493 Phil. 365

SECOND DIVISION

[G.R. NO. 141882, March 11, 2005]

J.L.T. AGRO, INC., REPRESENTED BY ITS MANAGER, JULIAN L. TEVES, PETITIONER, VS. ANTONIO BALANSAG AND HILARIA CADAYDAY, RESPONDENTS.

D E C I S I O N

TINGA, J.:

Once again, the Court is faced with the perennial conflict of property claims between two sets of heirs, a conflict ironically made grievous by the fact that the decedent in this case had resorted to great lengths to allocate which properties should go to which set of heirs.

This is a Rule 45 petition assailing the *Decision*[1] dated 30 September 1999 of the Court of Appeals which reversed the *Decision*[2] dated 7 May 1993 of the Regional Trial Court (RTC), Branch 45, of Bais City, Negros Oriental.

The factual antecedents follow.

Don Julian L. Teves (Don Julian) contracted two marriages, first with Antonia Baena (Antonia), and after her death, with Milagros Donio Teves (Milagros Donio). Don Julian had two children with Antonia, namely: Josefa Teves Escaño (Josefa) and Emilio Teves (Emilio). He had also four (4) children with Milagros Donio, namely: Maria Evelyn Donio Teves (Maria Evelyn), Jose Catalino Donio Teves (Jose Catalino), Milagros Reyes Teves (Milagros Reyes) and Pedro Reyes Teves (Pedro).[3]

The present controversy involves a parcel of land covering nine hundred and fifty-four (954) square meters, known as Lot No. 63 of the Bais Cadastre, which was originally registered in the name of the conjugal partnership of Don Julian and Antonia under Original Certificate of Title (OCT) No. 5203 of the Registry of Deeds of Bais City. When Antonia died, the land was among the properties involved in an action for partition and damages docketed as Civil Case No. 3443 entitled *"Josefa Teves Escaño v. Julian Teves, Emilio B. Teves, et al."*[4] Milagros Donio, the second wife of Don Julian, participated as an intervenor. Thereafter, the parties to the case entered into a *Compromise Agreement*[5] which embodied the partition of all the properties of Don Julian.

On the basis of the compromise agreement and approving the same, the Court of First Instance (CFI) of Negros Oriental, 12th Judicial District, rendered a Decision[6] dated 31 January 1964. The CFI decision declared a tract of land known as Hacienda Medalla Milagrosa as property owned in common by Don Julian and his two (2) children of the first marriage. The property was to remain undivided during the lifetime of Don Julian.[7] Josefa and Emilio likewise were given other properties

at Bais, including the electric plant, the "movie property," the commercial areas, and the house where Don Julian was living. The remainder of the properties was retained by Don Julian, including Lot No. 63.

Paragraph 13 of the *Compromise Agreement,* at the heart of the present dispute, lays down the effect of the eventual death of Don Julian vis-à-vis his heirs:

> 13. That in the event of death of Julian L. Teves, the properties hereinafter adjudicated to Josefa Teves EscaHo and Emilio B. Teves, (excluding the properties comprised as Hacienda Medalla Milagrosa together with all its accessories and accessions) shall be understood as including not only their one-half share which they inherited from their mother but also the legitimes and other successional rights which would correspond to them of the other half belonging to their father, Julian L. Teves. In other words, ***the properties now selected and adjudicated to Julian L. Teves (not including his share in the Hacienda Medalla Milagrosa) shall exclusively be adjudicated*** to the wife in second marriage of Julian L. Teves and his four minor children, namely, Milagros Donio Teves, his two acknowledged natural children Milagros Reyes Teves and Pedro Reyes Teves and his two legitimated children Maria Evelyn Donio Teves and Jose Catalino Donio Teves. (Emphasis supplied)

On 16 November 1972, Don Julian, Emilio and Josefa executed a *Deed of Assignment of Assets with Assumption of Liabilities*[8] in favor of J.L.T. Agro, Inc. (petitioner). Less than a year later, Don Julian, Josefa and Emilio also executed an instrument entitled *Supplemental to the Deed of Assignment of Assets with the Assumption of Liabilities (Supplemental Deed)*[9] dated 31 July 1973. This instrument which constitutes a supplement to the earlier deed of assignment transferred ownership over Lot No. 63, among other properties, in favor of petitioner.[10] On 14 April 1974, Don Julian died intestate.

On the strength of the *Supplemental Deed* in its favor, petitioner sought the registration of the subject lot in its name. A court, so it appeared, issued an order[11] cancelling OCT No. 5203 in the name of spouses Don Julian and Antonia on 12 November 1979, and on the same date TCT No. T-375 was issued in the name of petitioner.[12] Since then, petitioner has been paying taxes assessed on the subject lot.[13]

Meanwhile, Milagros Donio and her children had immediately taken possession over the subject lot after the execution of the *Compromise Agreement.* In 1974, they entered into a yearly lease agreement with spouses Antonio Balansag and Hilaria Cadayday, respondents herein.[14] On Lot No. 63, respondents temporarily established their home and constructed a lumber yard. Subsequently, Milagros Donio and her children executed a *Deed of Extrajudicial Partition of Real Estate*[15] dated 18 March 1980. In the deed of partition, Lot No. 63 was allotted to Milagros Donio and her two (2) children, Maria Evelyn and Jose Catalino. Unaware that the subject lot was already registered in the name of petitioner in 1979, respondents bought Lot No. 63 from Milagros Donio as evidenced by the *Deed of Absolute Sale of Real Estate*[16] dated 9 November 1983.

At the Register of Deeds while trying to register the deed of absolute sale,

respondents discovered that the lot was already titled in the name of petitioner. Thus, they failed to register the deed.[17]

Respondents, as vendees of Lot No. 63, filed a complaint before the RTC Branch 45 of Bais City, seeking the declaration of nullity and cancellation of TCT No. T-375 in the name of petitioner and the transfer of the title to Lot No. 63 in their names, plus damages.[18]

After hearing, the trial court dismissed the complaint filed by respondents. The dispositive portion of the decision reads:

> WHEREFORE, premises considered, by preponderance of evidence, this Court finds judgment in favor of the defendant and against the plaintiff, and thus hereby orders:
>
> (1) That complaint be dismissed;
>
> (2) That plaintiffs vacate the subject land, particularly identified as Lot No. 63 registered under Transfer Certificate of Title No. T-375;
>
> (3) That plaintiffs pay costs.
>
> Finding no basis on the counterclaim by defendant, the same is hereby ordered dismissed.[19]

The trial court ruled that the resolution of the case specifically hinged on the interpretation of paragraph 13 of the *Compromise Agreement.*[20] It added that the direct adjudication of the properties listed in the *Compromise Agreement* was only in favor of Don Julian and his two children by the first marriage, Josefa and Emilio.[21] Paragraph 13 served only as an amplification of the terms of the adjudication in favor of Don Julian and his two children by the first marriage.

According to the trial court, the properties adjudicated in favor of Josefa and Emilio comprised their shares in the estate of their deceased mother Antonia, as well as their potential share in the estate of Don Julian upon the latter's death. Thus, upon Don Julian's death, Josefa and Emilio could not claim any share in his estate, except their proper share in the Hacienda Medalla Milagrosa which was adjudicated in favor of Don Julian in the *Compromise Agreement.* As such, the properties adjudicated in favor of Don Julian, except Hacienda Medalla Milagrosa, were free from the forced legitimary rights of Josefa and Emilio, and Don Julian was under no impediment to allocate the subject lot, among his other properties, to Milagros Donio and her four (4) children.[22]

The trial court further stressed that with the use of the words "shall be," the adjudication in favor of Milagros Donio and her four (4) children was not final and operative, as the lot was still subject to future disposition by Don Julian during his lifetime.[23] It cited paragraph 14[24] of the *Compromise Agreement* in support of his conclusion.[25] With Lot No. 63 being the conjugal property of Don Julian and Antonia, the trial court also declared that Milagros Donio and her children had no hereditary rights thereto except as to the conjugal share of Don Julian, which they could claim only upon the death of the latter.[26]

The trial court ruled that at the time of Don Julian's death on 14 April 1974, Lot No. 63 was no longer a part of his estate since he had earlier assigned it to petitioner on 31 July 1973. Consequently, the lot could not be a proper subject of extrajudicial partition by Milagros Donio and her children, and not being the owners they could not have sold it. Had respondents exercised prudence before buying the subject lot by investigating the registration of the same with the Registry of Deeds, they would have discovered that five (5) years earlier, OCT No. 5203 had already been cancelled and replaced by TCT No. T-375 in the name of petitioner, the trial court added.[27]

The Court of Appeals, however, reversed the trial court's decision. The decretal part of the appellate decision reads:

> WHEREFORE, premises considered, the decision appealed from is hereby REVERSED and SET ASIDE and a new one is entered declaring the Transfer Certificate of Title No. T-375 registered in the name of J.L.T. Agro, Inc. as null and void.
>
> With costs against defendant J.L.T. Agro, Inc. represented by its Manager, Julian L. Teves.
>
> SO ORDERED.[28]

Per the appellate court, the *Compromise Agreement* incorporated in CFI decision dated 31 January 1964, particularly paragraph 13 thereof, determined, adjudicated and reserved to Don Julian's two sets of heirs their future legitimes in his estate except as regards his (Don Julian's) share in Hacienda Medalla Milagrosa.[29] The two sets of heirs acquired full ownership and possession of the properties respectively adjudicated to them in the CFI decision and Don Julian himself could no longer dispose of the same, including Lot No. 63. The disposition in the CFI decision constitutes *res judicata*.[30] Don Julian could have disposed of only his conjugal share in the Hacienda Medalla Milagrosa.[31]

The appellate court likewise emphasized that nobody in his right judgment would preterit his legal heirs by simply executing a document like the *Supplemental Deed* which practically covers all properties which Don Julian had reserved in favor of his heirs from the second marriage. It also found out that the blanks reserved for the Book No. and Page No. at the upper right corner of TCT No. T-375, "to identify the exact location where the said title was registered or transferred," were not filled up, thereby indicating that the TCT is "spurious and of dubious origin."[32]

Aggrieved by the appellate court's decision, petitioner elevated it to this Court via a petition for review on certiorari, raising pure questions of law.

Before this Court, petitioner assigns as errors the following rulings of the appellate court, to wit: (a) that future legitime can be determined, adjudicated and reserved prior to the death of Don Julian; (b) that Don Julian had no right to dispose of or assign Lot No. 63 to petitioner because he reserved the same for his heirs from the second marriage pursuant to the *Compromise Agreement;* (c) that the *Supplemental Deed* was tantamount to a preterition of his heirs from the second

marriage; and (d) that TCT No. T-375 in the name of petitioner is spurious for not containing entries on the Book No. and Page No.[33]

While most of petitioner's legal arguments have merit, the application of the appropriate provisions of law to the facts borne out by the evidence on record nonetheless warrants the affirmance of the result reached by the Court of Appeals in favor of respondents.

Being the key adjudicative provision, paragraph 13 of the *Compromise Agreement* has to be quoted again:

> 13. That in the event of death of Julian L. Teves, the properties herein adjudicated to Josefa Teves Escaño and Emilio B. Teves, (excluding the properties comprised as Hacienda Medalla Milagrosa together with all its accessories and accessions) shall be understood as including not only their one-half share which they inherited from their mother but also the legitimes and other successional rights which would correspond to them of the other half belonging to their father, Julian L.Teves. **In other words, the properties now selected and adjudicated to Julian L. Teves (not including his share in the Hacienda Medalla Milagrosa) *shall exclusively be adjudicated* to the wife in second marriage of Julian L. Teves and his four minor children, namely, Milagros Donio Teves, his two acknowledged natural children Milagros Reyes Teves and Pedro Reyes Teves and his two legitimated children Maria Evelyn Donio Teves and Jose Catalino Donio Teves."** (Emphasis supplied)

With the quoted paragraph as basis, the Court of Appeals ruled that the adjudication in favor of the heirs of Don Julian from the second marriage became automatically operative upon the approval of the *Compromise Agreement,* thereby vesting on them the right to validly dispose of Lot No. 63 in favor of respondents.

Petitioner argues that the appellate court erred in holding that future legitime can be determined, adjudicated and reserved prior to the death of Don Julian. The Court agrees. Our declaration in *Blas v. Santos*[34] is relevant, where we defined future inheritance as any property or right ***not in existence or capable of determination at the time of the contract,*** that a person may in the future acquire by succession. Article 1347 of the New Civil Code explicitly provides:

> ART. 1347. All things which are not outside the commerce of men, including future things, may be the object of a contract. All rights which are not intransmissible may also be the object of contracts.
>
> **No contract may be entered into upon future inheritance except in cases expressly authorized by law.**
>
> All services which are not contrary to law, morals, good customs, public order or public policy may likewise be the object of a contract.

Well-entrenched is the rule that all things, even future ones, which are not outside the commerce of man may be the object of a contract. The exception is that no contract may be entered into with respect to future inheritance, and the exception