

## FIRST DIVISION

[ G.R. No. 126437, March 06, 2002 ]

**JOSUE ARLEGUI, PETITIONER, VS. HON. COURT OF APPEALS  
AND SPOUSES GIL AND BEATRIZ GENGUYON, RESPONDENTS.**

### *DECISION*

**YNARES-SANTIAGO, J.:**

This is a petition for review of the decision rendered by the Court of Appeals in CA-G.R. CV No. 32833, which reversed the ruling of the Pasig Regional Trial Court, Branch 67, in Civil Case No. 58185, and disposing as follows:

WHEREFORE, in view of the foregoing, the decision appealed from is hereby ANNULLED and SET ASIDE. Accordingly, judgment is rendered as follows:

- 1) Annulling the sale of the apartment unit at issue between Mateo Tan Lu and Josue Arlegui;
- 2) Ordering Josue Arlegui to execute a corresponding Deed of Conveyance in favor of spouses Gil and Beatriz Genguyon, involving Transfer Certificate of Title (TCT) No. 1286 covering the apartment unit at issue, upon payment by spouses Genguyons (sic) of the sum of P55,000.00, without any interest, to Arlegui;

Should defendant Arlegui fail to so execute the Deed of Conveyance herein ordered within fifteen (15) days from finality of judgment, the Branch Clerk of the court a quo shall execute the same and the Register of Deeds shall nullify the certificate of title in the name of Arlegui and shall issue another certificate of title in favor of spouses Gil and Beatriz Genguyon;

- 3) Ordering Mateo Tan Lu and Josue Arlegui to pay the Genguyons, jointly and solidarily, the amount of P35,000.00, as damages inclusive of attorney's fees;
- 4) Ordering a Permanent Injunction upon the Metropolitan Trial Court of Mandaluyong, Branch 60, from hearing Civil Case No. 12647 entitled "Josue Arlegui, plaintiff, versus Spouses Gil and Beatriz Genguyon, defendants," and for the said Metropolitan Trial Court to dismiss the same;
- 5) Dismissing the charges as to defendants-appellees Barrettos;

and

- 6) Costs against Mateo Tan Lu and Josue Arlegui, jointly and severally.

SO ORDERED.<sup>[1]</sup>

Gleaned from the records are the following undisputed facts:

The object of the controversy is a residential apartment unit (no. 15) located at the corner of Romualdez and Kalentong Streets in Mandaluyong City. The said property was formerly owned by Serafia Real Estate, Incorporated (hereinafter referred to as Serafia), a company owned by Alberto, Alfonso and Simeon, all surnamed Barretto, and their siblings Rosa B. Ochoa and Teresita B. Alcantara. For more than twenty (20) years, unit no. 15 was leased by Serafia to the spouses Gil and Beatriz Genguyon. In a letter dated March 26, 1984, the Genguyon spouses, along with the other tenants in the apartment building were informed by Alberto Barretto that Serafia and its assets had already been assigned and transferred to A.B. Barretto Enterprises.

Apprehensive that they were about to be ejected from their respective units, the tenants formed an organization called the Barretto Apartment Tenants Association. They elected officers from among themselves to represent them in the negotiations with A.B. Barretto Enterprises for the purchase of their respective apartment units. Among those elected were Josue Arlegui as vice-president and Mateo Tan Lu as auditor of the association.

Sometime thereafter, believing that negotiations were still ongoing, the Genguyons were surprised to learn on January 23, 1987 that the unit they were leasing had already been sold to Mateo Tan Lu. This notwithstanding, the Genguyons continued to occupy the subject premises and paid the rentals therefor.

The following year, or on July 7, 1988, the Genguyons were informed that Mateo Tan Lu had sold the subject apartment unit to Josue Arlegui. Not long thereafter, they received a letter from Arlegui's lawyer demanding that they vacate the premises. When they failed to accede to Arlegui's demand, the latter filed an action for ejectment against the Genguyons before the Metropolitan Trial Court of Mandaluyong City, Branch 60, docketed as Civil Case No. 12647.

For their part, the Genguyon spouses filed Civil Case No. 58185 against the Barrettos, Mateo Tan Lu and Josue Arlegui before the Regional Trial Court of Pasig City, Branch 67, for annulment of sale, specific performance, redemption and damages with preliminary injunction. The Genguyons raised therein the following issues:

- 1) Whether or not they were denied their right of first preference to purchase the subject apartment unit; and
- 2) Whether or not failure to exercise such right is jurisdictional, the absence of such jurisdiction rendering the sale from the Barrettos to Mateo Tan Lu, as well as the subsequent sale to Josue Arlegui, null and void.

On January 11, 1990, the RTC ordered the issuance of a writ of preliminary injunction directing the MTC to desist from taking further action in the ejectment case pending before it.<sup>[2]</sup>

On March 22, 1991, the RTC rendered judgment, disposing as follows:

WHEREFORE PREMISES CONSIDERED, judgment is hereby rendered in the above-entitled case in favor of defendant Josue Arlegui and against the plaintiffs ordering the plaintiffs to pay to the defendant Arlegui the sum P3,000.00 as attorney's fees. In view of the fact that the plaintiffs "acted in gross and evident bad faith by refusing to satisfy the defendant's plainly valid, just and demandable claim" (see Article 2208, No. 5, Civil Code); and to pay the cost.

Moreover, moral damages are not to be awarded to the defendant Josue Arlegui for while plaintiffs has already acted fraudulently or in bad faith their failure to vacate the premises is not in this Court's opinion, the "breach of contract" referred to in Art. 2220 of the Civil Code.

Dismissing the complaint as against defendants Alberto Barretto, Alfonso Barretto, Simeon Barretto, Rosa B. Ochoa, Teresita B. Alcantara and Mateo Tan Lu.

Lifting the preliminary mandatory injunction issued in the instant case as against the Metropolitan Trial Court of Mandaluyong, Branch 60, docketed as Civil Case No. 12647.

Conformably, with what has been stated in the above-mentioned paragraphs, the claims of the plaintiffs is hereby DISMISSED, as being purely without merit.

SO ORDERED.<sup>[3]</sup>

Not satisfied with the above-quoted disposition of the RTC, the Genguyons filed their appeal before the Court of Appeals.<sup>[4]</sup>

While the appeal was pending, the ejectment case against the Genguyons proceeded and, on October 6, 1992, the MTC of Mandaluyong City, Branch 60, rendered judgment<sup>[5]</sup> ordering the Genguyons to: (1) vacate the subject premises; (2) pay the accrued monthly rentals from September of 1989 to September of 1992, and the succeeding monthly rentals thereafter until they shall have finally surrendered possession of the premises; and (3) pay attorney's fees and costs of suit. The Genguyons appealed the decision to the RTC of Pasig, Branch 166, which affirmed the MTC judgment *in toto* in a Decision<sup>[6]</sup> dated January 25, 1993.

Thereafter, or on February 14, 1996, the Court of Appeals rendered judgment in CA-G.R. CV No. 32833, annulling and setting aside the RTC decision. The Court of Appeals made the following conclusions:

- 1) There existed between the Genguyons and the officers of the tenants' association, particularly Mateo Tan Lu and Josue

Arlegui, a fiduciary relationship;

- 2) Mateo Tan Lu and Josue Arlegui committed a breach of trust when they purchased the apartment unit leased by the Genguyons;
- 3) Josue Arlegui is not an innocent-purchaser for value nor a buyer in good faith;
- 4) The RTC erred in finding that the Genguyons' action was premised on their right of first preference under the Urban Land Reform Law; and
- 5) The Genguyons are not estopped from denying Arlegui's ownership of the subject property for no lessor-lessee relationship was established between them.

Josue Arlegui's motion for reconsideration was denied by the Court of Appeals in an Order<sup>[7]</sup> dated September 12, 1996. Hence, the instant petition for review, assigning the following errors:

I

THE RESPONDENT COURT ERRED IN HOLDING THAT THE PRIVATE RESPONDENTS DID NOT BASE THEIR ALLEGED RIGHT OF FIRST PREFERENCE ON P.D. 1517, THE URBAN LAND REFORM LAW.

II

THE RESPONDENT COURT ERRED IN HOLDING THAT A CONSTRUCTIVE TRUST EXISTED BETWEEN THE PRIVATE RESPONDENTS AND MATEO TAN LU.

III

THE RESPONDENT COURT ERRED, ASSUMING THAT A CONSTRUCTIVE TRUST EXISTED, IN HOLDING THAT THE PETITIONER IS NOT INSULATED FROM THE EFFECTS THEREOF.

IV

THE RESPONDENT COURT ERRED IN HOLDING THAT THE PRIVATE RESPONDENTS ARE ENTITLED TO DAMAGES INSTEAD OF THE PETITIONER.

V

THE RESPONDENT COURT ERRED IN ENJOINING THE METROPOLITAN TRIAL COURT OF MANDALUYONG FROM HEARING THE EJECTMENT CASE FILED BY PETITIONER AGAINST THE PRIVATE RESPONDENTS AND IN ORDERING THE DISMISSAL OF THE SAID CASE, NOTWITHSTANDING

THE FACT THAT THE SAID CASE HAD LONG BEEN DECIDED.

VI

THE RESPONDENT COURT ERRED IN NOT RECONSIDERING ITS DECISION, CONSIDERING THAT THE ISSUES RAISED BEFORE IT HAVE BECOME MOOT AND ACADEMIC AFTER THE PRIVATE RESPONDENTS VOLUNTARILY VACATED AND/OR ABANDONED THE SUBJECT UNIT THEY WERE OCCUPYING.<sup>[8]</sup>

There are four (4) essential matters involved in this controversy. The first one is whether or not the private respondents, spouses Gil and Beatriz Genguyon, are entitled to claim the right of first refusal or, as stated otherwise, the right of first preference, to purchase the residential apartment unit they were leasing first from Serafia Realty, then from A.B. Barretto Enterprises. It appears that while the Genguyons' complaint did not specifically allege that their supposed right of first refusal was by virtue of the provisions of P.D. No. 1517, also known as the Urban Land Reform Law,<sup>[9]</sup> Beatriz Genguyon testified on cross-examination that:

Q: Your contention is, being an occupant for more than ten (10) years of the premises, you should have been given the right of first refusal under the Urban Land Reform Law. Is that correct?

A: Yes, sir.<sup>[10]</sup>

Indeed, it would seem that the Genguyons' action is premised on the fact that they are long-time tenants of the apartment unit, a right accorded to legitimate tenants in urban zones who have resided on the land for ten (10) years or more and who have built their homes on the land, as well as residents who have legally and continuously occupied the lands by contract for the last ten (10) years.<sup>[11]</sup>

Although there is no mention of P.D. No. 1517 in their complaint, the Genguyons nevertheless assert their alleged right of first refusal as provided by the said law. However, the Regional Trial Court found that the Genguyons failed to present any factual or legal basis for its application. The Court of Appeals, on the other hand, found that although the Genguyons claimed the right of first refusal, their assertion was not anchored on P.D. No. 1517. And yet, the Genguyons have not shown during these entire proceedings any other statutory or jurisprudential source of said right of first refusal which would support their contentions.

Hence, the trial court correctly concluded that the Genguyons' claims were founded on P.D. No. 1517. However, the said court ruled that P.D. No. 1517 cannot benefit the Genguyons, citing the Supreme Court ruling in *Santos v. Court of Appeals*,<sup>[12]</sup> to the effect that "P.D. No. 1517, in referring to the pre-emptive or redemptive right of a lease, speaks only of urban land under lease on which a tenant has built his home and in which he has resided for ten years or more. If both land and the building belong to the lessor, the right referred to hereinabove does not apply."

In the parallel case of *Nidoy v. Court of Appeals*,<sup>[13]</sup> we held that:

Clearly, the right of first refusal applies only to tenants who have resided for ten (10) years or more on the leased land declared as within the