

## FIRST DIVISION

[ G.R. No. 137869, June 12, 2008 ]

**SPOUSES MARCIAL VARGAS and ELIZABETH VARGAS,  
Petitioners, vs. SPOUSES VISITACION and JOSE CAMINAS,  
SPOUSES JESUS and LORELEI GARCIA, and SPOUSES RODOLFO  
and ROSARIO ANGELES DE GUZMAN, Respondents.**

[G.R. No. 137940S]

**POUSES RODOLFO and ROSARIO ANGELES DE GUZMAN,  
Petitioners, vs. SPOUSES VISITACION and JOSE CAMINAS, and  
SPOUSES MARCIAL and ELIZABETH VARGAS, Respondents.**

### D E C I S I O N

**CARPIO, J.:**

#### **The Case**

This is a petition for review<sup>[1]</sup> under Rule 45 of the 1997 Rules of Civil Procedure assailing the Decision dated 2 September 1998 of the Court of Appeals in CA-G.R. CV No. 45050.<sup>[2]</sup> The Court of Appeals set aside the Order dated 10 February 1994 of the Regional Trial Court of Quezon City, Branch 101 in Civil Case Nos. Q-90-7224 and 90-7439.

#### **The Facts**

On 6 August 1988, spouses Jose and Visitacion Caminas (spouses Caminas) bought a 54-square meter lot with a two-storey townhouse, designated as townhouse No. 8, from Trans-American Sales and Exposition represented by its developer Jesus Garcia (Garcia). Townhouse No. 8 is located at No. 65 General Lim Street, Heroes Hill, Quezon City and is on a portion of the land covered by TCT No. 195187. Spouses Caminas paid Garcia P850,000 as evidenced by a contract of sale<sup>[3]</sup> and provisional receipt.<sup>[4]</sup> According to spouses Caminas, they took possession of townhouse No. 8 upon completion of its construction.

In December of 1988, Garcia bought from Marcial and Elizabeth Vargas (spouses Vargas) various construction materials. As payment to spouses Vargas, Garcia executed an absolute Deed of Sale over townhouse No. 12.<sup>[5]</sup> However, on 1 March 1990, spouses Vargas and Garcia executed a Deed of Exchange with Addendum<sup>[6]</sup> whereby spouses Vargas transferred to Garcia townhouse No. 12, and in exchange Garcia transferred to spouses Vargas townhouse No. 8.

The contracts executed by Garcia with spouses Caminas and spouses Vargas were not registered with the Register of Deeds. This was because TCT No. 195187 was

still being reconstituted and it was only on 17 August 1989 that TCT No. 7285 was issued in its stead.

On 10 May 1990, Garcia and his wife Lorelei (spouses Garcia) executed a Deed of Real Estate Mortgage<sup>[7]</sup> over townhouse No. 8 in favor of spouses Rodolfo and Rosario Angeles De Guzman (spouses De Guzman) as security for a loan. The mortgage was annotated at the back of TCT No. 7285. As spouses Garcia failed to pay their indebtedness, spouses De Guzman foreclosed the mortgage on 12 October 1990. At the public auction, spouses De Guzman were the highest bidder.

On 13 November 1990, spouses Caminas filed a complaint<sup>[8]</sup> against spouses Garcia, spouses De Guzman, and spouses Vargas before the Regional Trial Court of Quezon City, docketed as Civil Case No. Q-90-7224 for the declaration of nullity of deed of mortgage and deed of sale, for the declaration of absolute ownership, for the delivery of title or in the alternative for refund of purchase price and damages.

On 6 December 1990, spouses Vargas filed a case against spouses Garcia and spouses De Guzman, also before the Regional Trial Court of Quezon City, for specific performance, declaration of nullity of the mortgage contract, damages or in the alternative for sum of money and damages, docketed as Civil Case No. Q-90-7439.<sup>[9]</sup>

The two cases were consolidated before the Regional Trial Court, Branch 101, as they involved interrelated issues.<sup>[10]</sup>

In their Rejoinder dated 27 February 1993, spouses Vargas raised the lack of jurisdiction of the trial court on the ground that the subject matter falls within the exclusive jurisdiction of the Housing and Land Use Regulatory Board (HLURB).<sup>[11]</sup> Spouses Vargas further stated that the HLURB had already rendered a decision in HLURB Case No. REM-021291-4730 dated 28 June 1991 awarding the property in their favor.<sup>[12]</sup>

### **The Ruling of the Trial Court**

On 20 April 1993, the trial court rendered a decision upholding the rights of the spouses Caminas as the first buyer of the property:

WHEREFORE, premises above considered, judgment is hereby rendered in favor of plaintiffs Visitacion Caminas and Jose V. Caminas against defendants Sps. Jesus Garcia and Lorelei A. Garcia, Sps. Rosario Angeles K. de Guzman and Rodolfo de Guzman and Sps. Elizabeth and Marcial Vargas, declaring said plaintiffs as the absolute owners of the subject property and ordering the Register of Deeds of Quezon City to divest defendants spouses Rosario Angeles K. de Guzman and Rodolfo P. de Guzman and spouses Elizabeth Vargas and Marcial Vargas of the title to the subject property and to cancel Transfer Certificate of Title No. 72646 issued in the name of spouses Rosario Angeles K. de Guzman and Rodolfo de Guzman and to invest title thereto in favor of plaintiffs Visitacion Caminas and Jose V. Caminas by issuing another transfer certificate of title in their names.

Ordering defendants Jesus Garcia and Lorelei A. Garcia to pay defendants Elizabeth Vargas and Marcial Vargas the amount of P700,000.00 and defendants Rosario Angeles K. de Guzman the amount of P562,500.00 with legal rate of interest thereof.

SO ORDERED.<sup>[13]</sup>

Spouses De Guzman filed a Motion for Reconsideration. The trial court granted the motion for reconsideration and issued an order<sup>[14]</sup> dated 10 February 1994, this time awarding ownership of the property to spouses De Guzman:

IN VIEW OF THE FOREGOING, the decision of this Court dated April 20, 1993 is hereby reconsidered and set aside and in lieu thereof, judgment is hereby rendered in favor of defendants spouses Rosario Angeles K. de Guzman and Rodolfo de Guzman against plaintiffs spouses Visitacion Caminas and Jose V. Caminas and plaintiffs spouses Elizabeth and Marcial Vargas, declaring said defendants as the absolute owners of the subject property embraced in TCT No. 72646.

Ordering defendants Jesus Garcia and Lorelei A. Garcia to pay plaintiffs spouses Visitacion Caminas and Jose V. Caminas the amount of P850,000.00 and plaintiffs Elizabeth Vargas and Marcial Vargas the amount of P700,000.00 with legal interest thereof.

SO ORDERED.

Spouses Caminas and spouses Vargas filed an appeal before the Court of Appeals.

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

In its decision dated 2 September 1998, the Court of Appeals set aside the order of the trial court dated 10 February 1994. The appellate court reinstated the trial court's original decision dated 20 April 1993 upholding the ownership of spouses Caminas:

Premises Considered, the Order of the Regional Trial Court dated February 10, 1994 is REVERSED AND SET ASIDE, and the original decision dated April 20, 1993 is REINSTATED.

SO ORDERED.<sup>[15]</sup>

The appellate court stated that as between spouses Caminas and spouses Vargas, spouses Caminas have a better right to the property. The appellate court ruled that as neither of the sales were registered, spouses Caminas have a better right being the first possessor in good faith. The appellate court likewise ruled that spouses Caminas have a better right than spouses De Guzman over the property. According to the appellate court, the registration of the mortgage cannot defeat the right of spouses Caminas since the mortgage was executed by one who was no longer owner of the property. The appellate court further noted that spouses De Guzman failed to prove that they were mortgagees in good faith.

On the issue of jurisdiction, the appellate court ruled that spouses Vargas are estopped from raising the issue of jurisdiction since they filed the complaint and

they took active part during the trial of the case.

Hence, this appeal.

### **The Issues**

The issues raised by the parties may be summarized as follows:

- I. Whether the Court of Appeals committed reversible error in not setting aside the decision and order of the Regional Trial Court since the case is within the exclusive jurisdiction of the HLURB;
- II. Whether the Court of Appeals committed reversible error in finding that spouses Caminas have a superior right, over spouses Vargas, to the property being the first possessors in good faith; and
- III. Whether the Court of Appeals committed reversible error in finding that spouses Caminas have a superior right over spouses De Guzman despite the registration of the mortgage since the property was mortgaged by one who was no longer the owner of the property.

### **The Ruling of the Court**

We find the appeal meritorious.

Presidential Decree No. 1344 dated 2 April 1978 expanded the jurisdiction of the National Housing Authority (NHA), the precursor of the HLURB, to include adjudication of the following cases:

Sec. 1. In the exercise of its function to regulate the real estate trade and business and in addition to its powers provided for in Presidential Decree No. 957, the **National Housing Authority shall have exclusive jurisdiction** to hear and decide cases of the following nature:

- A. Unsound real estate business practices;
- B. Claims involving refund and any other claims ***filed by subdivision lot or condominium unit buyer against the project owner, developer, dealer, broker or salesman;*** and
- C. Cases involving ***specific performance of contractual and statutory obligations filed by buyers of subdivision lot or condominium unit against the owner, developer, broker or salesman.*** (Emphasis ours)

Executive Order No. 648 created the Human Settlements Regulatory Commission (HSRC) to assume the regulatory and adjudicatory functions of the NHA, among other purposes. Executive Order No. 90 later renamed the HSRC the HLURB.

The HLURB has jurisdiction over cases arising from (1) unsound real estate business practices; (2) claims for refund or other claims filed by subdivision lot or condominium unit buyers against the project owner, developer, dealer, broker or salesman; and (3) demands for specific performance of contractual and statutory

obligations filed by buyers of subdivision lots or condominium units against the owner, developer, broker, or salesman.<sup>[16]</sup>

The controversies in this case revolve around the following transactions:

1. The sale of townhouse No. 8 by spouses Garcia to spouses Caminas;
2. The sale of townhouse No. 8 by spouses Garcia to spouses Vargas; and
3. The mortgage of townhouse No. 8 by spouses Garcia to spouses De Guzman.

There is no dispute that spouses Garcia are in the real estate business under the name Trans-American Sales and Exposition and that townhouse No. 8 is part of its Trans-American Sales and Exposition II project. Clearly, the validity of the questioned transactions entered into by spouses Garcia, as the owner and developer of Trans-American Sales and Exposition, falls within the jurisdiction of the HLURB.

However, spouses De Guzman argue that (1) the HLURB has no jurisdiction over cases involving the declaration of nullity of a mortgage contract filed **against the mortgagee alone**; and (2) Section 18 of Presidential Decree No. 957 (PD 957) merely requires the project owner or developer to seek prior authority from NHA before mortgaging the subdivision lot or condominium unit but the law does not grant the HLURB the authority to invalidate the mortgage contract if the requisite authority from the NHA is not obtained.

On the other hand, spouses Caminas contend that spouses Vargas are (1) estopped from raising the issue of jurisdiction of the trial court since spouses Vargas filed the case and actively participated in the proceedings before the trial court, and (2) guilty of forum shopping.

The Court finds no merit in the arguments raised by spouses De Guzman and spouses Caminas.

The complaints filed before the trial court by spouses Caminas and spouses Vargas clearly show that the cases are against spouses Garcia, the developer of townhouse No. 8. Hence, the case filed before the trial court was not against the mortgagee alone. The mere fact that spouses Garcia were declared in default does not change the parties to the case or the nature of the action.

On spouses De Guzman's claim that Section 18 of PD 957 does not grant the HLURB the authority to invalidate the mortgage contract if the requisite authority from the NHA is not obtained, this Court has previously ruled that the HLURB has jurisdiction over cases involving the annulment of a real estate mortgage constituted by the project owner without the consent of the buyer and without the prior written approval of the NHA.

In *Union Bank of the Philippines v. HLURB*,<sup>[17]</sup> the Court held that a realty company's act of mortgaging a condominium project without the knowledge and consent of the buyer of one of the condominium units, and without obtaining the prior approval of the NHA, constitutes unsound real estate business practice. Accordingly, the action for the annulment of such mortgage and mortgage foreclosure sale falls within the exclusive jurisdiction of the HLURB, thus: