

## SECOND DIVISION

[ G.R. No. 211170, July 03, 2017 ]

**SPOUSES MAXIMO ESPINOZA AND WINIFREDA DE VERA,  
PETITIONERS, VS. SPOUSES ANTONIO MAYANDOC AND ERLINDA  
CAYABYAB MAYANDOC, RESPONDENTS.**

### D E C I S I O N

**PERALTA, \*\* J.:**

Before this Court is the Petition for Review on *Certiorari* under Rule 45, dated March 21, 2014, of petitioners-spouses Maximo Espinoza and Winifreda De Vera, that seeks to reverse and set aside the Decision<sup>[1]</sup> dated September 17, 2013 and Resolution dated January 28, 2014, both of the Court of Appeals (CA) which, in turn, affirmed with modifications the Decision<sup>[2]</sup> dated February 18, 2011 of the Regional Trial Court (RTC), Branch 42, Dagupan City, in a complaint for useful expenses under Articles 448<sup>[3]</sup> and 546<sup>[4]</sup> of the New Civil Code of the Philippines.

The facts follow.

A parcel of land located in Dagupan City was originally owned by Eusebio Espinoza. After the death of Eusebio, the said parcel of land was divided among his heirs, namely: Pastora Espinoza, Domingo Espinoza and Pablo Espinoza. Petitioner Maximo is the son of Domingo Espinoza, who died on November 3, 1965, and Agapita Cayabyab, who died on August 11, 1963.

Thereafter, on May 25, 1972, Pastora Espinoza executed a Deed of Sale conveying her share of the same property to respondents and Leopoldo Espinoza. However, on that same date, a fictitious deed of sale was executed by petitioner Maximo's father, Domingo Espinoza, conveying the three-fourth (3/4) share in the estate in favor of respondent Erlinda Cayabyab Mayandoc's parents; thus, TCT No. 28397 was issued in the names of the latter.

On July 9, 1977, a fictitious deed of sale was executed by Nemesio Cayabyab, Candida Cruz, petitioners-spouses Maximo Espinoza and Winifreda De Vera and Leopoldo Espinoza over the land in favor of respondents-spouses Antonio and Erlinda Mayandoc; thus, TCT No. 37403 was issued under the names of the latter.

As a result of the foregoing, petitioners filed an action for annulment of document with prayer for the nullification of TCT No. 37403 and, on August 16, 1999, the RTC, Branch 40, Dagupan City rendered a Decision in favor of petitioners and ordering respondents to reconvey the land in dispute and to pay attorney's fees and the cost of the suit.

Respondents appealed, but the CA, in its Decision dated February 6, 2004, affirmed the RTC with modifications that the award of attorney's fees and litigation expenses

be deleted for lack of factual basis. The said CA Decision became final and executory on March 8, 2004.

Thus, respondents filed a complaint for reimbursement for useful expenses, pursuant to Articles 448 and 546 of the New Civil Code, alleging that the house in question was built on the disputed land in good faith sometime in 1995 and was finished in 1996. According to respondents, they then believed themselves to be the owners of the land with a claim of title thereto and were never prevented by the petitioners in constructing the house. They added that the new house was built after the old house belonging to respondent Erlinda Mayandoc's father was torn down due to termite infestation and would not have reconstructed the said house had they been aware of the defect in their title. As such, they claimed that they are entitled to reimbursement of the construction cost of the house in the amount of P800,000.00. They further asserted that at the time that their house was constructed, they were possessors in good faith, having lived over the land in question for many years and that petitioners questioned their ownership and possession only in 1997 when a complaint for nullity of documents was filed by the latter.

Petitioners, in their Answer, argued that respondents can never be considered as builders in good faith because the latter were aware that the deeds of sale over the land in question were fictitious and, therefore, null and void; thus, as builders in bad faith, they lose whatever has been built over the land without right to indemnity.

Respondents, on January 5, 2011, manifested their option to buy the land where the house stood, but petitioners expressed that they were not interested to sell the land or to buy the house in question.

The RTC, on February 18, 2011, rendered its Decision with the following dispositive portion:

WHEREFORE, judgment is hereby rendered requiring the defendants to sell the land, where the plaintiffs' house stands, to the latter at a reasonable price based on the zonal value determined by the Bureau of Internal Revenue (BIR).

SO ORDERED.<sup>[5]</sup>

Petitioners appealed to the CA, but the latter, in its Decision dated September 17, 2013, affirmed the decision of the RTC with modifications. The dispositive portion of the Decision reads:

WHEREFORE, the Decision dated February 18, 2011 by the Regional Trial Court, Branch 42 of Dagupan City, in Civil Case No. 2005-0271-D is hereby AFFIRMED with MODIFICATIONS.

Let the case be REMANDED to the aforementioned trial court for further proceedings consistent with the proper application of Articles 448, 546 and 548 of the New Civil Code and to render a complete judgment of the case.

SO ORDERED.<sup>[6]</sup>

The motion for reconsideration of petitioners were subsequently denied by the CA in its Resolution dated January 28, 2014.

Hence, the present petition. Petitioners raise the following issues:

I.

WHETHER THE HONORABLE COURT OF APPEALS ERRED IN RULING THAT THE PETITIONERS WERE NOT ABLE TO PROVE BAD FAITH ON THE PART OF THE RESPONDENTS.

II.

WHETHER OR NOT THE HONORABLE COURT OF APPEALS ERRED IN RULING THAT *RES JUDICATA* DOES NOT APPLY IN THE INSTANT CASE.

According to petitioners, whether or not respondents were in bad faith in introducing improvements on the subject land is already moot, since the judgment rendered by the RTC of Dagupan City, Branch 40 and affirmed by the CA, that declared the two Deeds of Definite/Absolute Sale dated May 25, 1972 and July 9, 1977 as null and void, had long become final and executory on March 8, 2004. They also argue that respondents had not successfully shown any right to introduce improvements on the said land as their claim of laches and acquisitive prescription have been rejected by the CA on appeal; thus, it follows that the respondents were builders in bad faith because knowing that the land did not belong to them and that they had no right to build thereon, they still caused the house to be erected. They further insist that respondents are deemed builders in bad faith because their house has been built and reconstructed into a bigger one after respondent Erlinda's parents forged a fictitious sale. Finally, they claim that the principle of *res judicata* in the mode of "conclusiveness of judgment" applies in this case.

The petition lacks merit.

The findings of facts of the Court of Appeals are conclusive and binding on this Court<sup>[7]</sup> and they carry even more weight when the said court affirms the factual findings of the trial court.<sup>[8]</sup> Stated differently, the findings of the Court of Appeals, by itself, which are supported by substantial evidence, are almost beyond the power of review by this Court.<sup>[9]</sup> Although this rule is subject to certain exceptions, this Court finds none that is applicable in this case. Nevertheless, the petition still fails granting that an exception obtains.

To be deemed a builder in good faith, it is essential that a person asserts title to the land on which he builds, *i.e.*, that he be a possessor in the concept of owner, and that he be unaware that there exists in his title or mode of acquisition any flaw which invalidates it.<sup>[10]</sup> The RTC, as affirmed by the CA, found respondents to be builders in good faith, thus:

The plaintiffs are builders in good faith. As asserted by plaintiffs and not rebutted by defendants, the house of plaintiffs was built on the lot owned by defendants in 1995. The complaint for nullity of documents and reconveyance was filed in 1997, about two years after the subject conjugal house was constructed. Defendants-spouses believed that at the

time when they constructed their house on the lot of defendants, they have a claim of title. Art. 526, New Civil Code, states that a possessor in good faith is one who has no knowledge of any flaw or defect in his title or mode of acquisition. This determines whether the builder acted in good faith or not. Surely, plaintiffs would not have constructed the subject house which plaintiffs claim to have cost them P800,000.00 to build if they knew that there is a flaw in their claim of title. Nonetheless, Art. 527, New Civil Code, states clearly that good faith is always presumed, and upon him who alleges bad faith on the part of the possessor lies the burden of proof. The records do not show that the burden of proof was successfully discharged by the defendants.

x x x x

Plaintiffs are in good faith in building their conjugal house in 1995 on the lot they believed to be their own by purchase. They also have in their favor the legal presumption of good faith. It is the defendants who had the burden to prove otherwise. They failed to discharge such burden until the Regional Trial Court, Br. 40, Dagupan City, promulgated an adverse ruling in Civil Case No. 97-0187-D. Thus, Art. 448 comes in to protect the plaintiffs-owners of their improvement without causing injustice to the lot owner. Art. 448 comes in to protect the plaintiff-owners of their improvement without causing injustice to the lot owner. Art. 448 provided a just resolution of the resulting "forced-ownership" by giving the defendants lot owners the option to acquire the conjugal house after payment of the proper indemnity or to oblige the builder plaintiffs to pay for the lot. It is the defendants-lot owners who are authorized to exercise the option as their right is older, and under the principle of accession where the accessory (house) follows the principal. x x x.<sup>[11]</sup>

The settled rule is bad faith should be established by clear and convincing evidence since the law always presumes good faith.<sup>[12]</sup> In this particular case, petitioners were not able to prove that respondents were in bad faith in constructing the house on the subject land. Bad faith does not simply connote bad judgment or negligence.<sup>[13]</sup> It imports a dishonest purpose or some moral obliquity and conscious doing of a wrong.<sup>[14]</sup> It means breach of a known duty through some motive, interest or ill will that partakes of the nature of fraud.<sup>[15]</sup> For anyone who claims that someone is in bad faith, the former has the duty to prove such. Hence, petitioners err in their argument that respondents failed to prove that they are builders in good faith in spite of the findings of the RTC and the CA that they are.

As such, Article 448<sup>[16]</sup> of the Civil Code must be applied. It applies when the builder believes that he is the owner of the land or that by some title he has the right to build thereon,<sup>[17]</sup> or that, at least, he has a claim of title thereto.<sup>[18]</sup> In *Tuatis v. Spouses Escol, et al.*,<sup>[19]</sup> this Court ruled that the seller (the owner of the land) has two options under Article 448: (1) he may appropriate the improvements for himself after reimbursing the buyer (the builder in good faith) the necessary and useful expenses under Articles 546<sup>[20]</sup> and 548<sup>[21]</sup> of the Civil Code; or (2) he may sell the land to the buyer, unless its value is considerably more than that of the improvements, in which case, the buyer shall pay reasonable rent, thus: