

SECOND DIVISION

[G.R. No. 159212, September 12, 2005]

NAVOTAS INDUSTRIAL CORPORATION, REPRESENTED HEREIN BY ITS ACTING PRESIDENT DANIEL L. BAUTISTA, PETITIONER, VS. GERMAN D. CRUZ, MARCELO D. CRUZ, ROSALINA CRUZ-LAIZ, MARIANO A. CRUZ, JR., THE HEIRS OF ROGELIO D. CRUZ, NAMELY, SYLVIA, ROSYL, ROGELIO, JR., SERGIO AND ESTRELLA, ALL SURNAMED CRUZ, THE HEIRS OF SERAFIN D. CRUZ, NAMELY, ADELAIDA, MERCEDITAS AND GABRIEL, ALL SURNAMED CRUZ, MARIA CRISTINA CRUZ-YCASIANO, MONICA CRUZ-DADIVAS AND CARMEN VDA. DE CRUZ, RESPONDENTS.

D E C I S I O N

CALLEJO, SR., J.:

This is a petition for review on *certiorari* of the Decision^[1] of the Court of Appeals (CA) in CA-G.R. CV No. 69818, reversing the Decision of the Regional Trial Court (RTC) in Civil Case No. 2427-MN.

The Antecedents

Carmen Vda. De Cruz was the owner of a parcel of land located in Navotas, Rizal, with an area of 13,999 square meters, covered by Transfer Certificate of Title (TCT) No. 81574.^[2]

On October 5, 1966, Carmen Cruz, as lessor, and the Navotas Industrial Corporation (NIC), through its president, Cipriano C. Bautista, as lessee, executed a contract of lease over one-half portion of the said property, shown in the sketch appended thereto as Annex "A." The lease was for the period of October 1, 1966 to midnight of October 1, 1990. The property was to be used for shipyard slipways and the lessee's other allied businesses. The NIC obliged itself to construct two slipways, with all its accessories, within the first 10 years of the lease with a total value of not less than P450,000.00.^[3]

On March 14, 1973, the property was mortgaged to the China Banking Corporation (CBC) as security for a loan by two of Carmen Cruz's children, Mariano and Gabriel.^[4] The owner's duplicate of the title was delivered to and kept by the CBC as mortgagee.

On December 31, 1974, Carmen Cruz executed a Deed of Absolute Sale of Realty with Assumption of Mortgage in which she, as vendor, sold and conveyed the property to her children, namely, Serafin D. Cruz (married to Adelaida Cruz), Mariano Cruz, Rogelio Cruz, Sr. Carmencita Cruz and Sr. Mary Carmela Cruz, for the purchase price of P350,000.00 which the vendor

acknowledged to have received from the vendees.^[5]

In a Letter^[6] dated November 22, 1976, Mariano Cruz, in his behalf and in behalf of the other vendees, requested CBC to conform to the sale of the property, a copy of which was attached to the said letter. The CBC refused.

In the meantime, relations between Carmen Cruz and her children became strained. She believed that her children had ignored her and failed to take care of her.

On June 27, 1977, Mariano Cruz, for himself and in behalf of the other vendees, presented the said deed of sale to the Register of Deeds for registration purposes.^[7] In the same letter, they requested the Register of Deeds to request the CBC for the transmittal of the owner's TCT No. 81574 for the annotation of the Deed of Sale with Assumption of Mortgage. However, on June 28, 1977, the CBC, through counsel, wrote Mariano Cruz, informing him that Carmen Cruz had instructed it not to conform to the Deed of Sale with Assumption of Mortgage, and not to surrender the owner's duplicate of the said title.

In the meantime, the balance of the loan account secured by the mortgage was paid to the CBC. Thus, on June 29, 1977, the CBC executed a Cancellation of Real Estate Mortgage over the property.^[8] However, the deed was not presented to the Register of Deeds for registration.

On the same day, Mariano Cruz executed an Affidavit of Adverse Claim^[9] stating, *inter alia*, that he and the others named therein were the vendees of the property as evidenced by a Deed of Sale with Assumption of Mortgage appended thereto, and that, to protect their rights and interests, the said affidavit of adverse claim was being executed as a cautionary notice to third persons and the world that the property had been sold to them. It was, likewise, stated that Carmen Cruz had ordered the CBC not to surrender the owner's duplicate of TCT No. 81574. The aforesaid affidavit of adverse claim was inscribed at the dorsal portion of the title^[10] on June 30, 1977 as Entry No. 22178.

In a Letter^[11] dated July 1, 1977, the Register of Deeds requested CBC to surrender the owner's duplicate of TCT No. 81574, pursuant to Section 72 of Act 496, in order that proper memorandum be made thereon. The Register of Deeds was obviously unaware that the CBC had already executed the cancellation of real estate mortgage on June 29, 1977.

On July 30, 1977, Carmen Cruz, as lessor, and the NIC, as lessee, executed a Supplementary Lease Agreement,^[12] the October 5, 1966 Contract of Lease earlier executed by the parties was modified, in that the terms of the lease was extended for another 15 years to expire on October 1, 2005. The lessee was, likewise, given up to October 1, 1982 within which to construct the two slipways at a cost of not less than P600,000.00 and increasing the lease rental for the property. The lessee was granted the option to buy the property for the price of P1,600,000.00. On the same day, the parties executed a Contract of Lease^[13] over an additional portion of the property, with an area of 590.58 square meters, as shown in the sketch appended thereto. However, the said contracts were not presented for registration

to the Register of Deeds.

On September 14, 1977, the aforesaid Cancellation of Real Estate Mortgage the CBC had earlier executed (on June 29, 1977) was presented to the Register of Deeds and annotated at the dorsal portion of TCT No. 81574 as Entry No. 27796. The following were, likewise, presented to the Register of Deeds for registration, and, thereafter, annotated at the dorsal portion of the said title: the Contract of Lease dated October 5, 1966 (Entry No. 27797), the July 30, 1977 Contract of Lease (Entry No. 27798), and the Supplementary Lease Agreement (Entry No. 27799).^[14]

In the meantime, Mariano Cruz and the other vendees presented the Deed of Sale with Assumption of Mortgage to the Register of Deeds for registration. On December 19, 1977, the Register of Deeds cancelled the said title and issued TCT No. 11272 in the names of the new owners. TCT No. 11272 was later cancelled by TCT No. R-11830.

In a Letter^[15] dated October 20, 1978, Mariano Cruz, *et al.* informed the NIC that the property had been sold to them, and gave it 30 days from receipt of the letter to vacate the property and return possession to them. The vendees, likewise, informed the NIC that since the October 5, 1966 Contracts of Lease and the July 30, 1977 Supplementary Lease Agreement were annotated at the back of TCT No. 81574 only on September 14, 1977, after the affidavit of adverse claim of Mariano Cruz, *et al.* was annotated on June 29, 1977, such contracts were null and void. However, the NIC refused to vacate the property.

In the meantime, the property was subdivided into three lots: Lots 1-A, 1-B and 1-C. Lot 1-A had an area of 6,307 square meters, covered by TCT No. 85099^[16] issued on July 5, 1982.

Carmen Cruz filed a complaint with the RTC of Navotas against Cipriano Bautista, in his capacity as president of the NIC, for the declaration of nullity of the July 30, 1977 Supplementary Lease Agreement and Contract of Lease, and for the cancellation of the annotation at the back of TCT No. 81574 referring to the said contracts. The complaint was amended to implead the NIC as party-defendant. Carmen Cruz alleged therein that she was the owner-lessor of the property subject of the said contract; the NIC failed to construct the two slipways within the period stated in the lease contract; it took advantage of the animosity between her and her children, and caused the preparation of the July 30, 1977 Supplementary Lease Agreement and Contract of Lease; the NIC was able to insert therein blatantly erroneous, one-sided and highly unfair provisions; and that the said contracts were even extended for a period long beyond her life expectancy (the plaintiff was then almost 80 years old). She further alleged that the provisions in the Contract of Lease and Supplementary Lease Agreement which granted NIC the exclusive option to buy the property, was a sham. She prayed that, after due proceedings, judgment be rendered in her favor:

WHEREFORE, it is respectfully prayed that judgment be rendered declaring the Supplementary Contract of Lease dated July 30, 1977 as null and void *ab initio*; ordering the defendant and all persons claiming possession of the premises under it to vacate and turn over the premises to the plaintiffs; ordering the defendant to pay the reasonable monthly

rental of P10,000.00 for the occupancy of the premises, beginning October 1, 1990, until it vacates the premises; ordering the defendant to pay the plaintiffs the sum of P30,000.00 as moral damages; the sum of P50,000.00 as attorney's fees, and the sum of P1,000.00 as appearance fee of the undersigned counsel; to pay the sum of P5,000.00 as litigation expenses; plus costs of suit.

Plaintiffs further pray for such other relief and remedies they are entitled to in the premises.^[17]

Mariano Cruz and his siblings filed a complaint-in-intervention in the said case, alleging that they were the co-owners of the property, and praying that judgment be rendered in their favor, as follows:

WHEREFORE, it is respectfully prayed that judgment be rendered rescinding the Contract of Lease dated October 5, 1966, (Annex "B"), declaring as null and void the Supplementary Lease Agreement (Annex "C"), and the Contract of Lease (Annex "D"), both dated July 30, 1977, for having been entered into by the plaintiff who had long ceased to be the owner of the property in question, awarding the sum of P450,000.00, actual damages, representing the value of the improvements which the defendants bound themselves to introduce in the premises; awarding the plaintiffs-intervenors the sum of P100,000.00 as exemplary damages; the sum of P150,000.00 as moral damages; P50,000.00 as attorney's fees and P10,000.00 as litigation expenses.

Plaintiffs-intervenors further pray for such other relief and remedies they are entitled to in the premises.^[18]

However, Carmen Cruz filed a motion to dismiss the amended complaint. On February 6, 1984, the trial court issued an Order^[19] granting the motion and dismissing the amended complaint and the complaint-in-intervention. The order became final and executory.

On June 23, 1990, Mariano Cruz, *et al.* wrote the NIC that they would no longer renew the October 5, 1966 contract of lease which was to expire on October 1, 1990; as far as they were concerned, the July 30, 1977 Supplementary Lease Agreement and Contract of Lease were null and void, the same having been executed and annotated on September 14, 1977 at the back of TCT No. 81574 long after the annotation of the affidavit of the adverse claim of Mariano Cruz, *et al.* on June 30, 1977.^[20]

In a Letter^[21] dated January 11, 1991, Mariano Cruz, *et al.* wrote the NIC, demanding that it vacate the property within 30 days from notice thereof, otherwise, a complaint for unlawful detainer would be filed against it. However, the NIC refused to vacate the property.

On April 18, 1991, Mariano Cruz and his siblings filed a Complaint^[22] against the NIC with the Municipal Trial Court (MTC) of Navotas for ejectment. However, on June 11, 1992, the trial court issued an Order^[23] dismissing the complaint, on the ground that it had no jurisdiction over the case, it appearing that the validity of the

July 30, 1977 Supplementary Lease Agreement and the Contract of Lease, in relation to the deed of absolute sale with assumption of mortgage executed by Carmen Cruz, were intertwined with the issue of NIC's right of possession. The plaintiffs sought a motion for reconsideration of the decision, which the MTC denied on September 15, 1992. The plaintiffs appealed to the RTC, which rendered a decision granting the appealed decision.^[24] The plaintiffs-appellants filed a petition for review with the CA. On July 13, 1993, the CA affirmed the decision of the RTC and dismissed the petition.^[25] The decision became final and executory.

In the meantime, Mariano Cruz died intestate and was survived by his son Mariano Cruz, Jr.; Rogelio Cruz, likewise, died and was survived by his children Sylvia, Rosyl, Rogelio, Jr., Sergio and Estrella, all surnamed Cruz; Serafin Cruz also died and was survived by his wife Adelaida, and his children Merceditas and Gabriel. TCT No. 81574 was reconstituted and TCT No. R-85099 was issued.

On January 24, 1995, German and Marcelo Cruz, Rosalina Cruz-Laiz, Mariano Cruz, Jr. and the said heirs filed a Complaint against Carmen Cruz, as unwilling plaintiff, and the NIC with the RTC of Malabon for the nullification of the July 30, 1977 Supplementary Lease Agreement and Contract of Lease. The complaint was amended to allege that they were the co-owners of the property covered by TCT No. 85099 based on the Deed of Sale with Assumption of Mortgage executed by Carmen Cruz on December 31, 1974; an affidavit of adverse claim was annotated at the dorsal portion of TCT No. 81574 on June 30, 1977, despite which NIC caused Carmen Cruz to execute, on July 30, 1977, a Supplementary Lease Agreement and Contract of Lease by taking advantage of her age, mental weakness and lack of will; and that NIC failed to pay rentals for the property. The plaintiffs prayed that:

WHEREFORE, it is respectfully prayed that, after trial on the merits, judgment be rendered in favor of the plaintiffs as follows:

1. Under the First Alternative Cause of Action, declaring the Contract of Lease dated 30 July 1977 and the Supplementary Lease Contract dated 30 July 1977, Annex "D" hereof, as null and void *ab initio*; or, alternatively,

Under the Second Alternative Cause of Action, annulling the said Contract of Lease and Supplementary Lease Contract.

Under the Third Alternative Cause of Action, rescinding and canceling the Contract of Lease and Supplementary Lease Agreement, ordering the defendants to vacate the leased premises and to pay plaintiffs all unpaid rentals from 1 October 1991 until defendants vacate the premises.

2. Under the Second Cause of Action, ordering defendants NAVOTAS and Bautista to vacate and surrender the possession of the subject property and all improvements thereon to the plaintiffs;
3. Under the Third Cause of Action, ordering defendants NAVOTAS and Bautista, jointly and severally, to pay plaintiffs the reasonable compensation for the use of the premises in the amount of at least P10,000.00 a month from October 1990 up to the filing of this