

THIRD DIVISION

[G.R. No. 111538, February 26, 1997]

**PARAÑAQUE KINGS ENTERPRISES, INCORPORATED,
PETITIONER, VS. COURT OF APPEALS, CATALINA L. SANTOS,
REPRESENTED BY HER ATTORNEY-IN-FACT, LUZ B. PROTACIO,
AND DAVID A. RAYMUNDO, RESPONDENTS.**

DECISION

PANGANIBAN, J.:

Do allegations in a complaint showing violation of a contractual right of "first option or priority to buy the properties subject of the lease" constitute a valid cause of action? Is the grantee of such right entitled to be offered the same terms and conditions as those given to a third party who eventually bought such properties? In short, is such right of first refusal enforceable by an action for specific performance?

These questions are answered in the affirmative by this Court in resolving this petition for review under Rule 45 of the Rules of Court challenging the Decision^[1] of the Court of Appeals^[2] promulgated on March 29, 1993, in CA-G.R. CV No. 34987 entitled "Parañaque Kings Enterprises, Inc. vs. Catalina L. Santos, et al.," which affirmed the order^[3] of September 2, 1991, of the Regional Trial Court of Makati, Branch 57,^[4] dismissing Civil Case No. 91-786 for lack of a valid cause of action.

Facts of the Case

On March 19, 1991, herein petitioner filed before the Regional Trial Court of Makati a complaint,^[5] which is reproduced in full below:

"Plaintiff, by counsel, respectfully states that:

1. Plaintiff is a private corporation organized and existing under and by virtue of the laws of the Philippines, with principal place of business of (sic) Dr. A. Santos Avenue, Parañaque, Metro Manila, while defendant Catalina L. Santos, is of legal age, widow, with residence and postal address at 444 Plato Street, Ct., Stockton, California, USA, represented in this action by her attorney-in-fact, Luz B. Protacio, with residence and postal address at No. 12, San Antonio Street, Magallanes Village, Makati, Metro Manila, by virtue of a general power of attorney. Defendant David A. Raymundo, is of legal age, single, with residence and postal address at 1918 Kamias Street, Damariñas Village, Makati, Metro Manila, where they (sic) may be served with summons and other court processes. Xerox copy of the general power of attorney is hereto attached as Annex 'A'.

2. Defendant Catalina L. Santos is the owner of eight (8) parcels of land located at (sic) Parañaque, Metro Manila with transfer certificate of title nos. S-19637, S-19638

and S-19643 to S-19648. Xerox copies of the said title (sic) are hereto attached as Annexes 'B' to 'I', respectively.

3. On November 28, 1977, a certain Frederick Chua leased the above-described property from defendant Catalina L. Santos, the said lease was registered in the Register of Deeds. Xerox copy of the lease is hereto attached as Annex 'J'.

4. On February 12, 1979, Frederick Chua assigned all his rights and interest and participation in the leased property to Lee Ching Bing, by virtue of a deed of assignment and with the conformity of defendant Santos, the said assignment was also registered. Xerox copy of the deed of assignment is hereto attached as Annex 'K'.

5. On August 6, 1979, Lee Ching Bing also assigned all his rights and interest in the leased property to Parañaque Kings Enterprises, Incorporated by virtue of a deed of assignment and with the conformity of defendant Santos, the same was duly registered, Xerox copy of the deed of assignment is hereto attached as Annex 'L'.

6. Paragraph 9 of the assigned leased (sic) contract provides among others that:

'9. That in case the properties subject of the lease agreement are sold or encumbered, Lessors shall impose as a condition that the buyer or mortgagee thereof shall recognize and be bound by all the terms and conditions of this lease agreement and shall respect this Contract of Lease as if they are the LESSORS thereof and in case of sale, LESSEE shall have the first option or priority to buy the properties subject of the lease;'

7. On September 21, 1988, defendant Santos sold the eight parcels of land subject of the lease to defendant David Raymundo for a consideration of FIVE MILLION (P5,000,000.00) PESOS. The said sale was in contravention of the contract of lease, for the first option or priority to buy was not offered by defendant Santos to the plaintiff. Xerox copy of the deed of sale is hereto attached as Annex 'M'.

8. On March 5, 1989, defendant Santos wrote a letter to the plaintiff informing the same of the sale of the properties to defendant Raymundo, the said letter was personally handed by the attorney-in-fact of defendant Santos, Xerox copy of the letter is hereto attached as Annex 'N'.

9. Upon learning of this fact plaintiff's representative wrote a letter to defendant Santos, requesting her to rectify the error and consequently realizing the error, she had it reconveyed to her for the same consideration of FIVE MILLION (P5,000,000.00) PESOS. Xerox copies of the letter and the deed of reconveyance are hereto attached as Annexes 'O' and 'P'.

10. Subsequently the property was offered for sale to plaintiff by the defendant for the sum of FIFTEEN MILLION (P15,000,000.00) PESOS. Plaintiff was given ten (10) days to make good of the offer, but therefore (sic) the said period expired another letter came from the counsel of defendant Santos, containing the same tenor of (sic) the former letter. Xerox copies of the letters are hereto attached as Annexes 'Q' and 'R'.

11. On May 8, 1989, before the period given in the letter offering the properties for

sale expired, plaintiff's counsel wrote counsel of defendant Santos offering to buy the properties for FIVE MILLION (P5,000,000.00) PESOS. Xerox copy of the letter is hereto attached as Annex 'S'.

12. On May 15, 1989, before they replied to the offer to purchase, another deed of sale was executed by defendant Santos (in favor of) defendant Raymundo for a consideration of NINE MILLION (P9,000,000.00) PESOS. Xerox copy of the second deed of sale is hereto attached as Annex 'T'.

13. Defendant Santos violated again paragraph 9 of the contract of lease by executing a second deed of sale to defendant Raymundo.

14. It was only on May 17, 1989, that defendant Santos replied to the letter of the plaintiff's offer to buy or two days after she sold her properties. In her reply she stated among others that the period has lapsed and the plaintiff is not a privy (sic) to the contract. Xerox copy of the letter is hereto attached as Annex 'U'.

15. On June 28, 1989, counsel for plaintiff informed counsel of defendant Santos of the fact that plaintiff is the assignee of all rights and interest of the former lessor. Xerox copy of the letter is hereto attached as Annex 'V'.

16. On July 6, 1989, counsel for defendant Santos informed the plaintiff that the new owner is defendant Raymundo. Xerox copy of the letter is hereto attached as Annex 'W'.

17. From the preceding facts it is clear that the sale was simulated and that there was a collusion between the defendants in the sales of the leased properties, on the ground that when plaintiff wrote a letter to defendant Santos to rectify the error, she immediately have (sic) the property reconveyed it (sic) to her in a matter of twelve (12) days.

18. Defendants have the same counsel who represented both of them in their exchange of communication with plaintiff's counsel, a fact that led to the conclusion that a collusion exist (sic) between the defendants.

19. When the property was still registered in the name of defendant Santos, her collector of the rental of the leased properties was her brother-in-law David Santos and when it was transferred to defendant Raymundo the collector was still David Santos up to the month of June, 1990. Xerox copies of cash vouchers are hereto attached as Annexes 'X' to 'HH', respectively.

20. The purpose of this unholy alliance between defendants Santos and Raymundo is to mislead the plaintiff and make it appear that the price of the leased property is much higher than its actual value of FIVE MILLION (P5,000,000.00) PESOS, so that plaintiff would purchase the properties at a higher price.

21. Plaintiff has made considerable investments in the said leased property by erecting a two (2) storey, six (6) doors commercial building amounting to THREE MILLION (P3,000,000.00) PESOS. This considerable improvement was made on the belief that eventually the said premises shall be sold to the plaintiff.

22. As a consequence of this unlawful act of the defendants, plaintiff will incurr (sic)

total loss of THREE MILLION (P3,000,000.00) PESOS as the actual cost of the building and as such defendants should be charged of the same amount for actual damages.

23. As a consequence of the collusion, evil design and illegal acts of the defendants, plaintiff in the process suffered mental anguish, sleepless nights, bismirched (sic) reputation which entitles plaintiff to moral damages in the amount of FIVE MILLION (P5,000,000.00) PESOS.

24. The defendants acted in a wanton, fraudulent, reckless, oppressive or malevolent manner and as a deterrent to the commission of similar acts, they should be made to answer for exemplary damages, the amount left to the discretion of the Court.

25. Plaintiff demanded from the defendants to rectify their unlawful acts that they committed, but defendants refused and failed to comply with plaintiffs just and valid and (sic) demands. Xerox copies of the demand letters are hereto attached as Annexes 'KK' to 'LL', respectively.

26. Despite repeated demands, defendants failed and refused without justifiable cause to satisfy plaintiff's claim, and was constrained to engaged (sic) the services of undersigned counsel to institute this action at a contract fee of P200,000.00, as and for attorney's fees, exclusive of cost and expenses of litigation.

PRAYER

WHEREFORE, it is respectfully prayed, that judgment be rendered in favor of the plaintiff and against defendants and ordering that:

- a. The Deed of Sale between defendants dated May 15, 1989, be annulled and the leased properties be sold to the plaintiff in the amount of P5,000,000.00;
- b. Dependants (sic) pay plaintiff the sum of P3,000,000.00 as actual damages;
- c. Defendants pay the sum of P5,000,000.00 as moral damages;
- d. Defendants pay exemplary damages left to the discretion of the Court;
- e. Defendants pay the sum of not less than P200,000.00 as attorney's fees.

Plaintiff further prays for other just and equitable reliefs plus cost of suit."

Instead of filing their respective answers, respondents filed motions to dismiss anchored on the grounds of lack of cause of action, estoppel and laches.

On September 2, 1991, the trial court issued the order dismissing the complaint for lack of a valid cause of action. It ratiocinated thus:

"Upon the very face of the plaintiff's Complaint itself, it therefore indubitably appears that the defendant Santos had verily complied with paragraph 9 of the Lease Agreement by twice offering the properties for sale to the plaintiff for P15 M. The said offers, however, were plainly rejected by the plaintiff which scorned the

said offer as "RIDICULOUS". There was therefore a definite refusal on the part of the plaintiff to accept the offer of defendant Santos. For in acquiring the said properties back to her name, and in so making the offers to sell both by herself (attorney-in-fact) and through her counsel, defendant Santos was indeed conscientiously complying with her obligation under paragraph 9 of the Lease Agreement. x x x

x x x x x x x x x

This is indeed one instance where a Complaint, after barely commencing to create a cause of action, neutralized itself by its subsequent averments which erased or extinguished its earlier allegations of an impending wrong. Consequently, absent any actionable wrong in the very face of the Complaint itself, the plaintiff's subsequent protestations of collusion is bereft or devoid of any meaning or purpose. x x x

The inescapable result of the foregoing considerations point to no other conclusion than that the Complaint actually does not contain any valid cause of action and should therefore be as it is hereby ordered DISMISSED. The Court finds no further need to consider the other grounds of estoppel and laches inasmuch as this resolution is sufficient to dispose the matter."^[6]

Petitioners appealed to the Court of Appeals which affirmed in toto the ruling of the trial court, and further reasoned that:

"x x x Appellant's protestations that the P15 million price quoted by appellee Santos was reduced to P9 million when she later resold the leased properties to Raymundo has no valid legal moorings because appellant, as a prospective buyer, cannot dictate its own price and forcibly ram it against appellee Santos, as owner, to buy off her leased properties considering the total absence of any stipulation or agreement as to the price or as to how the price should be computed under paragraph 9 of the lease contract, x x x"^[7]

Petitioner moved for reconsideration but was denied in an order dated August 20, 1993.^[8]

Hence this petition. Subsequently, petitioner filed an "Urgent Motion for the Issuance of Restraining Order and/or Writ of Preliminary Injunction and to Hold Respondent David A. Raymundo in Contempt of Court."^[9] The motion sought to enjoin respondent Raymundo and his counsel from pursuing the ejectment complaint filed before the barangay captain of San Isidro, Parañaque, Metro Manila; to direct the dismissal of said ejectment complaint or of any similar action that may have been filed; and to require respondent Raymundo to explain why he should not be held in contempt of court for forum-shopping. The ejectment suit initiated by respondent Raymundo against petitioner arose from the expiration of the lease contract covering the property subject of this case. The ejectment suit was decided in favor of Raymundo, and the entry of final judgment in respect thereof renders the said motion moot and academic.

Issue

The principal legal issue presented before us for resolution is whether the