

## FIRST DIVISION

[ G.R. NO. 154156, August 31, 2006 ]

**JMA HOUSE INCORPORATED, PETITIONER, VS. STA. MONICA INDUSTRIAL AND DEVELOPMENT CORPORATION AND A. GUERRERO DEVELOPMENT CORPORATION, RESPONDENTS.**

### D E C I S I O N

**CALLEJO, SR., J.:**

Before the Court is a Petition for Review on *Certiorari* of the Decision<sup>[1]</sup> of the Court of Appeals (CA) in CA-G.R. CV No. 60085 affirming on appeal the Decision<sup>[2]</sup> of the Regional Trial Court (RTC), Quezon City, Branch 105, in Civil Case No. Q-91-10576.

JMA House Incorporated (JMA) applied for a ₱1,500,000.00 loan from the Pioneer Savings and Loan Association, Inc. (Pioneer). To secure payment thereof, JMA executed a real estate mortgage over a parcel of land identified as Lot No. 4, Block No. 13, Subdivision Plan No. Psd-35337 covered by Transfer Certificate of Title (TCT) No. 268126. The lot, which was located in Quezon City across Gate 1 of the Maryknoll College, had an area of 1,611.6 square meters.<sup>[3]</sup> There was likewise a three-storey commercial and residential building which was occupied by tenants.<sup>[4]</sup> Upon the failure of JMA to pay its loan, the real estate mortgage was foreclosed extrajudicially. Pioneer was the winning bidder at ₱2,000,000.00 during the sale at public auction held on August 26, 1985. The Sheriff executed a Certificate of Sale over the property in favor of Pioneer which was annotated at the dorsal portion of TCT No. 268126 on October 11, 1985.<sup>[5]</sup> JMA had one year or until October 11, 1986 to redeem the property.

JMA decided to redeem the property from Pioneer sometime in June 1986. It offered to borrow from Sta. Monica Industrial and Development Corporation (Sta. Monica) the amount of ₱2,300,000.00. During the negotiations between Rosita Alberto, the General Manager of JMA, and Sta. Monica's president Eugenio Trinidad, the parties agreed that the latter would purchase the property for ₱3,021,000.00.<sup>[6]</sup> Trinidad insisted that JMA execute a deed of absolute sale over the property for the price of ₱4,100,000.00. Rosita Alberto suggested that instead of a deed of absolute sale, a real estate mortgage be executed considering that the property was worth much more than ₱4,100,000.00. Trinidad refused. By way of a compromise, Alberto suggested that a supplement deed giving JMA the option to repurchase the property within a period of two years be executed.<sup>[7]</sup> Trinidad agreed to this proposal. Thus, the lawyers of JMA and Sta. Monica prepared two deeds.<sup>[8]</sup> From the ₱3,021,000.00 it received from Sta. Monica, JMA remitted ₱2,300,000.00 to Pioneer.

On June 23, 1986, Pioneer and JMA executed a Deed of Legal Redemption and Absolute Sale in which Pioneer, for and consideration of ₱2,300,000.00, transferred to JMA all the rights over the property, including the improvements thereon, which



Pioneer acquired under the Certificate of Sale.<sup>[9]</sup> The parties, likewise, declared therein that it was their intention that, with the execution of said deed, the loan of JMA amounting to ₱1,250,000.00, including all interests, penalties and charges thereon, were considered fully paid and legally extinguished.<sup>[10]</sup>

On June 30, 1986 JMA, represented by its General Manager Rosita Alberto, executed a *Deed of Absolute Sale* over the lot, including the buildings thereon, in favor of Sta. Monica, represented by Eugenio Trinidad. The receipt for ₱4,100,000.00 as purchase price was acknowledged by JMA from Sta. Monica.<sup>[11]</sup> As agreed upon by the parties, the parties likewise executed a contract denominated as Option to Buy, in which Sta. Monica gave JMA the option to buy the property for ₱4,100,000.00 within one (1) year from the execution of the Deed Of Absolute Sale on or before July 1, 1987, with a "grace period" of one year immediately upon the expiration thereof (until July 1, 1988). The parties agreed that, in case JMA availed of such extension, JMA would be obligated to pay an additional amount equivalent to 3.5% a month as liquidated damages, until the whole amount is fully paid and/or the option is finally exercised.<sup>[12]</sup>

Alberto turned over to Trinidad the owner's duplicate of TCT No. 26812.6 The Register of Deeds thereafter issued TCT No. 347638 in the name of Sta. Monica;<sup>[13]</sup> however, the Option to Buy was not annotated at the dorsal portion of the title.

As agreed upon between JMA and Sta. Monica, the latter thenceforth paid the realty taxes on the property.<sup>[14]</sup> JMA continued collecting the rentals from the tenants of the buildings with the knowledge and conformity of Sta. Monica. On November 17, 1986, Sta. Monica mortgaged the property to the PCI Capital Corporation as security for a ₱3,600,000.00 loan.<sup>[15]</sup>

In a letter dated January 26, 1988, Sta. Monica, through Eugenio Trinidad, informed Rosita Alberto and the tenants of the buildings in the property that due to the failure of JMA to "repurchase" the property, it had been sold to A. Guerrero Development Corporation (AGCOR) effective February 1, 1988, and, as the new owner, AGCOR would be collecting the rentals.<sup>[16]</sup> Rosita Alberto protested to Trinidad, insisting that the period given to JMA to buy back the property had not yet elapsed. Nevertheless, on February 2, 1988, Sta. Monica and AGCOR executed a Deed of Absolute Sale over the property for ₱5,700,000.00, receipt of which was acknowledged by Sta. Monica.<sup>[17]</sup> Part of the amount was used by Sta. Monica to redeem the property from PCI Capital Corporation which executed a Release of Real Estate Mortgage on February 16, 1988.<sup>[18]</sup> On February 17, 1988, the Register of Deeds issued TCT No. 376746 in the name of AGCOR.<sup>[19]</sup> It paid the realty taxes on the property starting 1988.<sup>[20]</sup>

Despite the sale of the property to AGCOR, Trinidad received, on June 30, 1988, five checks from Rosita Alberto drawn against the account of JMA in the total amount of ₱3,000,000.00. He likewise received ₱57,000.00 from Atty. Rosalie Alberto, Rosita's sister and a member of the JMA Board of Directors "as partial payment of the account of JMA for the property located at No. 335, Katipunan Street, Quezon City."<sup>[21]</sup> However, the checks were dishonored by the drawee Bank.<sup>[22]</sup> Trinidad failed to return the cash amount of ₱57,000.00 to JMA.



On October 30, 1989, AGCOR mortgaged the property to Planter's Development Bank as security for a P7,000,000.00 loan.<sup>[23]</sup>

Almost two years thereafter, or on November 11, 1991, JMA filed a complaint against Sta. Monica and AGCOR, as defendants, in the RTC of Quezon City for specific performance, reconveyance and damages. It alleged that it mortgaged its property to Sta. Monica as security for a P3,021,000.00 loan and P1,079,000.00 as interest; however, upon the insistence of Trinidad, in lieu of a real estate mortgage, a deed of absolute sale was executed over the property for the price of P4,100,000.00; an Option to Buy was also executed in its favor, giving it the option to buy the property for P4,100,000.00 within a period of one (1) year from execution thereof, and in the meantime, it retained dominion over the property; on January 26, 1988, it received notice that beginning February 1, 1988, the tenants will pay their rentals to the new owner of the property, defendant AGCOR, to which it protested; defendant Sta. Monica assured the plaintiff that defendant AGCOR was aware of its option to buy the property.

JMA further alleged that it informed defendant Sta. Monica on June 30, 1988 that it was ready to repurchase the property for P5,822,000.00 with an initial payment of P3,057,000.00 to be immediately tendered on said date, and the remaining balance of P2,765,000.00 after one month. Sta. Monica assured JMA that the property would be delivered to it with AGCOR's conformity. JMA paid P3,057,000.00 on June 30, 1988, per redemption receipt issued by Trinidad, who however refused to receive the balance. Despite representations to defendant AGCOR to abide by the Option to Buy, AGCOR maintained its right to possess and own the property and even filed ejectment cases against it; worse, Sta. Monica never returned the downpayment given on June 30, 1988 and continues to benefit therefrom.

JMA averred that it had a right to repurchase the property under the terms of the Option to Buy Agreement dated June 30, 1986, considering that the transaction actually entered into is one of equitable mortgage and not a deed of sale with option to buy. Defendant Sta. Monica is mandated by law to abide by the said agreement and could not have sold the questioned property to defendant AGCOR, taking into account that it has accepted the amount of P3,057,000.00 as downpayment for the purchase price. Having sold the property to AGCOR, defendant Sta. Monica must be made to pay the plaintiff the amount of P15,000,000.00 which is the actual market value of the property, as well as the rental payments which it failed to collect.<sup>[24]</sup> The plaintiff prayed that judgment be rendered in its favor, thus:

WHEREFORE, it is most respectfully prayed of this Honorable Court that judgment be rendered in favor of the plaintiff ordering:

1) Defendants Sta. Monica and AGCOR to respect and acknowledge the right of JMA to repurchase and consequently own and possess the property free from liens and all encumbrances;

2) Defendants to solidarily pay the plaintiff the accrued rentals of P2,362,500.00 as of October 1991, with an additional P52,500.00 every month thereafter until defendant AGCOR ceases to collect the mentioned rentals from the tenants of the premises;



3) Ordering defendants to pay exemplary damages in the amount of ₱100,000.00, nominal damages in the amount of ₱100,000.00, attorney's fees in the sum of ₱200,000.00 and the costs of suit;

Just and equitable reliefs are, likewise, prayed for under the premises.

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For its part, Sta. Monica alleged in its Answer to the complaint the following special and affirmative defenses: (1) JMA has no cause of action against it; (2) the complaint is unfounded and malicious; (3) it acted in good faith; (4) the supposed "Option to Buy" is not supported by valuable consideration and, therefore, is unenforceable; (5) assuming arguendo that there was an extension to exercise the said "Option to Buy," it was not in writing, without consideration and, therefore, unenforceable; (6) the amount/s which JMA had given to it had been offset by the value of the property and the resulting damages sustained by it (Sta. Monica). Defendant claimed ₱1,000,000.00, ₱500,000.00, ₱200,000.00 and ₱100,000.00 compulsory counterclaim representing actual, moral and exemplary damages, including attorney's fees and the litigation expenses, respectively.

Defendant AGCOR alleged in its Answer with Cross-claim and Counterclaims that the physical possession of the subject property was voluntarily surrendered by Sta. Monica to it upon execution of the Deed of Absolute Sale. It came to know of the alleged "Option to Buy" only on September 30, 1988 when Trinidad made an offer to repurchase the subject property with an initial downpayment of ₱3,000,000.00, the balance to be paid on the following day. However, Trinidad never showed up or called as promised.

As special and affirmative defenses, it claimed that there was no cause of action against it, since even assuming that an option to buy was duly executed, it was not a party thereto. It pointed out that the option was not registered nor annotated in the title with the Register of Deeds for the purpose of giving notice to the whole world; JMA was estopped from claiming that its contract<sup>[26]</sup> with Sta. Monica was a sale with right to repurchase, considering that there was no pre-existing condition or limitation whatsoever to serve as notice to third persons dealing with the said property; it was a purchaser in good faith without knowledge of any agreement between JMA and Sta. Monica or any fact that would vitiate consent in the acquisition of the property; it acquired legal title thru sale and in fact, TCT No. 376746 was issued in its name; and JMA is guilty of laches and it had not completely exercised its option to repurchase by paying the total amount and there is no proof that the option was extended by Sta. Monica for another year.

By way of cross-claim, AGCOR alleged that JMA and Sta. Monica should be the only parties in this case, since they executed the "Option to Buy," to its exclusion. Because of its inclusion as defendant, its goodwill was damaged and it was deprived of its right of full ownership; thus, cross-defendant Sta. Monica should be held liable for actual or compensatory damages in the amount of ₱1,000,000.00. It likewise asserted compulsory counterclaims in the amount of ₱500,000.00 as moral damages, ₱300,000.00 as exemplary damages, and ₱200,000.00 as attorney's fees.

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On January 10, 1992, Eugenio Trinidad died.<sup>[28]</sup> Victor Trinidad became the President of Sta. Monica.



During trial, JMA presented Rosita Alberto and her sister, Atty. Rosalie Alberto as witnesses. Rosita testified that she graduated from the University of the Philippines with a Bachelor of Arts degree in Economics.<sup>[29]</sup> It was Eugenio Trinidad who insisted that JMA execute a deed of absolute sale instead of a real estate mortgage to secure the P4,100,000.00 loan.<sup>[30]</sup> She, in turn, requested that an option to buy be executed by the plaintiff to supplement the deed of absolute sale to which Trinidad agreed.<sup>[31]</sup> JMA retained possession of the property and continued collecting rentals from the tenants since the transaction between the parties was precisely a contract of mortgage.<sup>[32]</sup> When she protested to Trinidad's letter dated January 26, 1988 informing her and the tenants that the property had not been repurchased by JMA, Trinidad verbally assured her that JMA could repurchase the property and pay the price thereof within a reasonable time. Trinidad agreed to the repurchasing of the property for P5,822,000.00 payable in two installments, to wit: (a) P3,057,000.00 on June 30, 1988; and (b) the balance of P2,768,000.00 within a reasonable time. On June 30, 1988, P3,000,000.00 in checks and P57,000.00 cash was paid by JMA, through Atty. Rosalie Alberto and Atty. Rellosa to Trinidad, and for which the latter issued a redemption receipt. JMA was ready to pay the balance of the repurchase price (P2,768,000.00) but Trinidad could not be located, and worse, failed to return the initial amount paid.<sup>[33]</sup>

On cross-examination, Rosita Alberto admitted that her agreement with Trinidad, that JMA can repurchase the property by paying the price within a reasonable time, was merely verbal because she trusted Trinidad.<sup>[34]</sup> JMA did not file any complaint for consignment of the amount for its repurchase of the property.<sup>[35]</sup> She admitted that the checks delivered to Trinidad had been dishonored.<sup>[36]</sup> The respective lawyers of Sta. Monica and JMA typed the deed of absolute sale and option to buy.<sup>[37]</sup>

Atty. Rosalie Alberto testified that JMA is a family corporation. She learned of the deed of absolute sale and option to buy only in February 1988.<sup>[38]</sup> She represented JMA in the negotiations with Trinidad for the repurchase of the property. Trinidad informed her that he had already informed defendant AGCOR of plaintiff's tender of P3,057,000.00. He, however, suggested that she personally inform AGCOR of said tender. When she did so, Guerrero informed her that AGCOR could no longer accept the offer.<sup>[39]</sup> She wanted to tell Trinidad about what Guerrero had said, but she could no longer locate him.<sup>[40]</sup>

Franco Marquez, President of the Philippine Appraisal Co., Inc., testified that the property was appraised on May 15, 1986, and its value was pegged at P11,080,000.00.<sup>[41]</sup>

Defendant Sta. Monica presented its president, Victor Trinidad, who testified on the damages sustained by it. On cross-examination, he admitted that, despite the deed of absolute sale, it never took possession of the property.<sup>[42]</sup> Neither did defendant collect rentals from the tenants of the building because of the option to buy.<sup>[43]</sup>

Alberto Guerrero, a doctor of medicine and a lawyer, testified that he was the president of AGCOR, also a family corporation. When the property was offered for