

FIRST DIVISION

[G.R. No. 121200, September 26, 1996]

GLORIA A. SAMEDRA LACANILAO AND PLUTARCO CADURNIGARA, PETITIONERS, VS. COURT OF APPEALS, EUSEBIO C. ENCARNACION AND SPS. RAMON AND TERESITA A. ACEBO, RESPONDENTS.

D E C I S I O N

PADILLA, J.:

This is a petition for review on certiorari under Rule 45 of the Rules of Court of the decision^[*] of the Court of Appeals in CA-G.R. CV No. 22952 dated 24 July 1995 which affirmed, with modifications, the decision of the trial court dismissing petitioners' (then plaintiffs) complaint for lack of merit.

The facts are not in dispute:

Private respondent Eusebio C. Encarnacion (hereinafter, Encarnacion) owned a parcel of residential land in Iriga St., La Loma, Quezon City with an area of 160 square meters. In the 1950s, a house was constructed on a 100 square meter portion of said lot by Deogracia la Torre, with the consent of Encarnacion. The house was eventually bought by Gloria A. S. Lacanilao and her common-law husband, Pablo, where they established their residence. On 12 September 1963, Pablo Lacanilao and Encarnacion entered into a contract of lease over the 100 sq. meter portion occupied by Pablo's house stipulating a monthly rental of P24.00. Earlier, Encarnacion had also leased the 60 square meter portion of his lot to petitioner Plutarco Cadurnigara.

Since then petitioners Lacanilao and Cadurnigara have been in possession of the lot under contracts of lease with owner Encarnacion and had religiously paid rentals thereon up to November 1988.

In November 1987, Encarnacion offered to sell the lot to Lacanilao and Cadurnigara. After months of negotiation, Encarnacion agreed, by mid-May 1988, to sell the property to petitioners for P120,000.00. Since petitioners were not ready to pay the whole amount, they requested for an extension of one (1) month, or up to 15 June 1988 to pay the contract price and for Encarnacion to execute a Deed of Absolute Sale in their favor. Encarnacion agreed.

Meanwhile, on 11 June 1988, fire hit the Quezon City hall and one of the offices badly burned was that of the Register of Deeds. Consequently, thousands of original copies of certificates of title, Encarnacion's title included, went into ashes.

Petitioners failed to pay the purchase price of P120,000.00 on 15 June 1988. Thereafter, representatives of Encarnacion offered to sell the property to private

respondents Ramon and Teresita Acebo. The latter agreed to buy the property for P145,000.00. The Acebos paid P20,000.00 as earnest money to Encarnacion on 18 August 1988, and paid the balance in full on 15 November 1988. Consequently, Encarnacion executed a Deed of Absolute Sale of the property in their favor. The deed was provisionally recorded in the Entry Book of the Register of Deeds as P.E. Nos. 526-527 dated 25 November 1988 and duly inscribed on the dorsal part of the owners duplicate of Transfer Certificate of Title No. 204536.

On 19 November 1988, the Acebos, through counsel, sent petitioners a notice to vacate informing them about the sale by Encarnacion of the entire property (lot) in their favor.

Aggrieved, petitioners filed a complaint with the barangay for alleged violation of tenant's right to purchase the lot under Sec. 6, P.D. 1517. After failing to secure any settlement of the controversy, petitioners stopped paying rentals on the lot and filed a complaint before the Regional Trial Court, Branch 66, Quezon City to annul the deed of sale executed by Encarnacion in favor of the Acebos and to compel Encarnacion to execute a deed of sale in their (petitioners) favor.

After trial, the trial court rendered judgment dismissing the complaint, the dispositive part of which reads:

"WHEREFORE, judgment is hereby rendered dismissing the complaint.

On the counterclaim, plaintiffs are hereby ordered jointly and severally:

- a. to pay Eusebio C. Encarnacion the sum of P10,000.00 as moral damages and P5,000.00 as exemplary damages;
- b. to pay the spouses Ramon and Teresita Acebo the sum of P10,000.00 as moral damages, and P5,000.00 as exemplary damages;
- c. to pay the spouses Acebos the sum of P5,000.00 as and for attorney's fees." (RTC Branch 86, Q.C. Decision, p.7; Rollo, p.16)

The evidence before the trial court show that Encarnacion denied having agreed to sell his property to petitioners. On the other hand, petitioners offered only parole evidence to establish that Encarnacion "verbally agreed to sell the lot in question."

Applying Articles 1358 and 1403 No. 2(e) of the Civil Code, the trial court ruled that even assuming *arguendo* that the parties (Encarnacion and petitioners) entered into a verbal contract to sell, the contract is, however, unenforceable. Hence, there is no basis to annul the deed of sale between Encarnacion and the Acebos.

On appeal, the Court of Appeals affirmed the trial court's decision but deleted the award of damages and attorney's fees in favor of private respondents.

In their petition at bar, petitioners allege that the Court of Appeals erred:

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"X X X WHEN IT FAILED TO HOLD THE DEFENDANTS SPOUSES ACEBO WERE NOT IN GOOD FAITH WHEN THEY BOUGHT THE PROPERTY BEING