of x x x Sta. Lucia Realty and Rapid City Realty.

[The dispositive portion of the RTC Decision reads:

> WHEREFORE, foregoing considered, judgment is hereby rendered in favor of the [plaintiffs] and against the [defendants:]
>
> 1. Annulling, declaring as null and void the subdivision plan described as Psd-04-118781 and consolidation, subdivision plan Pcs-04-015503 all referring to Lot 2, (LRC) PSD 214777, TCT Nos. 3512/351253/409502, 409503, 409504 both fraudulently approved by the x x x DENR;
>
> 2. Declaring as null and void TCT Nos. 409502, 409503, 409504, and its derivative titles, TCT Nos. 364390, 366391, 36492, 264393 issued by the Registry of Deeds of Marikina, now x x x Registry of Deeds of Antipolo, said titles emanated from null and void subdivision plan Psd-04-118781 and consolidation/subdivision plans Pcs-04-015503 issued by x x x DENR;
>
> 3. Declaring null and void TCT No. R-13668 of x x x Registry of Deeds of Antipolo issued under the name of

[6] Id.

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[the] Republic of the Philippines and in lieu thereof, a new title be issued to cover the whole Lot 2 (LRC), Psd-214777 consisting of 21,437 [square] meters, TCT Nos. 3512/351253/409502, 409503, and 409504;

4. Declaring as null and void the Deed of Sale dated February 26, 2003 executed by x x x Lourdes in favor of the Republic of the Philippines and ordering x x x DPWH, in lieu thereof, the execution or reformation of the Deed of Sale to cover Lot 2, (LR[C]) Psd-214777 consisting of 21,437 sq. m. covered by TCT No. N-3512 or TCT Nos. 351253/409502, 409503, and 409504 of the Registry of Deeds of Antipolo City under the name of x x x Lourdes in favor of the Republic of the Philippines for the same x x x consideration of ₱11,449,000.00;

5. Declaring the titles issued to several residential lot owners and to x x x Rapid City Realty x x x and Sta. Lucia Realty x x x mentioned in pars. 8 and 10 quieted;

6. Declaring [the Spouses Villa] jointly and severally liable to pay [the plaintiffs] damages as follows:

   a) Moral damages in the amount of [₱]100,000.00 to each [plaintiff];

   b) Exemplary damages in the amount of [₱]50,000.00[;]

7. Declaring [the defendants] jointly and severally liable to pay [the plaintiffs]:

   c) Actual damages in the amount of [₱]100,000.00 each [plaintiff];

   d) Attorney's fees in the amount of [₱]200,000.00[.]

Costs of suit.

SO ORDERED.][7]

Not satisfied with the said decision, the x x x [S]pouses Villa [as well as the OSG and DPWH appealed to the CA.][8]

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[7] Id. at 518-519.

[8] Id. at 102-105.

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Ruling of the CA

The CA, in its Decision[9] dated July 1, 2014, granted the appeal of the Spouses Villa as well as the OSG and DPWH. The dispositive portion thereof states:

> ***WHEREFORE***, the appeal is **GRANTED**. Accordingly, the assailed decision dated September 4, 2007 of the Regional Trial Court of Antipolo City, Branch 71 in Civil Case No. 04-7350 is **REVERSED** and **SET ASIDE**. The complaint filed by the plaintiffs x x x Sta. Lucia Realty x x x and Rapid City Realty x x x with the Regional Trial Court of Antipolo City, Branch 71 is **DISMISSED**.
>
> **SO ORDERED**.[10]

The CA stated that while it was in complete agreement with the RTC's findings that all herein respondents were properly declared in default, the CA disagreed with the RTC's judgment because Sta. Lucia Realty and Rapid City Realty are not real parties in interest to ask for the nullification and cancellation of titles, plans, and the Deed of Absolute Sale dated February 26, 2003.[11] The CA noted that herein respondents took the appropriate remedy from the judgment of default, which is an ordinary appeal.[12] It also noted that the law gives the defaulting parties some measure of protection because the plaintiffs, despite the defendants' default, are still required to substantiate their allegations in the complaint; otherwise, requiring the presentation of evidence would be meaningless if every time the other party is declared in default, a decision would automatically be rendered in favor of the non-defaulting party exactly according to the latter's prayer.[13]

The CA justified its ruling that Sta. Lucia Realty and Rapid City Realty are not real parties in interest in this wise:

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[9] Supra note 2.

[10] Id. at 117.

[11] Id. at 115.

[12] Id.

[13] Id.

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x x x Sta. Lucia Realty and Rapid City Realty cannot ask for the nullification of the Deed of Absolute Sale dated February 26, 2003, entered into by and between Lourdes x x x and the Republic of the Philippines through the DPWH, not being a party thereto. A person who is not principally or subsidiarily bound has no legal capacity to challenge the validity of the contract. He must first have an interest in it. "Interest" within the meaning of the term means material interest, an interest to be affected by the deed, as distinguished from a mere incidental interest. Hence, a person who is not a party to a contract and for whose benefit it was not expressly made cannot maintain an action on it, even if the contract, if performed by the parties thereto would incidentally affect him.[14]

Nor can [they] take refuge in their status as taxpayers as the case does not involve any illegal appropriation or taxation. A taxpayer's suit is proper only when there is an exercise of the spending or taxing power of the Congress. It is hornbook principle that a taxpayer is allowed to sue where there is a claim that public funds are illegally disbursed, or that public money is being deflected to any improper purpose, or that there is wastage of public funds through the enforcement of an invalid or unconstitutional law. A person suing as a taxpayer, however, must show that the act complained of directly involves the illegal disbursement of public funds derived from taxation. In other words, for a taxpayer's suit to prosper, two requisites must be met namely, (1) public funds derived from taxation are disbursed by a political subdivision or instrumentality and in doing so, a law is violated or some irregularity is committed; and (2) the petitioner is directly affected by the alleged act.[15]

Likewise, the CA found that the OSG was wrongfully impleaded in the complaint because the averments of the complaint do not present any cause of action against the OSG, not being an indispensable or necessary party in the case pursuant to Section 2, Rule 2 of the Rules, which defines a cause of action as the act or omission by which a party violates a right of another.[16]

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[14] Citing *House International Building Tenants Association, Inc. v. IAC*, 235 Phil. 703 (1987).

[15] *Rollo*, p. 116. Other citations omitted.

[16] Id. at 116-117.

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In conclusion, the CA dismissed the complaint filed by Sta. Lucia Realty and Rapid City Realty before the RTC because they failed in their burden of proof to establish their case by preponderance of competent evidence.[17]

Sta. Lucia Realty and Rapid City Realty filed an MR with the CA, which the CA denied in its Resolution[18] dated February 23, 2015.

Hence the present Petition filed by Rapid City Realty. The Spouses Villa filed a Comment[19] dated September 15, 2015. Rapid City Realty filed a Reply to Comment[20] (of the Spouses Villa) dated October 29, 2015. The OSG and DPWH did not file any Comment to the Petition.

The Issues

The Petition raises the following issues:

1) whether the CA erred in declaring that: a) petitioner is not a real party in interest, and b) the complaint states no cause/causes of action against respondents;

2) whether the CA erred in not affirming the RTC Decision; and

3) whether the CA, in issuing the assailed CA Decision and Resolution, grossly misappreciated or misapprehended the facts, which is tantamount to grave abuse of discretion.

The Court's Ruling

The Petition lacks merit.

Petitioner essentially raises the same grounds that it and Sta. Lucia Realty raised in their MR before the CA, which were all rejected in the assailed CA Resolution.

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[17] Id. at 117.

[18] Supra note 3.

[19] Id. at 640-653.

[20] Id. at 660-690.

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The Court agrees with the CA insofar as the grounds raised by petitioner are unmeritorious.

As similarly raised before the CA, petitioner reiterates in the Petition that it is a real party in interest pursuant to Section 2, Rule 3 of the Rules, which defines a real party in interest as "the party who stands to be benefited or injured by the judgment in the suit, or the party entitled to the avails of the suit."[21]

While petitioner seeks the nullification of certain subdivision and/or consolidation plans as well as certificates of title, the nexus thereof is the nullification of the Deed of Absolute Sale dated February 26, 2003 executed by the Republic of the Philippines (Republic) through the DPWH and Lourdes covering Lot 2, (LRC) Psd-214777 with an area of 21,437 square meters located in Barangay San Isidro (Brgy. Inarawan and Brgy. San Luis), Antipolo City. It is the contention of petitioner that said Lot 2 was a road lot before it was converted into ordinary private lots by Lourdes,[22] and, after the conversion, sold to the Republic through the DPWH. Petitioner also contends that the conversion of said Lot 2 into private lots resulted in reducing the 60-meter wide Marcos Highway into a 10-meter wide road.[23] Petitioner claims that since said Lot 2 should be a road lot, it, together with its successors-in-interest, the public, passing pedestrians and vehicles, has a vested right therein, and the sale thereof to the Republic resulted to the damage and prejudice of petitioner.[24] On this premise, petitioner asserts that, being a party who stands to be benefited or injured by the judgment of the suit, it is a real party in interest.

Based on the principle of relativity of contracts embodied in Article 1311[25] of the Civil Code, a contract can only bind the parties

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[21] Id. at 57-58.

[22] Id. at 63.

[23] Id.

[24] Id.

[25] Art. 1311 of the Civil Code states:

ART. 1311. Contracts take effect only between the parties, their assigns and heirs, except in case where the rights and obligations arising from the contracts

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who had entered into it, or their successors who have assumed their personality or their juridical position; and as a consequence, such contract can neither favor nor prejudice a third person (in conformity with the axiom *res inter alios acta aliis neque nocet prodest*).[26] Thus, generally, a contract cannot produce any effect whatsoever as far as third persons are concerned; and he or she, who is not a party thereto, or an assignee thereunder, has no legal capacity to challenge its validity.[27] This lack of capacity on the part of third persons is apparent in voidable, unenforceable and void contracts under Articles 1397, 1408 and 1421 of the Civil Code, which provide:

> ART. 1397. The action for the annulment of contracts may be instituted by all who are thereby obliged principally or subsidiarily. However, persons who are capable cannot allege the incapacity of those with whom they contracted; nor can those who exerted intimidation, violence, or undue influence, or employed fraud, or caused mistake base their action upon these flaws of the contract. (1302a)
>
> x x x x
>
> ART. 1408. Unenforceable contracts cannot be assailed by third persons.
>
> x x x x
>
> ART. 1421. The defense of illegality of contracts is not available to third persons whose interests are not directly affected. (n)

However, insofar as rescissible contracts are concerned, they can be attacked by a third party who is injured or defrauded since, by nature, a rescissible contract is one which is valid because

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are not transmissible by their nature, or by stipulation or by provision of law. The heir is not liable beyond the value of the property he received from the decedent.

If a contract should contain some stipulation in favor of a third person, he may demand its fulfillment provided he communicated his acceptance to the obligor before its revocation. A mere incidental benefit or interest of a person is not sufficient. The contracting parties must have clearly and deliberately conferred a favor upon a third person. (1257a)

[26] Desiderio P. Jurado, Comments and Jurisprudence on Obligations and Contracts, 1987 Ninth Revised Edition, p. 371.

[27] Id. at 373-374. Citations omitted.

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it contains all of the essential requisites prescribed by law, but which is defective because of injury or damage to either of the contracting parties or to third persons.[28]

The Court has had occasions to apply Article 1302 of the Spanish Civil Code, which is the precursor of Article 1397 of the Civil Code.Understandably, then Article 1302 was applied in nullity of contract cases.

In *Compañia General de Tabacos de Filipinas v. Topiño, et al.*[29] *(Compañia General de Tabacos)*, the Court said:

> To allege the nullity of the original title deeds executed by the Spanish Government in favor of the original grantees of the lands in question is to allege the nullity of the contract entered into between the Spanish Government as grantor and them as vendees, for the titles are simply evidentiary of the sale for a certain consideration of a specific thing. Under the provisions of article 1302 of the Civil Code, the action for the annulment of contracts can only be maintained by those who are bound, either principally or subsidiarily, by virtue thereof. The defendants not being persons bound either principally or subsidiarily by virtue of that contract of sale between the Spanish Government and those original grantees they can not maintain the action of nullity of which they seek to avail themselves as a defense in this suit. And it is logical that it should be so. The nullity of an obligation being declared, the contracting parties must reciprocally restore the things which have been the object of the contract. (Art. 1303.) If the nullity of the title deeds referred to should be declared in conformity with the contention of the defendants, the lands should be restored to the Spanish Government and the price paid for them should be restored by that Government to the original grantees or their successors. It would follow that the lands in question could not remain in the possession of the defendants, because they would have to be restored to the vendor, nor could the latter be compelled to restore the price, not having had an opportunity to be heard in this suit.[30]

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[28] Id. at 490.

[29] 4 Phil. 33 (1904).

[30] Id. at 35-36.

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In *Ibañez v. Hongkong and Shanghai Banking Corporation*[31] *(Ibañez)*, the Court made these pronouncements:

> Article 1302 of the same code prescribes:
>
> "The action for nullity of contracts may be brought by those who are principally or subsidiarily obligated by virtue thereof. Persons with capacity cannot, however, allege the incapacity of those with whom they contracted; neither those who caused the intimidation or violence, or employed deceit, or caused the error, can base their action on these defects of the contract."
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> The provisions of the article just above quoted have connection with those of article 1257 of the same code which reads:
>
> "Contracts shall only be valid between the parties who execute them and their heirs, except, with regard to the latter, the case in which the rights and obligations arising from the contract are not transmissible, either by their nature, or by agreement, or by provision of law.
>
> "Should the contract contain any stipulation in favor of a third person, he may demand its fulfillment, provided he has given notice of its acceptance to the person bound before it may have been revoked."
>
> From these legal provisions it is deduced that it is the interest had in a given contract, that is the determining reason of the right which lies in favor of the party obligated principally or subsidiarily to enable him to bring an action for the nullity of the contract in which he intervened, and, therefore, he who has no right in a contract is not entitled to prosecute an action for nullity, for, according to the precedents established by the courts, the person who is not a party to a contract, nor has any cause of action or representation from those who intervened therein, is manifestly without right of action and personality such as to enable him to assail the validity of the contract. (Decisions of the supreme court of Spain, of April 18, 1901, and November 23, 1903, pronounced in cases requiring an application of the preinserted article 1302 of the Civil Code.)
>
> He who is not the party obligated principally or subsidiarily in a contract may perhaps be entitled to exercise an action for nullity, if he is prejudiced in his rights with respect to one of the contracting parties; but,

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[31] 22 Phil. 572 (1912).

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in order that such be the case, it is indispensable to show the detriment which positively would result to him from the contract in which he had no intervention.

It is evident that the plaintiffs, the Aldecoas, had no participation, nor are parties interested or obligated, principally or subsidiarily, in the contract recorded in the instrument of August 30, 1907. The two sole contracting parties who made the agreement contained in the said instrument, are Aldecoa & Co., through its liquidator, and The Hongkong and Shanghai Banking Corporation, represented by its agent and director, as may be seen by a mere perusal of the Exhibit C D.

Neither is it shown that the said contract of August 30, 1907, is detrimental or prejudicial to the rights and interests of the plaintiffs, and the latter therefore, lack absolutely the personality and rights to have been enabled to prosecute the proper action in demand of the nullity of the contract in question executed between the liquidator of Aldecoa & Co. and the agent of The Hongkong and Shanghai Bank.

It is alleged in the complaint, as a ground for the petition for nullity of the contract of August 30, 1907, page 48 of the bill of exceptions, that the said agreement was executed by the defendant William Urquhart, the liquidator of the firm of Aldecoa & Co., without the express authorization of the members of the latter, nor of the law, and without his having the power or authority to make the same, and that, on the contrary, the said agreement is expressly prohibited by, and is a violation of, the law, and, consequently, is a contract in itself void, without value or effect, because it made The Hongkong and Shanghai Bank, the defendant, an exceptionally privileged creditor to the fraud and prejudice of the other creditors of Aldecoa & Co., among whom are the plaintiffs.

x x x x

In order that the plaintiffs may allege that they have been prejudiced by the contract contained in the instrument executed on August 30, 1907, it is indispensable for them to show that they had a preferred right especially to the said shares of "The Pasay Estate Co. Ltd.," and which was trampled under foot and defrauded by the contract of August 30, wherein they had no interest and were not parties obligated principally or subsidiarily; but since this latter contract or agreement is much less advantageous to The Hongkong and Shanghai Bank than the previous one of June 13, in which the plaintiffs intervened as one of the parties to the contract, conviction is acquired of the groundlessness and unreasonableness of the said plaintiffs' claim, precisely because they

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were unable to allege or to show that they had a better right than The Hongkong and Shanghai Bank and that, by the execution of the contract of August 30 between Aldecoa & Co. and the bank, they were prejudiced in their rights and interests.[32]

In *House International Building Tenants Association, Inc. v. IAC*[33] *(House International Building Tenants)*, from which the CA based the "interest" element in the determination of whether petitioner and Sta. Lucia Realty could be considered parties in interest, the Court found that Article 1397 of the Civil Code was in point, *viz.*:

> The main thrust of the petitioner's challenge on the validity of the conditional sale is that the contract is *ultra vires* because the respondent [Centertown Marketing Corporation (CENTERTOWN, for short)] is not qualified to acquire properties [or engage in real estate business] under its Articles of Incorporation. The petitioner has confused a void contract with an *ultra vires* contract which is merely voidable.
>
> We agree with the Court of Appeals that on this issue the provision of Art. 1397 of the Civil Code is in point, thus:
>
> > Art. 1397. The action for the annulment of contracts may be instituted by all who are thereby obliged principally or subsidiarily.
> > x x x
>
> Petitioner is neither a party nor a privy to the Deed of Conditional Sale and the assignment thereof: thus, it cannot assail the validity of the said contracts. In *Ibañez v. Hongkong and Shanghai Bank*, we said:
>
> From these legal provisions it is deduced that it is the interest had in a given contract, that is the determining reason of the right which lies in favor of the party obligated principally or subsidiarily to enable him to bring an action for the nullity of the contract in which he intervened, and, therefore, he who has no right in a contract is not entitled to prosecute an action for nullity, for, according to the precedents established by the courts, the person who is not a party to a contract, nor has any cause of action or representation from those who intervened therein, is manifestly without right of action and personality such as to enable him to assail

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[32] Id. at 584-588.

[33] Supra note 14.

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the validity of the contract. (Decisions of the supreme court of Spain, of April 18, 1901, and November 23, 1903, pronounced in cases requiring an application of the preinserted article 1302 of the Civil Code.) (22 Phil. 572; 584).[34]

It will be recalled that petitioner tenants' association in *House International Building Tenants* questioned the validity of the conditional sale by the Government Service Insurance System of the foreclosed 14-storey House International Building and land to CENTERTOWN, without notice to the tenants of the building and without securing the prior clearance of the then Ministry of Human Settlements. The conditional sale, being *ultra vires*, was then viewed as not void but voidable; thus, the reliance on Article 1397. The Court observes, however, that such appears to be mistaken because a contract, which is *ultra vires*, may not be voidable under Article 1390[35] of the Civil Code. Rather, it may fall under the first enumeration in Article 1403, to wit:

> ART. 1403. The following contracts are unenforceable, unless they are ratified:
>
> (1) Those entered into in the name of another person by one who has been given no authority or legal representation, or who has acted beyond his powers;
>
> x x x x

Since CENTERTOWN was not authorized in its Articles of Incorporation to engage in real estate business, it might have acted beyond its powers when it entered into the conditional sale. Being

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[34] Id. at 709.

[35] The provision states:

> ART. 1390. The following contracts are voidable or annullable, even though there may have been no damage to the contracting parties:
>
> (1) Those where one of the parties is incapable of giving consent to a contract;
>
> (2) Those where the consent is vitiated by mistake, violence, intimidation, undue influence or fraud.
>
> These contracts are binding, unless they are annulled by a proper action in court. They are susceptible of ratification. (n)

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an unenforceable contract, it could not be assailed by third persons pursuant to Article 1408. With this clarification, the discussion in *House International Building Tenants* on whether petitioner therein was a party in interest to question the said conditional sale would be in proper perspective, *viz.*:

> x x x The main issues raised in the petition are: (1) whether petitioner has the personality to sue, on its own, as a corporation representing its members who are tenants of the House International Building, and (2) whether petitioner has a cause of action against respondents GSIS, CENTERTOWN and TOWERS.
>
> Section 2, Rule 3 of the Rules of Court provides:
>
> Sec. 2. Parties in interest. — Every action must be prosecuted and defended in the name of the real party in interest. All persons having an interest in the subject of the action and in obtaining the relief demanded shall be joined as plaintiffs.
>
> The real party in interest is the party who stands to be benefited or injured by the judgment or the party entitled to the avails of the suit. "Interest" within the meaning of the rule means material interest, an interest in issue and to be affected by the decree, as distinguished from mere interest in the question involved, or a mere incidental interest. Consequently, a person who is not a party to a contract and for whose benefit it was not expressly made cannot maintain an action thereon, notwithstanding that the contract, if performed by the parties to it, would incidentally inure to his benefit. (Francisco, the Revised Rules of Court in the Phil., Vol. 1, p. 126).
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> In the present case, the real parties in interest are the tenants of the House International Building and not the petitioner ASSOCIATION, which has a personality separate and distinct from that of its members and therefore it has the capacity to sue and be sued although it is composed of the tenants. Petitioner has not shown any real, actual, material, or substantial interest in the subject matter of the action. In this connection, the Court of Appeals properly observed:
>
> Appellant has sued in its name, but has not alleged any right belonging to it that was violated or any wrong that was committed. The reason is obvious, the benefits are not really meant for appellant but for the unnamed "great majority" of its members who have allegedly been tenants of long standing of the building in question. (Decision of Court of Appeals, p. 2).

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And, quoting from the Brief for the respondent-defendant GSIS, the Court of Appeals further said:

> Assuming *arguendo*, that the tenants have the alleged right, such rights of the tenants are personal and individual rights which can only be claimed by the tenants who must necessarily be the indispensable and real parties in interest and certainly not the plaintiff-appellant organization. (*Ibid.*, p. 2.)[36]

In the present case, petitioner questions the validity of the Deed of Absolute Sale dated February 26, 2003 and seeks its nullification, "on the ground of fraud x x x [and] Lot 2 Psd 214777 [being] a road lot."[37] While a fraudulent contract is not expressly provided in Article 1409 of the Civil Code as one of those which are inexistent and void from the beginning, "[t]hose whose object is outside the commerce of men"[38] are part of the enumeration therein. Since the issue concerns the nullity of the contract being questioned, the applicable provision of the Civil Code is not Article 1397, but Article 1421 — "The defense of illegality of contracts is not available to third persons whose interests are not directly affected."

Being a new provision in the Civil Code, can the jurisprudence on the provision in the Spanish Civil Code, Article 1302 on action for nullity of contracts, which was modified into Article 1397 on annulment of contracts, have persuasive application in interpreting Article 1421? The Court so believes. While the operative phrase in Article 1397 is "obliged principally or subsidiarily" and its precursor, Article 1302, "principally or subsidiarily obligated," and in Article 1421 "interests not directly affected," there is no cogent reason to depart from the Court's pronouncements in *House International Building Tenants* regarding "interest" as referring to "material interest" and not mere "incidental interest" in relation to the definition of a real party in interest under Section 2, Rule 3 of the Rules, who can assail the illegality of the contract under Article 1421. Also, the "indispensable" burden in *Ibañez* "to show the

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[36] *House International Building Tenants Association, Inc. v. IAC*, supra note 14, at 706-707.

[37] *Rollo*, pp. 44-45.

[38] Civil Code, Art. 1409(4).

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detriment which positively would result to [the third person/party] from the contract in which he[/she] had no intervention"[39] has to be hurdled.

In *Ibañez*, the Court found the absence of prejudice because of the failure to show a preferred right on the part of the third person while in *Compañia General de Tabacos*, the nullity of the contract would not have created any preferential right in favor of the third person since the subject property therein would just be reverted back to the State and the seller would be obliged to return the purchase price to the State. In *House International Building Tenants*, the third party tenants' association had no material interest, or interest in issue, in assailing the conditional sale because it was not a tenant, whose right was directly prejudiced thereby.

The Court notes that all the RTC found regarding the damage suffered by petitioner and Sta. Lucia Realty "[b]ecause of all the [questioned] acts committed by respondents in relation [to] the rights of [petitioner and Sta. Lucia Realty, their] good name and reputation were damaged."[40] Clearly, such damage or prejudice does not even approximate the material interest required of a real party in interest. Neither can it be considered "an interest directly affected" by the Deed of Absolute Sale sought to be nullified. And, it is definitely not the interest in issue in a contract nullification suit.

If the questioned Deed of Absolute Sale were nullified, the same effect as in *Compañia General de Tabacos* would result. Subject Lot 2, which is alleged as road lot, would revert back to the State and Lourdes would return the purchase price which she received from the Republic through the DPWH. No preferential right over Lot 2 would inure in petitioner's favor. Similarly, no direct prejudice would befall upon petitioner with its nullification since similar to *Ibañez* it would not have any preferred right over Lot 2. If at all, the interest of petitioner that might have been affected by the questioned Deed of Absolute Sale would be merely incidental, not material, given the absence of any direct, positive prejudice on

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[39] *Ibañez v. Hongkong and Shanghai Banking Corporation*, supra note 31, at 585.

[40] *Rollo*, p. 517.

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its part. The supposed interest of petitioner in Lot 2 is simply not in issue in resolving whether the questioned Deed is void.

Using the parameters which the Court used in determining the nature of the interest of, and prejudice to the third party in *Compañia General de Tabacos*, *Ibañez*, and *House International Building Tenants*, the interest of petitioner in the nullification of the Deed of Absolute Sale in question is merely incidental and petitioner has not mustered the indispensable burden of proof of the prejudice that it would positively suffer if the said Deed is not nullified. Thus, it failed in proving that its interests are directly affected by the questioned Deed of Absolute Sale. That being the case, petitioner is not a real party in interest to challenge its validity.

Anent petitioner's right to question the Deed of Absolute Sale as a taxpayer, it insists that it can do so because the evidence which it presented proves that public funds were illegally disbursed or deflected for improper purpose.[41] In this regard, it also invokes violation of its private rights and transcendental significance or paramount importance.[42]

In *Mamba v. Lara*,[43] which the CA cited in the assailed Decision to justify its ruling that petitioner cannot question the validity of the Deed of Absolute Sale as a taxpayer, the Court's disquisition on taxpayer's suit is instructive, *viz.*:

> A taxpayer is allowed to sue where there is a claim that public funds are illegally disbursed, or that the public money is being deflected to any improper purpose, or that there is wastage of public funds through the enforcement of an invalid or unconstitutional law. A person suing as a taxpayer, however, must show that the act complained of directly involves the illegal disbursement of public funds derived from taxation. He must also prove that he has sufficient interest in preventing the illegal expenditure of money raised by taxation and that he will sustain a direct injury because of the enforcement of the questioned statute or contract. In other words, for a taxpayer's suit to prosper, two requisites must be met: (1) public funds derived from taxation are disbursed by a political

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[41] Id. at 67.

[42] See *id.* at 73-77.

[43] G.R. No. 165109, December 14, 2009, 608 SCRA 149.

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subdivision or instrumentality and in doing so, a law is violated or some irregularity is committed and (2) the petitioner is directly affected by the alleged act.

In light of the foregoing, it is apparent that contrary to the view of the RTC, a taxpayer need not be a party to the contract to challenge its validity. As long as taxes are involved, people have a right to question contracts entered into by the government.

In this case, although the construction of the town center would be primarily sourced from the proceeds of the bonds, which respondents insist are not taxpayer's money, a government support in the amount of [₱]187 million would still be spent for paying the interest of the bonds. In fact, a Deed of Assignment was executed by the governor in favor of respondent RCBC over the Internal Revenue Allotment (IRA) and other revenues of the provincial government as payment and/or security for the obligations of the provincial government under the Trust Indenture Agreement dated September 17, 2003. Records also show that on March 4, 2004, the governor requested the *Sangguniang Panlalawigan* to appropriate an amount of [₱]25 million for the interest of the bond. Clearly, the first requisite has been met.

As to the second requisite, the court, in recent cases, has relaxed the stringent "direct injury test" bearing in mind that *locus standi* is a procedural technicality. By invoking "transcendental importance," "paramount public interest," or "far-reaching implications," ordinary citizens and taxpayers were allowed to sue even if they failed to show direct injury. In cases where serious legal issues were raised or where public expenditures of millions of pesos were involved, the court did not hesitate to give standing to taxpayers.[44]

Similar to the issue on need of material interest to qualify a third person as a real party in interest to challenge the validity of a contract, petitioner again misapprehends the fundamental requisites for a taxpayer's suit to prosper. It is required, as a second element, that the taxpayer must be directly affected by the questioned act. As explained above, petitioner has miserably failed to prove such direct, positive, material injury affected thereby. Even if it is granted that the invocation of "transcendental importance" may be allowed to substitute direct injury, petitioner

[44] Id. at 162-163. Citations omitted.

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still has to prove the same by preponderant evidence. Petitioner, as well, utterly failed in this respect. Nowhere in the RTC Decision is there a finding that the nullification of the questioned Deed of Absolute Sale has reached the level of "transcendental importance." To reiterate, all that the RTC found was that petitioner and Sta. Lucia Realty's "good name and reputation were damaged."[45] Surely, damage to the reputation and good name of two private corporations, by no amount of fertile imagination, can measure up to "transcendental importance," "paramount public interest," or "far-reaching implications."

Proceeding now to the argument that the OSG was properly impleaded as a defendant, petitioner justifies that the OSG and the Register of Deeds are "impleaded x x x for formality and pursuant to the rules requiring mandatory notice to the OSG when a government agency is impleaded, and the Register of Deeds for the ministerial issuance of titles."[46] In this case, the DPWH, DENR and Register of Deeds have been impleaded as defendants.

The resolution of this matter and the rest of the issues raised by petitioner in the Petition has been rendered superfluous in view of the Court's ruling that petitioner, including Sta. Lucia Realty, is not a real party in interest to challenge the validity of the questioned Deed of Absolute Sale, warranting the dismissal of their Complaint before the RTC as correctly ordered by the CA.

WHEREFORE, the Petition is **DENIED**, with costs against petitioner.

SO ORDERED.

Gesmundo, C.J. (Chairperson), Lazaro-Javier, M. Lopez, and *J. Lopez, JJ.*, concur.

APPEARANCES OF COUNSEL

Legaspi Barcelo & Salamera Law Offices for petitioner.
Salomon and Gonong Law Offices for respondents.

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[45] *Rollo*, p. 517.

[46] Id. at 83.