

THIRD DIVISION

[G.R. No. 213233, August 05, 2015]

**BLISS DEVELOPMENT CORP./HOME GUARANTY CORPORATION,
PETITIONER, VS. MONTANO DIAZ, DOMINGO TAPAY, AND
EDGAR H. ARREZA, RESPONDENTS.**

D E C I S I O N

VELASCO JR., J.:

The Case

This is a Petition for Review on Certiorari assailing the Decision^[1] of the Court of Appeals (CA), promulgated on January 21, 2014, and its subsequent Resolution dated June 27, 2014, both in CA-G.R. CV No. 99179. The assailed Decision reversed and set aside the Decision of the Regional Trial Court (RTC), Makati City, Branch 59, dated November 21, 2011, in Civil Case No. 96-1372. The assailed Resolution, meanwhile, denied petitioner's Motion for Reconsideration.

The Facts

Petitioner Bliss Development Corporation (BDC) (subsequently reorganized as Home Guaranty Corporation) is the registered owner of Lot No. 27, Block 30, New Capitol Estates I, Brgy. Matandang Balara, Diliman, Quezon City, and covered by Transfer Certificate of Title (TCT) No. 331582. On October 19, 1984, it entered into and executed a Deed of Sale over the said property in favor of Spouses Emiliano and Leonila Melgazo (Sps. Melgazo), both of whom are now deceased.^[2]

On May 7, 1991, a certain Rodolfo Nacua (Nacua) sent a letter to BDC, saying that Sps. Melgazo transferred to him their rights over the property. He further expressed willingness to pay the outstanding obligations of Sps. Melgazo to BDC. Before the property was fully paid, however, Nacua sold his rights to Olivia Garcia (Garcia), through a Deed of Transfer of Rights. Later, Garcia transferred her rights to Elizabeth Reyes (Reyes). Reyes then transferred her rights to Domingo Tapay (Tapay), who then later sold his rights to herein respondent Montano Diaz (Diaz) for Six Hundred Thousand Pesos (P600,000.00). Diaz then paid BDC the amortizations due on the property, amounting to P406,915.15, and BDC issued a permit to occupy the property in favor of Diaz. Diaz then introduced improvements on the property, amounting to P700,000.00.

On April 14, 1992, BDC executed a Contract to Sell in favor of Diaz.^[3] On April 15, 1994, however, BDC informed Diaz that respondent Edgar Arreza (Arreza) was claiming that the heirs of Sps. Melgazo sold to him the rights over the property.^[4] BDC then placed Diaz's account in "inactive status." To resolve the conflicting claims of Arreza and Diaz, BDC filed a complaint for Interpleader against them, before the RTC, Makati City, Branch 146. On March 27, 1996, the Makati City RTC Branch 146

ruled that the signatures of Sps. Melgazo transferring their rights to Nacua were mere forgeries. Thus, it ruled that Arreza had a better right over the property. This decision became final and executory.^[5]

On August 27, 1996, Diaz filed the present complaint for sum of money against BDC before the RTC, Makati City, Branch 59.^[6] This was later amended to include Arreza and Tapay as defendants. Diaz argued that BDC and Tapay's representations led him to believe that he had a good title over the property, but due to the court's ruling in the interpleader case, he was constrained to transfer the property to Arreza. Thus, he prayed for the following:

- (1) For BDC and Arreza to pay him P1,106,915.58, plus interest, representing the amount he paid for the assumption of Tapay's rights;
- (2) For Tapay to pay him P600,000.00, plus interests, representing the amount he paid Tapay;
- (3) For BDC and Tapay to pay him P500,000.00 as moral damages;
- (4) For BDC to pay him P500,000 as exemplary damages; and
- (5) For BDC, Tapay, and Arreza to pay him ₱100,000 as attorney's fees and costs of suit.^[7]

Both BDC and Tapay argued that their respective acts were lawful and done in good faith. Arreza filed a Motion to Dismiss, citing *res judicata*, arguing that the claim of Diaz is a compulsory counterclaim that should have been pleaded in the Interpleader case. The RTC denied the Motion to Dismiss, which the CA, on certiorari, affirmed. When the issue reached this Court in G.R. No. 133113,^[8] this Court ruled that the claim as against Arreza is barred by *res judicata*. The Court upheld the argument that the claim is in the nature of a compulsory counterclaim. Thus, the case against Arreza was dismissed.

The Decision of the RTC

After trial, the RTC rendered its Decision on November 21, 2011, finding that Diaz failed to prove that he is an assignee in good faith, and thus dismissed the complaint for lack of merit in this wise:

Plaintiff must show that he inquired not only into the title of the assignor but also into the assignor's capacity to convey. The failure of plaintiff to diligently inquire as such, indicated that he is not an assignee in good faith. Plaintiff Diaz downplays the need to extend his examination to intervening transferor farther than Domingo Tapay from whom he acquired the subject property. Such attitude, however, is not in accord with what a reasonably prudent person would do under the circumstances.

x x x x

WHEREFORE, premises considered, plaintiff's Complaint is hereby DISMISSED for lack of merit. Defendant Domingo Tapay's [counterclaim] is likewise dismissed. No costs.^[9]

Aggrieved, Diaz appealed to the CA.

The Decision of the CA

In its presently assailed Decision promulgated on January 21, 2014, the CA reversed the ruling of the RTC and, instead, ruled that Diaz is entitled to be paid reimbursement and damages. The CA anchored its ruling on its finding that Diaz is both a buyer in good faith and a builder in good faith, thus:

A careful examination of the records convinces Us that Diaz is both a buyer and builder in good faith. We note that while Bliss executed a Deed of Sale with Mortgage in favor of the spouses Emiliano and Leonila Melgazo, title over the property was in Bliss' name. The title remained in Bliss' name when Tapay offered to transfer his rights over the property to Diaz. Considering that the property involved is registered land, Diaz need not go beyond the title to be considered a buyer in good faith. Indeed, after Diaz accepted Tapay's offer, he dealt directly with Bliss which received the monthly amortizations due on the property. For almost three years, from 1991 to 1994, Bliss accepted Diaz's payment without informing Diaz of Arreza's conflicting claim over the property. Bliss even issued Diaz a permit to occupy the property in 1992; thus, allowing Diaz to introduce improvements on the property. In other words, at the time when Diaz purchased the property from Tapay and when he introduced the improvements, he had no notice that some other person has a right over the property. He also had a well-founded belief that the property he was building on was his. Accordingly, Diaz is a buyer and builder in good faith.^[10]

In ruling that Diaz is a buyer in good faith, the CA noted that Diaz need not go beyond the title to be considered a buyer in good faith, because what is involved is a registered land.

With regard to the liability of BDC, the CA ruled that the provision in the Contract to Sell excusing it from reimbursing the monthly amortizations to Diaz cannot exempt it from liability, because it acted in bad faith. The CA said:

Next, Bliss' argument that the Additional Provision in the Contract to Sell excuses it from reimbursing the monthly amortizations paid by Diaz cannot be given credence. Any stipulation exempting the vendor from the obligation to answer for eviction shall be void, if he acted in bad faith. The vendor's bad faith consists in his knowledge beforehand at the time of the sale, of the presence of the fact giving rise to eviction, and its possible consequence. It is undisputed that Bliss knew about Arreza's claim in 1991. It even received amortization payments from Arreza. Yet,

Bliss is aware that should Arreza pursue his claim in court, Diaz may be evicted from the property. Yet, Bliss only informed Diaz about Arreza's claim in 1994 when Arreza followed up his claim. Indubitably, Bliss acted in bad faith in dealing with Diaz and should not be absolved from liability by the Additional Provision in the Contract to Sell.^[11]

Thus, the CA dispositively held:

FOR THESE REASONS, the November 21, 2011 Decision of the Regional Trial Court of Makati City, Branch 59, is SET ASIDE. The Court hereby DIRECTS: (1) Defendant-appellee Bliss Development Corporation/Home Guaranty Corporation to **PAY** plaintiff-appellant Montano Diaz P1,106,915.58 for the amortizations paid and amount spent on improvements on the property, P100,000.00 as moral damages, P50,000.00 as exemplary damages, and P25,000.00 as attorney's fee; and (2) defendant-appellee Domingo Tapay to PAY plaintiff-appellant Montano M. Diaz P600,000.00, the amount he paid for the transfer of rights.

Petitioner BDC moved for reconsideration, insisting that Diaz cannot be declared a buyer in good faith, in light of the March 27, 1996 Decision of the Makati City RTC, Branch 146 in the Interpleader case, which had long been final and executory. Tapay also moved for reconsideration, arguing that he was not aware of the defect in the title sold to Diaz, and, hence, he should not be made liable for the P600,000.00 that Diaz paid to him. In the CA's assailed Resolution dated June 27, 2014,^[12] the CA denied both motions for reconsideration.

Hence, the present Petition for Review on Certiorari filed by BDC, raising the following issues:

I.

WHETHER THE CA ERRED IN NOT DISMISSING THE APPEAL, IN VIEW OF THE APPLICATION OF THE DOCTRINE OF IMMUTABILITY OF JUDGMENT IN THE DECISION OF THE COURT IN G.R. NO. 133113

II.

WHETHER THE CA ERRED IN DECLARING BDC IN BAD FAITH

III.

WHETHER THE CA ERRED IN DECLARING THAT THERE WAS UNJUST ENRICHMENT ON THE PART OF BDC

IV.

WHETHER DIAZ CAN STILL CLAIM REIMBURSEMENT EVEN IF UNDER THE

CONTRACT, HIS POSSESSION IS IN THE NATURE OF A LESSOR

V.

WHETHER BDC IS LIABLE TO REIMBURSE DIAZ OF THE AMOUNT OF
P1,106,915.58

In fine, petitioner argues that it is not liable to respondent Diaz, both for the amortizations that Diaz paid to it, and the value of the improvements that Diaz introduced to the property.

Meanwhile, Tapay failed to elevate before this Court the CA's ruling against him.

The Court's Ruling

The petition is partially granted. The CA committed reversible error in ruling that Diaz was a buyer in good faith and for value. Nevertheless, BDC is liable to Diaz because it acted in bad faith, as discussed below.

The claim is not barred by the doctrine of immutability of judgment

First, We dispose of the issue of the applicability of the doctrine of immutability of judgment, in view of the ruling of this Court in G.R. No. 133113. We find that the present claim is not barred by the court's ruling in G.R. No. 133113--to the effect that Diaz can no longer claim reimbursement from Arreza because of *res judicata*--for his failure to allege the claim in the interpleader case between them.

In G.R. No. 133113, We ruled that the claim against Arreza is barred by *res judicata*, because of a prior Interpleader case between Arreza and Diaz. We ruled that the claim for reimbursement should have been alleged and proved in the prior case, and failure to do so bars any future action on such claims. We reiterated the rule on *res judicata*, thus:

In cases involving *res adjudicata*, the parties and the causes of action are identical or substantially the same in the prior as well as the subsequent action. The judgment in the first action is conclusive as to every matter offered and received therein and as to any other matter admissible therein and which might have been offered for that purpose, hence said judgment is an absolute bar to a subsequent action for the same cause. The bar extends to questions necessarily involved in an issue, and necessarily adjudicated, or necessarily implied in the final judgment, although no specific finding may have been made in reference thereto, and although such matters were directly referred to in the pleadings and were not actually or formally presented. **Said prior judgment is conclusive in a subsequent suit between the same parties on the same subject matter, and on the same cause of action**, not only as to matters which were decided in the first action, but also as to every other matter which the parties could have properly set up in the prior suit.^[13] (emphasis added)