

SECOND DIVISION

[G.R. NO. 130982, September 16, 2005]

**SPOUSES DOMINGO AND LOURDES PAGUYO, PETITIONERS, VS.
PIERRE ASTORGA AND ST. ANDREW REALTY,
INC., RESPONDENTS.**

D E C I S I O N

CHICO-NAZARIO, J.

. . . Men may do foolish things, make ridiculous contracts, use miserable judgment, and lose money by them – indeed, all they have in the world; but not for that alone can the law intervene and restore. There must be, in addition, a violation of the law, the commission of what the law knows as an actionable wrong, before the courts are authorized to lay hold of the situation and remedy it.^[1]

The case at bar demonstrates a long drawn-out litigation between parties who already entered into a valid contract that has subsisted for almost twenty (20) years but one of them later balks from being bound by it, alleging fraud, gross inadequacy of consideration, mistake, and undue influence.

This is a petition for review on *certiorari* where petitioner Spouses Domingo and Lourdes Paguyo seek the reversal of the Decision^[2] and the Resolution,^[3] dated 30 April 1997 and 12 September 1997, respectively, of the Court of Appeals in CA-G.R. CV No. 47034, affirming *in toto* the Decision^[4] dated 21 April 1994 of the Regional Trial Court (RTC), Branch 142 of Makati City.

The Antecedents

The undisputed facts, per summary of the Court of Appeals, follow.

Herein petitioners, Spouses Domingo Paguyo and Lourdes Paguyo, were the owners of a small five-storey building known as the Paguyo Building located at Makati Avenue, corner Valdez Street, Makati City. With one (1) unit per floor, the building has an average area of 100 square meters per floor and is constructed on a land belonging to the Armas family.^[5]

This lot on which the Paguyo Building stands was the subject of Civil Case No. 5715 entitled, *Armas, et al., v. Paguyo, et al.*, wherein the RTC of Makati City, Branch 57, rendered a decision on 20 January 1988 approving a Compromise Agreement made between the Armas and the petitioners. The compromise agreement provided that in consideration of the total sum of One Million Seven Hundred Thousand Pesos (P1,700,000.00), the Armas committed to execute in favor of petitioners a deed of sale and/or conveyance assigning and transferring unto said petitioners all their rights and interests over the parcel of land containing an area of 299 square meters.

In order for the petitioners to complete their title and ownership over the lot in question, there was an urgent need to make complete payment to the Armases, which at that time stood at P917,470.00 considering that petitioners had previously made partial payments to the Armases.

On 29 November 1988, in order to raise the much needed amount, petitioner Lourdes Paguyo entered into an agreement captioned as **Receipt of Earnest Money** with respondent Pierre Astorga, for the sale of the former's property consisting of the lot which was to be purchased from the Armases, together with the improvements thereon, particularly, the existing building known as the Paguyo Building, under the following terms and conditions as stated in the document, to wit:

RECEIVED from MR. PIERRE M. ASTORGA the sum of FIFTY THOUSAND (P50,000.00) PESOS (U.C.P.B. Manager's Check No. 013085 dated November 29, 1988) as earnest money for the sale of our property consisting of a parcel of land designated as Lot 12 located at Makati Avenue, Makati, Metro Manila, covered by and described in T.C.T. No. 154806 together with the improvements thereon particularly the existing building known as the Paguyo Bldg. under the following terms and conditions:

1. The earnest money (Exh. "D") shall be good for fifteen (15) days from date of this document during which period the owner is bound to sell the property to the buyer;
2. Should the buyer decide not to buy the subject property within the earnest/option period, the seller has the right to forfeit Fifteen Thousand (P15,000.00) pesos, and return the difference to the buyer;
3. The agreed total purchase price is seven million (P7,000,000.00) pesos Philippine Currency;
4. Within fifteen (15) days from execution of this document, the buyer shall pay Fifty (50%) percent of the total purchase price less the aforesaid earnest money, upon payment of which the following documents shall be executed or caused to be executed as the case may be, namely:
 - a. Deed of Absolute Sale of the Paguyo Bldg., in favor of the buyer.
 - b. Deed of Absolute Sale to be executed by the Armases who still appear as the registered owners of the lot in favor of the buyer.
 - c. Deed of Real Estate Mortgage of the same subject lot and Bldg. to secure the 50% balance of the total purchase price to be executed by the buyer in favor of the herein seller.

5. The Deed of Real Estate Mortgage shall contain the following provisions, namely:

- a. payment of the 50% balance of the purchase price shall be payable within fifteen (15) days from actual vacating of the Armas from the subject lot.
- b. During the period commencing from the execution of the documents mentioned under paragraph 4 (which should be done simultaneously) the buyer is entitled to one-half (1/2) of the rental due and actually received from the tenants of the Paguyo Bldg. plus the use of the penthouse while the seller shall retain possession and use of the basement free of rent until the balance of the purchase price is fully paid in accordance with the herein terms and conditions. The one-half (1/2) of the tenants' deposits shall be credited in favor of the buyer.^[7]

However, contrary to their express representation with respect to the subject lot, petitioners failed to comply with their obligation to acquire the lot from the Armas family despite the full financial support of respondents. Nevertheless, the parties maintained their business relationship under the terms and conditions of the above-mentioned Receipt of Earnest Money.^[8]

On 12 December 1988, petitioners asked for and were given by respondents an additional P50,000.00 to meet the former's urgent need for money in connection with their construction business. Due also to the urgent necessity of obtaining money to finance their construction business, petitioner Lourdes Paguyo, who was also the attorney-in-fact of her husband, proposed to the respondents the separate sale of the building in question while she continued to work on the acquisition of the lot from the Armas family, assuring the respondents that she would succeed in doing so.^[9]

Aware of the risk of buying an improvement on the lot of a third party who appeared ambivalent on whether to dispose their property in favor of the respondents, respondents took a big business gamble and, relying on the assurance of petitioners that they would eventually acquire the lot and transfer the same to respondents in accordance with their undertaking in the Receipt of Earnest Money, respondents agreed to petitioner Lourdes Paguyo's proposal to buy the building first. Thus, on 5 January 1989, the parties executed the four documents in question namely, the Deed of Absolute Sale of the Paguyo Building, the Mutual Undertaking, the Deed of Real Estate Mortgage, and the Deed of Assignment of Rights and Interest.^[10] Simultaneously with the signing of the four documents, respondents paid petitioners the additional amount of P500,000.00.^[11] Thereafter, the respondents renamed the Paguyo Building into GINZA Bldg. and registered the same in the name of respondent St. Andrew Realty, Inc. at the Makati Assessor's Office after paying accrued real estate taxes in the total amount of P169,174.95. Since 1990, respondents paid the real estate taxes on subject building as registered owners thereof. Further, respondents obtained fire insurance and applied for the conversion

of Paguyo Building into a condominium. All of these acts of ownership exercised by respondents over the building were with the express knowledge and consent of the petitioners.^[12]

Pursuant to their agreement contained in the aforecited documents, particularly in the Mutual Undertaking,^[13] respondent company filed an ejectment case and obtained a favorable decision against petitioners in the Metropolitan Trial Court (MeTC) of Makati in Civil Case No. 40050. The case reached this Court which affirmed the decision of the MeTC in favor of respondent company. This decision had already been executed and the respondent company is now in possession of the building. Accordingly, respondents continued to exercise acts of full ownership, possession and use over the building.^[14]

On 06 October 1989, petitioners filed a Complaint for the rescission of the **Receipt of Earnest Money**^[15] with the undertaking to return the sum of P763,890.50. They also sought the rescission of the **Deed of Real Estate Mortgage**,^[16] the **Mutual Undertaking, the Deed of Absolute Sale of Building**,^[17] and the **Deed of Assignment of Rights and Interest**.^[18]

In their complaint, petitioners alleged that respondents Astorga and St. Andrew Realty, Inc., led them to believe that they would advance the P917,470.00, which was needed by petitioners to complete payment with the Armases, with the understanding that said amount would simply be deducted from the P7 Million total consideration due them for the sale of the lot and the building as agreed upon in their Receipt of Earnest Money. The same, however, did not materialize because instead of making available the check for the said amount, respondents did not produce the amount and even ordered the "stop payment" of the same before it could be deposited in court.^[19]

Respondents, in their Answer, however, interjected that as gleaned from the **Receipt of Earnest Money**, the **Mutual Undertaking**, the **Deed of Assignment of Rights and Interest**, their original intention was to purchase the Paguyo Building and the lot on which it stands *simultaneously*. Respondents interposed that at the time the decision on the compromise agreement between petitioners and Armases was rendered, petitioners were badly in need of money because they were financing their construction business and, with the balance payable to the Armases, the former were in a huff to produce an amount sufficient to cover both transactions. Thus, petitioners prevailed upon respondents to purchase the Paguyo Building first with the lot to follow after petitioners have successfully acquired it from the Armas family.

Respondents, likewise, stated in their Answer that sometime in July of 1989, petitioners asked respondent corporation to execute a check in the amount of P917,470.00^[20] for the final execution of the Deed of Conveyance of the lot, saying that they were finally able to negotiate the purchase of the lot owned by the Armases. To settle the transaction, respondent corporation again complied. After investigation, however, respondents learned that petitioners were not in the position to deliver the land, all the rights and interest thereof having allegedly been transferred already to spouses Rodolfo and Aurora Bacani. They were able to confirm this after obtaining a copy of a letter dated 22 September 1989 of

petitioners' counsel (same counsel representing them presently) to the Register of Deeds of Makati a month prior to the filing of the instant case. The letter stated:

Ms. Mila Flores
Register of Deeds
Makati, Metro Manila

Dear Ms. Flores:

We represent the *spouses Rodolfo and Aurora Bacani, who happen to be the assignees of all the rights and interests that the couple Domingo and Lourdes Paguyo have over that parcel of land located along Makati Avenue, the particulars and description of which are indicated on TCT No. 154806 which, for reasons we perceive to be not legitimate, was cancelled.*

. . .

(SGD.) HECTOR B. ALMEYDA
For the Firm^[21]

(Emphasis supplied.)

Respondents further explained in their Answer that because of this development, they were constrained to order "stop payment" of the P917,470.00 check, which was duly communicated to petitioners in a letter dated 14 July 1989, to wit:

I am very sorry to inform you that I have to stop payment on Philtrust Check No. 006759 because I was just reliably informed that you are no longer in a position to deliver the lot subject of our agreement. While the financier had already advanced half million pesos which was already placed in my account, I discouraged her from putting another million pesos to cover my check with you. I therefore find myself with no alternative but to order stop payment on my check to protect my rights and interests.^[22]

The Ruling of the Trial Court

After trial, the RTC ruled in favor of respondents in a Decision^[23] dated 21 April 1994, the dispositive portion of which reads:

Judgment is hereby rendered dismissing the complaint for lack of cause of action, the petition for preliminary injunction is hereby denied, judgment is rendered in favor of the defendants and ordering the plaintiff spouses Domingo and Lourdes Paguyo to pay the defendants Pierre Astorga and St. Andrew Realty, Inc. on their counterclaim.

1. P400,000.00 for moral damages;
2. P200,000.00 as exemplary damages;
3. P100,00.00 for attorney's fees and litigation expenses and pay the cost of suit.^[24]

The Ruling of the Court of Appeals