

THIRD DIVISION

[G.R. No. 148775, January 13, 2004]

**SHOPPER'S PARADISE REALTY & DEVELOPMENT CORPORATION,
PETITIONER, VS. EFREN P. ROQUE, RESPONDENT.**

DECISION

VITUG, J.:

On 23 December 1993, petitioner Shopper's Paradise Realty & Development Corporation, represented by its president, Veredigno Atienza, entered into a twenty-five year lease with Dr. Felipe C. Roque, now deceased, over a parcel of land, with an area of two thousand and thirty six (2,036) square meters, situated at Plaza Novaliches, Quezon City, covered by Transfer of Certificate of Title (TCT) No. 30591 of the Register of Deeds of Quezon City in the name of Dr. Roque. Petitioner issued to Dr. Roque a check for P250,000.00 by way of "reservation payment." Simultaneously, petitioner and Dr. Roque likewise entered into a memorandum of agreement for the construction, development and operation of a commercial building complex on the property. Conformably with the agreement, petitioner issued a check for another P250,000.00 "downpayment" to Dr. Roque.

The contract of lease and the memorandum of agreement, both notarized, were to be annotated on TCT No. 30591 within sixty (60) days from 23 December 1993 or until 23 February 1994. The annotations, however, were never made because of the untimely demise of Dr. Felipe C. Roque. The death of Dr. Roque on 10 February 1994 constrained petitioner to deal with respondent Efren P. Roque, one of the surviving children of the late Dr. Roque, but the negotiations broke down due to some disagreements. In a letter, dated 3 November 1994, respondent advised petitioner "to desist from any attempt to enforce the aforementioned contract of lease and memorandum of agreement". On 15 February 1995, respondent filed a case for annulment of the contract of lease and the memorandum of agreement, with a prayer for the issuance of a preliminary injunction, before Branch 222 of the Regional Trial Court of Quezon City. Efren P. Roque alleged that he had long been the absolute owner of the subject property by virtue of a deed of donation *inter vivos* executed in his favor by his parents, Dr. Felipe Roque and Elisa Roque, on 26 December 1978, and that the late Dr. Felipe Roque had no authority to enter into the assailed agreements with petitioner. The donation was made in a public instrument duly acknowledged by the donor-spouses before a notary public and duly accepted on the same day by respondent before the notary public in the same instrument of donation. The title to the property, however, remained in the name of Dr. Felipe C. Roque, and it was only transferred to and in the name of respondent sixteen years later, or on 11 May 1994, under TCT No. 109754 of the Register of Deeds of Quezon City. Respondent, while he resided in the United States of America, delegated to his father the mere administration of the property. Respondent came to know of the assailed contracts with petitioner only after retiring to the Philippines upon the death of his father.

On 9 August 1996, the trial court dismissed the complaint of respondent; it explained:

"Ordinarily, a deed of donation need not be registered in order to be valid between the parties. Registration, however, is important in binding third persons. Thus, when Felipe Roque entered into a leased contract with defendant corporation, plaintiff Efren Roque (could) no longer assert the unregistered deed of donation and say that his father, Felipe, was no longer the owner of the subject property at the time the lease on the subject property was agreed upon.

"The registration of the Deed of Donation after the execution of the lease contract did not affect the latter unless he had knowledge thereof at the time of the registration which plaintiff had not been able to establish. Plaintiff knew very well of the existence of the lease. He, in fact, met with the officers of the defendant corporation at least once before he caused the registration of the deed of donation in his favor and although the lease itself was not registered, it remains valid considering that no third person is involved. Plaintiff cannot be the third person because he is the successor-in-interest of his father, Felipe Roque, the lessor, and it is a rule that contracts take effect not only between the parties themselves but also between their assigns and heirs (Article 1311, Civil Code) and therefore, the lease contract together with the memorandum of agreement would be conclusive on plaintiff Efren Roque. He is bound by the contract even if he did not participate therein. Moreover, the agreements have been perfected and partially executed by the receipt of his father of the downpayment and deposit totaling to P500,000.00."^[1]

The trial court ordered respondent to surrender TCT No. 109754 to the Register of Deeds of Quezon City for the annotation of the questioned Contract of Lease and Memorandum of Agreement.

On appeal, the Court of Appeals reversed the decision of the trial court and held to be invalid the Contract of Lease and Memorandum of Agreement. While it shared the view expressed by the trial court that a deed of donation would have to be registered in order to bind third persons, the appellate court, however, concluded that petitioner was not a lessee in good faith having had prior knowledge of the donation in favor of respondent, and that such actual knowledge had the effect of registration insofar as petitioner was concerned. The appellate court based its findings largely on the testimony of Veredigno Atienza during cross-examination, viz;

"Q. Aside from these two lots, the first in the name of Ruben Roque and the second, the subject of the construction involved in this case, you said there is another lot which was part of development project?

"A. Yes, this was the main concept of Dr. Roque so that the adjoining properties of his two sons, Ruben and Cesar, will comprise one whole. The other whole property belongs to Cesar.

"Q. You were informed by Dr. Roque that this property was given to his three (3) sons; one to Ruben Roque, the other to Efren, and the other to Cesar Roque?

"A. Yes.

"Q. You did the inquiry from him, how was this property given to them?

"A. By inheritance.

"Q. Inheritance in the form of donation?

"A. I mean inheritance.

"Q. What I am only asking you is, were you told by Dr. Felipe C. Roque at the time of your transaction with him that all these three properties were given to his children by way of donation?

"A. What Architect Biglang-awa told us in his exact word: "*Yang mga yan pupunta sa mga anak. Yong kay Ruben pupunta kay Ruben. Yong kay Efren palibhasa nasa America sya, nasa pangalan pa ni Dr. Felipe C. Roque.*"

"x x x x x x x x x

"Q. When was the information supplied to you by Biglang-awa? Before the execution of the Contract of Lease and Memorandum of Agreement?

"A. Yes.

"Q. That being the case, at the time of the execution of the agreement or soon before, did you have such information confirmed by Dr. Felipe C. Roque himself?

"A. Biglang-awa did it for us.

"Q. But you yourself did not?

"A. No, because I was doing certain things. We were a team and so Biglang-awa did it for us.

"Q. So in effect, any information gathered by Biglang-awa was of the same effect as if received by you because you were members of the same team?

"A. Yes."^[2]

In the instant petition for review, petitioner seeks a reversal of the decision of the Court of Appeals and the reinstatement of the ruling of the Regional Trial Court; it argues that the presumption of good faith it so enjoys as a party dealing in registered land has not been overturned by the aforementioned testimonial evidence,