

## THIRD DIVISION

[ G.R. No. 147072, May 07, 2002 ]

**FRANCISCO H. LU, PETITIONER, VS. SPOUSES ORLANDO AND  
ROSITA MANIPON, RESPONDENTS.**

### DECISION

**PANGANIBAN, J.:**

The registration of a sale of real estate will not protect a buyer in bad faith, for the law cannot be used as a shield for fraud. On the other hand, the preferential right of a first registrant in a double sale is always qualified by good faith.

#### The Case

Before us is a Petition for Review on Certiorari challenging the October 25, 2000 Decision and the February 9, 2001 Resolution of the Court of Appeals<sup>[1]</sup> (CA) in CA-GR CV No. 55149. The assailed Decision disposed as follows:

"WHEREFORE, premises considered, the appealed Decision is hereby AFFIRMED with MODIFICATION in the sense that [petitioner] is directed to convey Lot 5582-B-7-D covered by TCT No. 171497 to [respondent] Rosita C. Manipon without being entitled to any payment from the latter."

<sup>[2]</sup>

The assailed Resolution denied the Motion for Reconsideration.<sup>[3]</sup>

#### The Facts

The facts of the case are summarized in the assailed Decision as follows:

"On May 9, 1981, Juan Peralta executed a [D]eed of [S]ale by installment in favor of spouses Orlando and Rosita Manipon [herein respondents]. Therein, Juan Peralta agreed to sell by installment to the said spouses 350 square meters of the 2,078 square-meter lot he owned, covered by Transfer Certificate of Title (TCT) No. 137911 and located at Barrio Dilan, Urdaneta, Pangasinan. The said [D]eed was not registered with the Registry of Deeds.

"On June 10, 1981, Juan Peralta mortgaged the aforesaid lot to Thrift Savings and Loan Association, Inc. (TSLAI). He however failed to pay the loan he obtained for which the mortgage was constituted and so the same was judicially foreclosed and sold to TSLAI for P62,789.18 which was the highest bidder. The latter in turn sold the same on July 15, 1988 in the amount of P80,000.00 to the [petitioner]. Thereafter, on August 30, 1989, [petitioner] caused the subdivision of the said lot into five (5) lots, one of which is Lot 5582-B-7-D, with an area of 339 square meters

covering the lot which was earlier sold by installment to [respondents]. The said lot is now covered by TCT No. 171497. In the interim, or on July 30, 1983, Juan Peralta executed a [D]eed of [S]ale in favor of [respondents] after the couple paid a total amount of P8,000.00 for the subject lot. The aforesaid [D]eed was however also not registered.

"On January 22, 1990, [petitioner] through counsel wrote the [respondents] regarding the presence of the latter's house, which was also being occupied by them, on the lot in question. Efforts were apparently made by both parties to settle the brewing dispute but to [no] avail. Hence, on February 26, 1990, [petitioner] filed the present action alleging therein that he is the owner of the lot in question including that which was being occupied by [respondents]. Petitioner further claims that his ownership was confirmed by the Regional Trial Court of Urdaneta, Pangasinan, Branch 49, in Civil Case No. U-4399. He also averred that for reasons unknown to him, [respondents] were claiming ownership of Lot 5582-B-7-D and have constructed a house thereon on January 22, 1990.

"In the Answer filed by [respondents], they claim that [petitioner] is a buyer in bad faith because even before he bought the 2,078 square-meter lot, he knew for a fact that they already bought Lot 5582-B-7-D from the original owner of the said lot and have been residing therein since 1981. [Respondents] also asserted that [petitioner] had knowledge of their claim over the said property because when the whole lot was foreclosed they shared the same problem as [petitioner] also bought a lot with the 2,078 square-meter lot of Juan Peralta.

"Trial ensued and thereafter, the trial court rendered the questioned judgment. x x x."<sup>[4]</sup> (Citations omitted)

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

The trial court ruled that petitioner was not a buyer in good faith despite the fact that he was able to register his ownership of the disputed lot. He admitted knowing that respondents had constructed a house on the disputed lot in 1984, even before he purchased the property from the loan association in 1990. Indeed, he waited more than ten (10) years before contesting respondents' occupation and possession of the land. The RTC disposed as follows:

"WHEREFORE, IN THE LIGHT OF THE FOREGOING, the Court renders judgment as follows:

"1). The [petitioner] is hereby ordered to convey to the herein [respondent] Rosita Manipon, (defendant Orlando Manipon is already dead) the lot consisting of 339 square meters denominated as Lot 5582-B-7-D and covered by Transfer Certificate of Title No. 171497 after paying the sum of P13,051.50 plus legal interest to the herein [petitioner] anytime after the finality of this decision.

"2). The third-party defendant, Juan Peralta, is ordered to refund to the

defendants Manipons the amount of P18,000.00 paid by the latter to him;

"3). x x x no pronouncement as to damages in favor [of] or against either of the parties."<sup>[5]</sup>

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

The CA affirmed the Decision of the trial court with the modification that respondents would no longer be required to pay petitioner the value of the disputed portion in a "forced sale." The appellate court said that petitioner knew that Lot 5582-B-7-D had already been sold by Juan Peralta to respondents before the mother lot was mortgaged, foreclosed and eventually purchased. He bought the entire property from the foreclosing bank, because he feared that he might lose what he had earlier bought in 1981 -- a 350 square meter lot which also formed part of the mother lot.

Hence, this Petition.<sup>[6]</sup>

### **The Issues**

In his Memorandum,<sup>[7]</sup> petitioner raises the following issues:

"1. Who between petitioner and respondents have a better right of ownership over the lot in question, Lot 5582-B-7-D, with an area of 339 square meters?

"2. Whether respondents' claim over the lot can rise [above that of] their predecessor in interest Juan Peralta[.]

"3. Whether respondents are under estoppel to question petitioner's ownership over the lot in question[.]

"4. Whether petitioner was in bad faith in the acquisition of the lot in question[.]

"5. And even assuming without admitting that petitioner is under obligation to convey the lot in question in favor of respondents, whether the consideration of the lot be paid by respondent is P2,000.00 per square meter[.]"<sup>[8]</sup>

These issues can be summed up into three questions: (1) who has a better right to the disputed property? (2) was petitioner a purchaser in bad faith? and (3) what should be the purchase price of the disputed lot?

### **This Court's Ruling**

The Petition is partly meritorious.

#### **First Issue:**

#### **Better Right to the Disputed Lot**

Petitioner claims to have a better right to the disputed portion of the real property. *First*, although respondents had bought it first, he was the first to register his purchase of the mother lot. *Second*, respondents' ownership follows that of their vendor who mortgaged to the bank his title to the mother lot and failed to redeem it.

Petitioner avers that, although respondents purchased the disputed lot by installment on May 9, 1981 and fully paid for it on May 30, 1983, they failed to register their sale with the Registry of Deeds. In the meantime, on June 18, 1981, Juan Peralta mortgaged the mother lot -- including the disputed portion -- to the Thrift Savings and Loan Association, Inc. (TSLAI). The mortgage was foreclosed and the property sold on July 10, 1988. Petitioner, on the other hand, bought the whole lot from the bank for P80,000 on July 15, 1988 and registered it in his name on September 23, 1988.

*Third*, petitioner claims that from the time respondents fully paid for the lot until they received a Notice to Vacate, they did not do anything to perfect their title thereto; hence, they are now estopped from questioning his ownership of it.

We are not convinced. In estoppel, a person who by deed or conduct induces another to act in a particular manner is barred from adopting an inconsistent position, attitude or course of conduct that thereby causes loss or injury to another.

[9] This equitable principle will not apply to respondents, because they exercised dominion over the property by occupying and building their house on it. On the other hand, it was petitioner who, despite having knowledge of the existence of respondents' house on the disputed portion, bought the whole lot. Before acquiring the mother lot from the bank, he knew of respondents' claim of ownership and occupation. He cannot now pretend to be an innocent buyer in good faith.

Registration is not the equivalent of title.[10] Under the Torrens system, registration only gives validity to the transfer or creates a lien upon the land.[11] It was not established as a means of acquiring title to private land because it merely confirms, but does not confer, ownership.[12] Moreover, the RTC and the CA have correctly ruled that the preferential right of the first registrant of a real property in a case of double sale is always qualified by *good faith* under Article 1544[13] of the Civil Code. [14] A holder in bad faith of a certificate of title is not entitled to the protection of the law, for the law cannot be used as a shield for fraud.[15]

"When the registration of a sale is not made in good faith, a party cannot base his preference of title thereon, because the law will not protect anything done in bad faith. Bad faith renders the registration futile. Thus, if a vendee registers the sale in his favor after he has acquired knowledge that there was a previous sale of the same property to a third party, or that another person claims said property under a previous sale, or that the property is in the possession of one who is not a vendor, or that there were flaws and defects in the vendor's title, or that this was in dispute, the registration will constitute x x x bad faith, and will not confer upon him any preferential right. The situation will be the same as if