

## THIRD DIVISION

[ G.R. No. 230832, November 12, 2018 ]

**ROYAL PLAINS VIEW, INC. AND/OR RENATO PADILLO,  
PETITIONERS, VS. NESTOR C. MEJIA, RESPONDENT.**

### DECISION

**J. REYES, JR., J.:**

#### *The Case*

This resolves the Petition for Review on *Certiorari*<sup>[1]</sup> questioning the Decision<sup>[2]</sup> dated May 26, 2016 and the Resolution<sup>[3]</sup> dated February 7, 2017 of the Court of Appeals (CA)-Cagayan de Oro City, in CA-GR. CV No. 03284-MIN which reversed and set aside the Decision<sup>[4]</sup> dated April 12, 2013 of the Regional Trial Court (RTC) of Tagum City, Davao del Norte, Branch 31 that dismissed with prejudice Civil Case No. 4263, for Declaration of Nullity of the Instrument denominated as Rescission of Conditional Sale, Specific Performance, Sums of Money, etc.<sup>[5]</sup>

#### *The Facts*

Subject of the present controversy is a parcel of land in Magdum, Tagum City, Davao del Norte known as Lot No. 371 with an original area of 123,099 square meters, more or less, covered by Original Certificate of Title (OCT) No. (P-1324) P-232<sup>[6]</sup> of the Register of Deeds of the Province of Davao. The late Dominador Ramones (Dominador) was the registered owner of the said parcel of land.<sup>[7]</sup>

During his lifetime, Dominador executed a Contract of Sale in favor of Bias Mejia (Bias), father of respondent Nestor C. Mejia (Nestor), involving the western portion of the subject land, consisting of 7,309 square meters.<sup>[8]</sup> The parties however, agreed to reduce the area of the purchased lot to six hectares.<sup>[9]</sup> Despite the sale, the title over the property remained in the name of Dominador married to Maria Ramones (spouses Ramones).<sup>[10]</sup> The remaining portion of the lot was sold to a certain Pablo Benitez (Pablo) on February 17, 1965 through a Deed of Absolute Sale of Land.<sup>[11]</sup>

After that transaction, Bias died and he was survived by his son, Nestor. Sometime in 2005, Nestor met petitioner Renato Padillo (Renato), the President of petitioner Corporation, Royal Plains View, Inc., a real estate company. At that time, Nestor was in actual physical occupation of a parcel of land with an entire area of 12.3 hectares covered by OCT No. (P-1324) P-232, registered in the name of spouses Ramones.<sup>[12]</sup> Nestor had in his possession, too, of an ancient instrument denominated as Contract of Sale executed on September 17, 1960 by the parties then alive (Dominador in favor of Blas, for the six hectares) and another Deed of Sale dated

February 17, 1965, in favor of Pablo, for the other 6.3 hectares.<sup>[13]</sup>

Renato and Nestor agreed to split the entire lot (OCT No. [P-1324] P-232) into two titles resulting to the issuance of Transfer Certificates of Title (TCT) Nos. T-225549 and T-225550.<sup>[14]</sup> Both titles were still under the name of spouses Ramones.<sup>[15]</sup> As agreed upon, petitioner Corporation (through Renato) retained TCT No. T-225549 while TCT No. T-225550 was delivered to a person named Casimiro Benitez.<sup>[16]</sup>

On March 23, 2005, Nestor and petitioner Corporation, represented by Renato's wife, Rosemarie Padillo, entered into a contract denominated as Deed of Conditional Sale involving that said parcel of land covered by TCT No. T-225549 and registered in the name of Dominador.<sup>[17]</sup> Under that contract, petitioner Corporation bound itself to pay Nestor the sum of P8,000,000.00 of which P500,000.00 was for down payment. The balance was to be paid in 36 equal monthly installments of P208,333.30 beginning June 30, 2005 up to May 30, 2008.<sup>[18]</sup>

The March 23, 2005 Deed of Conditional Sale was later revoked and a new deed was executed on April 11, 2007 between Nestor and petitioner Corporation, represented by Renato.<sup>[19]</sup> The new Deed of Conditional Sale<sup>[20]</sup> stated that petitioner Corporation had paid respondent the amount of P1,972,000.00 and the remaining balance was to be paid in 40 equal monthly installment of P150,000.00 starting on July 1, 2007 and ending in June 2010.

It was also alleged that petitioner Corporation (through Renato) and Nestor entered into a verbal gentlemen's agreement that they would divide the 60,000-square meter lot (covered by TCT No. T-225549) into two, such that half will be given to petitioner Corporation and the other half would be retained by Nestor.<sup>[21]</sup> Since petitioner Corporation handled the splitting of the title, it had in its possession TCT No. T-225549 covering the portion sold to Blas.<sup>[22]</sup>

One day, Nestor asked petitioner Renato to give him the original owner's duplicate copy of TCT No. T-225549.<sup>[23]</sup> Petitioner Renato found out that Nestor had sold the whole property to the spouses Harris and Caroline Egina (spouses Egina) for the sum of P12,000,000.00.<sup>[24]</sup> As a consequence, eight TCTs were issued by the Register of Deeds of Davao del Norte in the name of the spouses Egina.<sup>[25]</sup> These eight TCTs were later on cancelled and the Court reinstated the derivative titles which are TCT Nos. T-225549 and T-225550. Because of legal controversies besetting TCT No. T-225549, it is now in the custody of the Registry of Deeds of Tagum City.<sup>[26]</sup>

Renato attempted several times to contact Nestor, but the latter did not take his calls and simply vanished.<sup>[27]</sup> Instead, Renato received a document entitled "Rescission of Deed of Conditional Sale"<sup>[28]</sup> dated February 5, 2010 from Nestor whereby the latter rescinded the April 11, 2007 Deed of Conditional Sale alleging that petitioners (Renato and the Corporation) had defaulted in the payment of the monthly installments agreed upon.<sup>[29]</sup> Renato alleged that since the time when TCT No. T-225549 was gone, petitioner Corporation already stopped its marketing business.<sup>[30]</sup> Also, no one who bought the individual lot had entered the subject

property yet, as they were barred by respondent Nestor.<sup>[31]</sup> Because of this, petitioners are now facing various cases in court filed by some disgruntled lot buyers.<sup>[32]</sup>

On October 12, 2011, petitioners filed a Complaint for Declaration of Nullity of the Instrument denominated as Rescission of Conditional Sale, Specific Performance, Sums of Money, etc. against respondent Nestor and the heirs of the spouses Ramones, represented by Remedios Ramones-Emperado, docketed with the RTC as Civil Case No. 4263.<sup>[33]</sup> Nestor did not file an Answer.<sup>[34]</sup> Hence, he was declared in default in an Order<sup>[35]</sup> dated May 31, 2012.

On November 20, 2012, the RTC issued an Order<sup>[36]</sup> dropping the heirs of the spouses Ramones as defendants in Civil Case No. 4263. Petitioners were allowed to present their evidence *ex parte*.<sup>[37]</sup>

#### *Ruling of the RTC*

On April 12, 2013, the RTC issued a Decision<sup>[38]</sup> dismissing petitioners' complaint with prejudice. The RTC found that the whole transaction between petitioners and Nestor was tainted with badges of fraud. It ruled that respondent Nestor could not have been the owner of the subject property because his father's (Bias') contract with Dominador was a conditional sale and there was yet no conveyance of the same in Bias' favor. There was also nothing on record which shows that Dominador's OCT No. (P-1324) P-232 was cancelled with the issuance of TCT Nos. T-225549 and T-225550. Petitioners, knowing that the subject property was still registered in the name of Dominador, should not have paid a hefty amount to Nestor. The RTC concluded that there was an attempt by petitioners and Nestor to deprive Dominador's heirs of their rights to the subject property. Thus, the RTC found it difficult to sympathize with petitioners' predicament as they did not come to court with clean hands. Aggrieved, petitioners filed an appeal with the CA. Notwithstanding that Nestor was already declared in default in the RTC, the CA required him to file his Appellee's Brief.

#### *Ruling of the Court of Appeals*

In reversing the RTC, the CA, in its Decision<sup>[39]</sup> dated May 26, 2016, ruled that from the intent of the parties, the Deed of Conditional Sale entered into by them is a Contract to Sell. As explicitly stated in the contract, upon full payment of the purchase price, Nestor would be bound to execute the Deed of Absolute Sale. The CA made no doubt that the intention of the contract is to reserve the ownership of the land to the seller (Nestor) until the buyers (petitioners) made full payment of the purchase price. Since petitioners had already paid at least two years of installments then the provisions of Republic Act (R.A.) No. 6552 or the Maceda Law should be applied. When Nestor cancelled the contract, he failed to comply with the requirement under the Maceda Law, that is, the refund of the cash surrender value.

The CA concluded that since there was no valid rescission of the contract to sell, petitioners have not lost the statutory grace period within which to pay. Hence, the CA ordered as follows: (1) the petitioners may pay Nestor the amount of P4,432,500.00 as balance of the purchase price plus interest at 6% per annum from

December 2009 until full payment within 60 days from finality of this Decision; (2) upon payment, Nestor shall execute a Deed of Absolute Sale of the land and deliver the certificate of title in favor of petitioners; and (3) in case of failure to pay within 60 days from finality of this Decision, petitioners shall immediately vacate the premises without need of further demand, and the down payment and installment payments thus far made by them shall serve as rental for their use and enjoyment of the subject property.

Petitioners filed a Motion for Reconsideration of the aforesaid CA Decision. In a Resolution<sup>[40]</sup> dated February 7, 2017, the CA denied the said motion for lack of merit. Hence, the instant petition.

### *The Issues*

In their appeal with this Court, petitioners argue that the CA erred as follows:

1. [In] ordering/requiring respondent Nestor x x x who was already declared in default to file and thereafter admit his Appellee's Brief; and for the CA to give full faith and credence to Mejia's version;
2. By applying the provisions of [R.A. No.] 6552 otherwise known as the Maceda Law in resolving the main issue of the original case which is "the nullification of that instrument denominated as Rescission and Cancellation of Deed of Conditional Sale, etc."[;]
3. Not considering the entirety of the original complaint, in which the plaintiffs also prayed for Specific Performance and Damages[; and]
4. In not accepting the alternative way to dispose the case based on the principle of equity, in view of petitioner's inability to perform his obligation at present, that is: to pay the balance of P4.4 Million. Too, the CA erred in not sustaining the agreement of the parties to divide the property covered by TCT No. T-225549[.]<sup>[41]</sup>

Petitioners prayed as follows: (1) to return to them the owner's duplicate copy of TCT No. T-225549 and all its derivative titles; (2) to honor the Deed of Conditional Sale which they entered into with respondent Nestor; (3) should the return of TCT No. T-225549 and its derivative titles could no longer be possible or since they could no longer pay the balance, to split the title between both of them as per their gentlemen's agreement; (4) to order the return of the sum already paid for by petitioners if the transaction between the parties finds its demise; and (5) to grant such other relief as justice and equity will allow.

Two main issues were formed from the assigned errors of the petitioners: *First*, the propriety of filing an appellee's brief by respondent Nestor despite the fact that he was declared in default in the trial court; and *second*, the propriety of the rescission and cancellation of the conditional sale executed by the parties.

### *The Courts Ruling*

#### I.

Preliminarily, we found nothing irregular when the CA required respondent Nestor, who has been declared in default in the trial court, to submit his appellee's brief.

While, concededly, a defending party declared in default loses his standing in the trial court and his right to adduce evidence and to present his defense,<sup>[42]</sup> this, however, does not impliedly suggest a loss of all his/her rights in the stages of the case after the default judgment. This can be clearly inferred from the wordings of Section 3, Rule 9 of the 1997 Rules of Court. Thus:

SEC. 3. *Default; declaration of.* - If the defending party fails to answer within the time allowed therefor, the court shall, upon motion of the claiming party with notice to the defending party, and proof of such failure, declare the defending party in default. Thereupon, the court shall proceed to render judgment granting the claimant such relief as his pleading may warrant, unless the court in its discretion requires the claimant to submit evidence. Such reception of evidence may be delegated to the clerk of court.

(a) *Effect of order of default.* - A party in default shall be entitled to notice of subsequent proceedings but not to take part in the trial.

It is evident from the foregoing rule that even when a defendant is already declared in default, he is entitled to notice of subsequent proceedings.<sup>[43]</sup>

Default, therefore, is not meant to punish the defendant, but to enforce the prompt filing of the answer to the complaint.<sup>[44]</sup> Its existence is justified on the ground that it is the one final expedient to induce defendant to join issue upon the allegations tendered by the plaintiff, and to do so without unnecessary delay.<sup>[45]</sup>

The provision that the defaulting party cannot take part in the trial only meant that he/she has already lost his/her standing in the trial court. In other words, the effect of the judgment of default is limited only to those stages in the prosecution of the case which terminated with and included in the judgment of the trial court on the merits.<sup>[46]</sup>

In *Lina v. Court of Appeals*,<sup>[47]</sup> the Court discussed the remedies available to a defendant declared in default, one of which is to appeal from the judgment under Section 1, Rule 41 of the 1997 Rules of Court, even if no petition to set aside the order of default has been resorted to.<sup>[48]</sup>

There is no question that a defaulted party may appeal from the judgment rendered against him. And concomitant with the said right is the filing of the appellant's brief in order to be heard. The defaulting party can appeal the judgment by default on the ground that the plaintiff failed to prove the material allegations of the complaint, or that the decision is contrary to law, even without need of the prior filing of a motion to set aside the order of default.<sup>[49]</sup> However, a defaulting party is proscribed from seeking a modification or reversal of the assailed decision on the basis of the evidence submitted by him in the CA, for if it were otherwise, he would thereby be allowed to regain his right to adduce evidence, a right which he lost in the trial court when he was declared in default, and which he failed to have vacated.