



Republic of the Philippines  
Supreme Court  
Manila

CERTIFIED TRUE COPY

*Wilfredo V. Lapitan*  
WILFREDO V. LAPITAN  
Division Clerk of Court  
Third Division

SEP 01 2015

THIRD DIVISION

JOSE V. TOLEDO, GLENN  
PADIERNOS AND DANILO  
PADIERNOS,

Petitioners,

- versus -

COURT OF APPEALS,  
LOURDES RAMOS, ENRIQUE  
RAMOS, ANTONIO RAMOS,  
MILAGROS RAMOS AND  
ANGELITA RAMOS AS  
HEIRS OF SOCORRO  
RAMOS, GUILLERMO  
PABLO, PRIMITIVA CRUZ  
AND A.R.C. MARKETING  
CORPORATION,  
REPRESENTED BY ITS  
PRESIDENT, ALBERTO C.  
DY,

Respondents.

G.R. No. 167838

Present:

VELASCO, JR., *J.*, Chairperson  
PERALTA,  
VILLARAMA, JR.,  
PEREZ,\* and  
JARDELEZA, *JJ.*

Promulgated:

August 5, 2015

X-----*Wilfredo V. Lapitan*-----X

DECISION

JARDELEZA, *J.*:

The Case

Petitioners Jose V. Toledo, Glenn Padiernos and Danilo Padiernos assail in this Rule 45 Petition the October 22, 2004 *Decision*<sup>1</sup> and April 13, 2005 *Resolution* of the Court of Appeals in CA G.R. SP No. 73670. The

\* Designated Acting Member in lieu of Associate Justice Bienvenido L. Reyes per Special Order No. 2084 dated June 29, 2015.

<sup>1</sup> Penned by Associate Justice Magdangal M. De Leon with Associate Justices Romeo A. Brawner and Mariano C. Del Castillo (now Member of this Court), concurring.

Court of Appeals dismissed petitioners' special civil action for Certiorari (and affirmed the trial court's finding of lack of jurisdiction in Civil Case No. Q-97-30738), and later petitioners' motion for reconsideration.

### Facts

The facts are as follows:

On May 5, 1958, Del Rosario Realty (represented by Pedro Del Rosario) entered into a Contract to Sell with spouses Leonardo Faustino and Angelina Lim ("Faustino spouses"). Del Rosario Realty agreed to sell Lot 4, Block 2, Ilang-Ilang Street, Sunrise Hills Subdivision, Quezon City ("property"), covered by Transfer Certificate of Title (TCT) No. 44436, for the amount of Thirteen Thousand Five Hundred Seventy-Two Pesos (P13, 572.00), with an initial payment of P4, 200.00 and the balance to be paid in consecutive quarterly installments.<sup>2</sup>

On January 20, 1959, the Faustino spouses sold their rights over the property to spouses Vicente Padiernos and Concordia Garcia, and the latter agreed to assume the former's obligations under the May 5, 1958 contract to sell.<sup>3</sup> This transfer was registered and annotated on the property's TCT as an adverse claim as early as October 20, 1960.<sup>4</sup>

Meanwhile, on May 7, 1959, Pedro Del Rosario executed a deed assigning all of his rights and interests in the May 5, 1958 contract to sell to Socorro A. Ramos. In the same deed, Socorro Ramos acknowledged and "approved the transfer or assignment of rights made by spouses Leonardo Faustino and Angelina Lim in favor of Vicente Padiernos" over the property including "all the incidental rights, interests and obligations inherent thereto."<sup>5</sup>

On January 9, 1962, Vicente Padiernos sold one-half of the property to petitioner Jose Toledo and his wife Elisa Padierno (hereafter, "spouses Toledo"). The deed embodying the Partial Assignment of Rights noted that the spouses Toledo had already commenced payment of the installments since August 5, 1961. It further provided that the spouses Toledo shall "continue payments until fully paid," with said payments to be made in the name of Vicente Padiernos as the purchaser on record. After completion of payment, the Toledo spouses shall own one-half of the property.<sup>6</sup>

On March 21, 1967, Vicente Padiernos sold the remaining half of the property to spouses Virgilio and Leticia Padiernos.<sup>7</sup> Later on, or on January

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<sup>2</sup> *Rollo*, p. 145.

<sup>3</sup> *Id.* at 147.

<sup>4</sup> *Id.* at 258.

<sup>5</sup> *Id.* at 149.

<sup>6</sup> *Id.* at 142.

<sup>7</sup> *Id.* at 143.

17, 1986, Virgilio and Leticia Padiernos assigned their rights over the property to their children, petitioners Glenn and Danilo Padiernos.<sup>8</sup>

Consequently, spouses Toledo and spouses Virgilio and Leticia Padiernos paid quarterly installments on the property until full payment sometime in 1971.<sup>9</sup> When petitioners requested for the release of the owner's duplicate certificate of title, respondent Antonio A. Ramos, representing the heirs of Socorro Ramos, issued a Certification stating that while the property "has been **paid in full** by Mr. Vicente Padiernos...Title #44436 could not be released pending final decision of the Supreme Court."<sup>10</sup>

In 1974, Virgilio Padiernos and petitioner Jose Toledo constructed their houses on the property, resided therein, and paid the corresponding real property taxes.

In the meantime, it appears that execution proceedings were taken against the estate of Socorro Ramos. As a consequence, eighteen (18) parcels of land belonging to the estate, including the property, were sold in auction to Guillermo N. Pablo and Primitiva C. Cruz, who thereafter sold said properties to ARC Marketing.

On March 14, 1977, Enrique A. Ramos, Antonio A. Ramos, Milagros Ramos Sarno, Angelita Ramos and Lourdes A. Ramos, all heirs of Socorro A. Ramos, filed a Complaint for Nullity of Execution Sale (docketed as Civil Case No. Q-22850) against auction sale winners Guillermo N. Pablo and Primitiva C. Cruz, and their transferee ARC Marketing. Sometime in 1990, Enrique A. Ramos, Antonio A. Ramos, Milagros Ramos Sarno and Angelita Ramos, by way of a Deed of Assignment, assigned all their rights and interests in the case (and the properties it covered) to Lourdes A. Ramos.

On January 13, 1993, Civil Case No. Q-22850 was settled, and the parties entered into a Final Compromise Agreement ("Compromise Agreement"). Under the Compromise Agreement, then sole plaintiff Lourdes A. Ramos agreed to settle the case for the total compromise amount of Two Million Pesos (P2,000,000.00) to be paid by ARC Marketing to the former in installments.<sup>11</sup> Upon joint motion by the parties,<sup>12</sup> the Compromise Agreement was approved by the trial court in a *Decision* dated January 13, 1993.<sup>13</sup>

On April 8, 1997, petitioners Jose Toledo, Glenn Padiernos and Danilo Padiernos filed a complaint for reconveyance and damages.<sup>14</sup> This

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<sup>8</sup> *Id.* at 144.

<sup>9</sup> Petition for Review on Certiorari, *rollo*, p. 36.

<sup>10</sup> *Rollo*, p. 151. Emphasis supplied.

<sup>11</sup> *Id.* at 157.

<sup>12</sup> *Id.* at 159-160.

<sup>13</sup> *Id.* at 162-165.

<sup>14</sup> *Id.* at 135-141.

was docketed as Q-97-30738 and raffled to Branch 218 of the Regional Trial Court of Quezon City.

Enrique Ramos moved to dismiss the case on the ground that petitioners failed to state a cause of action against him because he has already assigned his interests in Civil Case No. Q-22850 (and consequently, over the property) to his co-respondent Lourdes Ramos.<sup>15</sup> ARC Marketing, on the other hand, sought the dismissal of the complaint on the following grounds: (1) the Regional Trial Court had no jurisdiction over the subject matter of the claim because it is essentially an action to annul the judicially-approved Compromise Agreement in Civil Case No. Q-22850; (2) petitioners failed to pay the correct docket fees; (3) the action was barred by the statute of limitations; (4) the action is barred by a prior judgment; (5) the complaint shows that petitioners failed to comply with the conditions of the contract to sell and (6) laches, among others.<sup>16</sup>

### **The Ruling of the RTC**

In a *Resolution* dated December 15, 1997, Regional Trial Court Judge Hilario Laqui denied the Motion to Dismiss filed by Enrique Ramos.<sup>17</sup> Upon petitioners' motion, Judge Laqui thereafter inhibited himself from proceeding with the case and the same was re-raffled to the court of Judge Apolonio Bruselas, Jr. Judge Bruselas, in an *Order* dated June 2, 2000, denied respondent ARC Marketing's motion to dismiss.<sup>18</sup>

On June 19, 2000, ARC Marketing sought for a reconsideration of the *Order*, reiterating two grounds cited in its previous motion to dismiss, viz: a) the court has no jurisdiction over the subject matter; and b) the court did not acquire jurisdiction over the case due to petitioners' failure to pay the proper docket fees.<sup>19</sup>

In an *Order* dated June 17, 2002, Judge Bruselas granted ARC Marketing's motion. He held that petitioners' action is really one for annulment of the judgment in Civil Case No. Q-22850 and ordered the dismissal of petitioners' complaint for lack of jurisdiction.<sup>20</sup> Petitioners' subsequent motion for reconsideration was denied.<sup>21</sup> Hence, they filed a petition for certiorari before the Court of Appeals.<sup>22</sup>

<sup>15</sup> Resolution dated December 15, 1997 issued by Judge Hilario Laqui, *rollo*, pp. 183-184

<sup>16</sup> *Rollo*, pp. 234-247.

<sup>17</sup> *Supra* note 15.

<sup>18</sup> Order dated June 2, 2000 issued by Judge Apolonio Bruselas, Jr., *rollo*, pp. 271-272.

<sup>19</sup> *Rollo*, pp. 273-279.

<sup>20</sup> *Id.* at 128-131.

<sup>21</sup> *Id.* at 132.

<sup>22</sup> *Id.* at 104-127.

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

The Court of Appeals found that Judge Bruselas did not act with grave abuse of discretion in dismissing petitioners' complaint due to lack of jurisdiction. It stated:

**Evidently, petitioners would want respondent Judge to annul the decision of a co-equal court, nay, a branch of the same Regional Trial Court which approved the compromise agreement.** Specifically, they pleaded for the cancellation of private respondent ARC's Transfer Certificate of Title, the issuance of a new one in their favor, and asked for the award of damages. xxx

Respondent Judge cannot be faulted for subsequently divesting himself of jurisdiction he earlier recognized. The issuance of the said Order, in observance of judicial restraint, is felicitous, not capricious, whimsical or despotic. A judge is presumed to know the constitutional limits of the authority or jurisdiction of his court. Restated, respondent Judge soundly dismissed petitioners' complaint, on his firm belief that he has no jurisdiction over the case. **Otherwise, he would be retrying and settling once more the issues that had already been litigated and decided by a competent court, RTC-Branch 77;** and, worse, he would only create confusion and costly delays in the dispensation of justice. As a matter of law, this is not permitted under the rule of *stare decisis*.<sup>23</sup>

### **Issue**

Petitioners argue that the Court of Appeals erred in affirming Judge Bruselas' dismissal of their complaint for lack of jurisdiction. They claim that nowhere in their complaint did they allege or pray for the annulment of the judgment based on compromise. On the contrary, they claim to have sufficiently alleged relevant facts that would support their action for reconveyance and damages.<sup>24</sup> ARC Marketing, on the other hand, claims that while petitioners appear to seek the reconveyance of the property, what they ultimately would have the court do is to annul the January 13, 1993 decision approving the Compromise Agreement adjudging the property in ARC Marketing's favor.<sup>25</sup> ARC Marketing thus argue that petitioners' action was correctly dismissed, the Regional Trial Court having no jurisdiction to annul a compromise judgment approved by a co-equal court.<sup>26</sup>

<sup>23</sup> CA Decision, *rollo*, pp. 22-24. Emphasis supplied.

<sup>24</sup> Petition, *rollo*, p. 41.

<sup>25</sup> ARC Marketing's Comment to the Petition for Review on Certiorari, pp. 10-11, *rollo*, pp. 743-744.

<sup>26</sup> *Id.* at 744-745.

The crux of the controversy therefore in this case is whether the action filed by petitioners before the RTC is one for reconveyance or for annulment of judgment.

### The Ruling of the Court

We rule for the petitioners.

An action for annulment of judgment is a remedy in equity so exceptional in nature that it may be availed of only when other remedies are wanting, and only if the judgment, final order or final resolution sought to be annulled was rendered by a court lacking jurisdiction or through extrinsic fraud.<sup>27</sup> An action for reconveyance, on the other hand, is a legal and equitable remedy granted to the rightful owner of land which has been wrongfully or erroneously registered in the name of another for the purpose of compelling the latter to transfer or reconvey the land to him.<sup>28</sup> The Court of Appeals has exclusive original jurisdiction over actions for annulment of judgments of Regional Trial Courts<sup>29</sup> whereas actions for reconveyance of real property may be filed before the Regional Trial Courts or the Municipal Trial Courts, depending on the assessed value of the property involved.<sup>30</sup>

#### *Action filed by petitioners is one for reconveyance*

It is axiomatic that what determines the nature of the action and which court has jurisdiction over it are the allegations in the complaint and the character of the relief sought.<sup>31</sup>

We find that the action filed by petitioners is one for reconveyance.

For one, and as correctly pointed out by petitioners, the complaint they filed before the Regional Trial Court shows that they never prayed for

<sup>27</sup> *Dare Adventure Farm Corporation v. Court of Appeals*, G.R. No. 161122, September 24, 2012, 681 SCRA 580, 586.

<sup>28</sup> Justice Oswaldo Agcaoili, Property Registration Decree and Related Laws (Land Titles and Deeds), 2011, p. 326 citing *Alde v. Bernal*, G.R. No. 169336, March 18, 2010, 616 SCRA 60.

<sup>29</sup> *Batas Pambansa Blg. 129* (1981), Sec. 9.

<sup>30</sup> *Batas Pambansa Blg. 129*, Sec. 19 as amended, provides:

*Jurisdiction in civil cases.* – Regional Trial Courts shall exercise exclusive original jurisdiction:

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(2) In all civil actions which involve the title to, or possession of, real property, or any interest therein, where the assessed value of the property involved exceeds Twenty Thousand Pesos (P20,000.00) or for civil actions in Metro Manila, where such the value exceeds Fifty Thousand Pesos (50,000.00) except actions for forcible entry into and unlawful detainer of lands or buildings, original jurisdiction over which is conferred upon Metropolitan Trial Courts, Municipal Trial Courts, and Municipal Circuit Trial Courts; xxx

<sup>31</sup> *Sales v. Barro*, G.R. No. 171678, December 10, 2008, 573 SCRA 456.



the annulment of the compromise judgment in Civil Case No. Q-22850. What petitioners sought was the cancellation of the title issued in ARC Marketing's name and the issuance of a new one in their favor.<sup>32</sup> This is characteristic of an action for reconveyance which respects the decree of registration as incontrovertible but seeks the **transfer** of property, which has been wrongfully or erroneously registered in other persons' names, to its rightful and legal owners, or to those who claim to have a better right.<sup>33</sup> There is no special ground for an action for reconveyance. It is enough that the aggrieved party has a legal claim on the property superior to that of the registered owner and that the property has not yet passed to the hands of an innocent purchaser for value.<sup>34</sup>

Second, and more importantly, the following allegations in petitioners' Complaint clearly make out a case for reconveyance:

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**3. That the plaintiff Jose V. Toledo bought from Vicente Padiernos one half (½) of Lot No. 4, Block 2, at Ilang-Ilang Street, Sunrise Hills Subdivision, Quezon City, while the other one half of said property which was purchased by the spouses Virgilio Padiernos and Leticia R. Padiernos was assigned by the same spouses to the plaintiffs Danilo Padiernos and Glenn Padiernos, the copies of the three deeds are hereto attached xxx**

**4. That tracing back the property, Vicente Padiernos bought Lot 4, Block 2, Ilang-Ilang Street, Sunrise Hills Subdivision, Quezon City, covered by TCT No. 44436 from the Spouses Leonardo Faustino and Angelina Lim.**

**4.1 That said property was previously purchased by the spouses Leonardo Faustino and Angelina Lim from the original owner, Pedro Del Rosario, proprietor and manager of Del Rosario Realty for the sum of P13,572.00.**

xxx

**5. That on May 7, 1959, Pedro Del Rosario, proprietor and manager of the Del Rosario Realty, assigned to Vicente Padiernos, with the approval of Socorro A. Ramos, Lot 4, Block 2, Ilang-Ilang Street, Sunrise Hills Subdivision, Quezon City. xxx**

**6. That before March, 1973, the Plaintiffs requested the Heirs of Socorro A. Ramos to release to them the owner's duplicate copy of Transfer Certificate Title No. 44436 because they have already fully paid said property. But the defendants Heirs of Socorro A. Ramos, represented**

<sup>32</sup> Complaint, *rollo*, p. 139-140.

<sup>33</sup> *Pagaduan v. Spouses Ocuma*, G.R. No. 176308, May 8, 2009, 587 SCRA 604.

<sup>34</sup> *Heirs of Concha v. Lumocso*, G.R. No. 158121, December 12, 2007, 540 SCRA 1.

**by Antonio A. Ramos issued tot he [sic] Plaintiffs a Certification...which is self-explanatory.**

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8. That in February 1990, the defendants Enrique A. Ramos, Antonio A. Ramos, Milagros Ramos Sarne and Angelita A. Ramos, signed a Deed of Assignment in favor of Defendant Lourdes A. Ramos assigned Ransfer [sic] Certificate of Title No. 44436, together with other Titles, in an action for the annulment of execution proceedings taken as a result of a decision in Civil Case No. 3066-P of the Court of First Instance of Pasay City, Branch VII, entitled Guillermo N. Pablo and Primitiva [sic] Cruz vs. Estate of the deceased Socorro A. Ramos, which case was transferred in the Regional Trial Court of Quezon City docketed as Civil Case No. Q-22850, Branch 7. xxx

**9. That on January 13, 1993, in Quezon City, the Defendants Lourdes Ramos, in behalf of co-defendants Enrique A. Ramos, Milagros Ramos, Antonio Ramos and Angelita Ramos; Guillermo N. Pardo, Primitiva Cruz, and ARC Marketing, represented by its President Alberto C. Dy, assisted by their respective counsels, entered into a Final Compromise Agreement, including Transfer Certificate of Title No. 44436, superseded by Transfer Certificate of Title No. 223956, agreed to transfer the aforementioned TCT in favor of ARC Marketing Corporation, together with other titles.** xxx

10. That on January 13, 1993, in Quezon City, the Defendants executed a Joint Motion to the Honorable Court that the judgment be rendered:

- (a) Approving the Final Compromise Agreement...
- (b) Dismissing the Complaint as against the ARC Marketing Corporation and Guillermo N. Pablo, Primitiva Cruz and other Defendants, with prejudice;
- (c) Ordering the Register of Deeds of Quezon City to cancel the notice of lis pendens and/or adverse claim annotated in connection with the case in Transfer Certificate of Title No. 223956 (formerly TCT No. 44436), and other titles, all in the name of the Corporation. xxx

11. That on January 13, 1993, the Honorable Judge Ignacio L. Salvador of Branch 77, Regional Trial Court, Quezon City, in Civil Case No. Q-22850, ordered the approval of the Joint Motion xxx

**12. That the Defendants Lourdes A. Ramos and her co-heirs of the Estate of Socorro A. Ramos, Guillermo N. Pablo, Primitiva Cruz and ARC Marketing Corporation,**



**represented by its President Alberty [sic] Dy, collaborated with each other to the prejudice of the plaintiffs who bought the property in question for a valuable consideration and further since 1974 had constructed their residential house and are notoriously and continuously residing I [sic] the premises up to the present;**

13. That the plaintiffs have been paying the taxes on the house since 1975 up to the present. xxx

14. That the Defendants committed fraud, dishonest and grave mistake in including TCT No. 44436, preceded by TCT No. 223956 and now TCT No. RT-17876 (242918) in the name of ARC Marketing Corporation... in the Final Compromise Agreement that misled the Honorable Court of Quezon City in approving it and issuing its Decision xxx<sup>35</sup>

Petitioners allege that: first, they are the owners of the land by virtue of a sale between their and respondents' predecessors-in-interest; and second, that respondents Ramoses and ARC Marketing illegally dispossessed them by having the same property registered in respondents' names. Thus, far from establishing a case for annulment of judgment, the foregoing allegations clearly show a case for reconveyance.

As of the time of the filing of the case, the assessed value of the property, per the Real Property Tax Receipts attached on the record and undisputed by respondents, exceeds P50,000.00.<sup>36</sup> The case was thus cognizable by the Regional Trial Court of Quezon City, where the property is located.

In support of their argument for the dismissal of petitioners' action, ARC Marketing cites our rulings in *Rone v. Claro*<sup>37</sup> and *Cultura v. Tapucar*<sup>38</sup> where we affirmed the lower court's dismissal of an action for annulment of a fraudulent deed of sale. There, we held:

It may be that the recovery of title and possession of the lot was the ultimate objective of plaintiffs, but to attain that goal, they must needs [sic] first travel over the road of relief on the ground of fraud; otherwise even if the present action were to be regarded as a direct action to recover title and possession, it would, nevertheless, be futile and could not prosper for the reason that the defendants could always defeat it by merely presenting the deed of sale, which is good and valid to legalize and justify the transfer of the land to the defendants, until annulled [sic] unless the action of [sic] annul had been filed within four years after the discovery of the fraud in 1941. So, from whatever angle we

<sup>35</sup> Complaint, *rollo*, pp. 136-138. Emphasis and underscoring supplied.

<sup>36</sup> Annex L-17 of Complaint for Reconveyance with Damages, *rollo*, p. 182.

<sup>37</sup> G.R. No. L-4472, May 8, 1952, 91 Phil. 250.

<sup>38</sup> G.R. No. L-48430 December 3, 1985, 140 SCRA 311.

view the case, the claimed [sic] of plaintiffs-appellants must fail.<sup>39</sup>

ARC Marketing's reliance on *Rone* and *Cultura* is misplaced. The facts in *Rone* and *Cultura* are markedly different from the circumstances of the present case.

ARC Marketing alleges that petitioners' action is one for annulment of a *judgment* albeit disguised as an action for reconveyance; *Rone* and *Cultura*, on the other hand, dealt with actions for annulment of *fraudulent deeds of sale*. The former type of action concerns only judgments, final orders and resolutions in civil actions of Regional Trial Courts. It is governed by Rule 47 of the Revised Rules of Court and cognizable only by the Court of Appeals whereas actions for the cancellation or annulment of contracts (as in the cases of *Rone* and *Cultura*) are covered under Articles 1390 and 1391 of the Civil Code and considered actions beyond pecuniary estimation which fall within the jurisdiction of Regional Trial Courts. Furthermore, and as correctly argued by petitioners, the actions in *Rone* and *Cultura* were dismissed mainly on the ground of prescription, not for lack of jurisdiction.

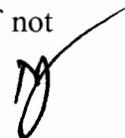
That petitioners filed an action for annulment of judgment all the more fails to persuade when one considers that, not being parties to Civil Case No. Q-22850, petitioners cannot file such action to annul the judgment therein. Section 1 of Rule 47 extends the remedy of annulment only to a party in whose favor the remedies of new trial, reconsideration, appeal and petition for relief from judgment are no longer available through no fault of said party.<sup>40</sup>

Even assuming that petitioners will be allowed to file an action for annulment, it will be for naught as they will not derive any real benefit from a favorable ruling. Our ruling in *Dare Adventure Farm vs. Court of Appeals* is particularly instructive:

The petitioner probably brought the action for annulment upon its honest belief that the action was its remaining recourse from a perceived commission of extrinsic fraud against it. It is worthwhile for the petitioner to ponder, however, that **permitting it despite its being a non-party in Civil Case No. MAN-2838 to avail itself of the remedy of annulment of judgment would not help it in any substantial way.** Although Rule 47 would initially grant relief to it from the effects of the annulled judgment, the decision of the CA would not really and finally determine the rights of the petitioner in the property as against the competing rights of the original parties. To be borne in mind is that the annulment of judgment is an equitable relief not

<sup>39</sup> *Supra* note 37. Also cited in *Cultura v. Tapucar, supra*.

<sup>40</sup> *Dare Adventure Farm Corporation v. Court of Appeals, supra*.



because a party-litigant thereby gains another opportunity to reopen the already-final judgment but because a party-litigant is enabled to be discharged from the burden of being bound by a judgment that was an absolute nullity to begin with.

**We agree with the CA's suggestion that the petitioner's proper recourse was either an action for quieting of title or an action for reconveyance of the property.** It is timely for the Court to remind that the petitioner will be better off if it should go to the courts to obtain relief through the proper recourse; otherwise, it would waste its own time and effort, aside from thereby unduly burdening the dockets of the courts.<sup>41</sup>

Petitioners' action being one for reconveyance filed with the proper court, the trial court therefore erred in dismissing the action on grounds of lack of jurisdiction.

We note that the issues between the parties have been pending for over seventeen years. We further note that petitioner Jose Toledo died on September 6, 2009 while awaiting final determination of ownership of the land upon which he has made his residence. Several of the named respondents appear to have died as well.<sup>42</sup> Only ARC Marketing, in whose name the property is registered, has actively participated in the proceedings.<sup>43</sup>

Considering that the remaining issues named herein may already be resolved on the basis of the records before us, and a remand of the case to the RTC would only cause undue hardship on the parties,<sup>44</sup> we shall proceed to resolve this case on the merits and decide the issue of ownership of the subject property.

*Action for reconveyance not barred*

ARC Marketing argues that petitioners' action is barred on grounds of *res judicata*,<sup>45</sup> prescription,<sup>46</sup> and laches.<sup>47</sup>

<sup>41</sup> *Dare Adventure Farm Corporation v. Court of Appeals, supra* at 589-590. Emphasis supplied.

<sup>42</sup> It appears from the records that respondents Enrique and Antonio A. Ramos have both also died pending resolution of the case. Respondent Angelita Ramos, in her Comment before this Court, stated that she was still a minor when the events subject of the petition occurred and has no documents or file pertaining to said events in her possession. She, however, recalls the assignment of rights made by all heirs of the late Socorro A. Ramos in favor of respondent Lourdes A. Ramos. Angelita, along with Alan Joseph A. Ramos (heir of deceased respondent Antonio A. Ramos), thus prayed that they be considered mere nominal parties to this case. Guillermo Pablo and Primitiva N. Cruz did not appear to have participated at all in the proceedings subsequent to the execution of the Compromise Judgment in Civil Case No. Q-22850.

<sup>43</sup> While she participated in the proceedings before the Court of Appeals, respondent Lourdes A. Ramos did not file any pleading in the case before this Court.

<sup>44</sup> *Heirs of Dr. Jose Deleste v. Landbank of the Philippines*, G.R. No. 169913, June 8, 2011, 651 SCRA 352, citing *Roman Catholic Archbishop of Manila v. Court of Appeals*, G.R. No. 77425, June 19, 1991, 198 SCRA 300.

<sup>45</sup> ARC Marketing's Comment to the Petition for Review, *rollo*, p. 743.

<sup>46</sup> ARC Marketing's Motion to Dismiss, *rollo*, pp. 238-239.

It errs.

*First.* The ruling in Civil Case No. Q-22850 does not serve to bar petitioners from filing an action for reconveyance.

While a judicially-approved compromise agreement indeed has the effect and authority of *res judicata*,<sup>48</sup> the same is conclusive and binding only upon the parties and those who are their successors-in-interest by title after the commencement of the action in court.<sup>49</sup>

It is basic in law that a compromise agreement, as a contract, is binding only upon the parties to the compromise, and not upon non-parties. This is the doctrine of relativity of contracts. Consistent with this principle, a **judgment based entirely on a compromise agreement is binding only on the parties to the compromise the court approved, and not upon the parties who did not take part in the compromise agreement and in the proceedings leading to its submission and approval by the court.** Otherwise stated, a court judgment made solely on the basis of a compromise agreement binds only the parties to the compromise, and cannot bind a party litigant who did not take part in the compromise agreement.<sup>50</sup>

Petitioners were never parties to Civil Case No. Q-22850. Petitioners also acquired their title over the property **prior to** the institution of said case involving respondents. Thus, petitioners cannot be prejudiced by the compromise judgment in said case.

*Second.* ARC Marketing argues that petitioners' action is barred by the statute of limitations:

25. Plaintiffs waited for more than ten (10) years from the issuance of the ... certification, more than ten (10) [sic] after title over the subject property was issued in favor of Guillermo Pablo, more than ten (10) years ... after title over the subject property was issued in favor of ARC and, for more than four (4) years from the rendition of the Decision dated January 13, 1993, before they instituted the present action.

26. Clearly, plaintiffs' cause of action, if there was any, prescribed or was barred by the statute of limitation a long, long time ago. Perforce, this action should be dismissed.<sup>51</sup>

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<sup>47</sup> ARC Marketing's Motion to Dismiss, *rollo*, p. 245.

<sup>48</sup> *Spouses Martir v. Spouses Verano*, G.R. No. 170395, July 28, 2006, 497 SCRA 120.

<sup>49</sup> *Ayala Corporation v. Ray Burton Development Corporation*, G.R. No. 126699, August 7, 1998, 294 SCRA 48. See also *Villanueva v. Velasco, et al.*, G.R. No. 130845, November 27, 2000, 346 SCRA 99.

<sup>50</sup> *Philippine National Bank v. Banatao, et al.*, G.R. No. 149221, April 7, 2009, 584 SCRA 95, 104. Emphasis supplied.

<sup>51</sup> ARC Marketing's Motion to Dismiss in Civil Case No. 97-30738, *rollo*, pp. 240-241.



This argument fails to persuade.

Article 1456 of the Civil Code provides that a person acquiring property through fraud becomes, by operation of law, a trustee of an implied trust for the benefit of the real owner of the property. The presence of fraud in this case, as shown by the disposition of the property to ARC Marketing by Lourdes Ramos despite knowledge of petitioners' title over the same, created an implied trust in favor of petitioners Toledo, et al. This gives petitioners the right to seek reconveyance of the property from the subsequent buyers.

An action for reconveyance based on an implied trust prescribes in ten years, the reckoning point of which is the date of registration of the deed or the date of issuance of the certificate of title over the property.<sup>52</sup> However, if the plaintiff also remains in possession of the same, as in this case, the prescriptive period to recover title and possession of the property does not run against him. In such a case, an action for reconveyance, if nonetheless filed, would be in the nature of a suit for quieting of title, an action that is imprescriptible.<sup>53</sup>

Prescription does not run against the plaintiff in actual possession of the disputed land because such plaintiff has a right to wait until his possession is disturbed or his title is questioned before initiating an action to vindicate his right. His undisturbed possession gives him the continuing right to seek the aid of a court of equity to determine the nature of the adverse claim of a third party and its effect on his title.<sup>54</sup>

Here, petitioners' undisturbed possession of the property is uncontroverted. Petitioners have alleged that they have been in "continued, open and uninterrupted possession of the property for over forty (40) years," as evidenced not only by their payment of real property taxes but also the construction of their house thereon.<sup>55</sup> This was notably never disputed by ARC Marketing. As plaintiffs in possession of the disputed property, petitioners are not barred from seeking relief from the court via an action for reconveyance.<sup>56</sup>

Neither can petitioners be considered to have slept on their rights for laches to operate against them. Petitioners have clearly taken steps to protect their interests in the property. While respondents correctly point out that the sale of the property between the predecessors-in-interest of petitioners and respondents was not registered, the records show that petitioners (and/or their predecessors-in-interest) have registered their adverse claim over the

<sup>52</sup> *Brito v. Dianala, et al.*, G.R. No. 171717, December 15, 2010, 638 SCRA 529.

<sup>53</sup> *Spouses Alfredo, et al. v. Spouses Borrás*, G.R. No. 144225, June 17, 2003, 404 SCRA 145, 164.

<sup>54</sup> *Id.* at 166.

<sup>55</sup> Petition for Review on Certiorari, *rollo*, p. 42.

<sup>56</sup> *Caragay-Layno v. Court of Appeals*, G.R. No. L-52064, December 26, 1984, 133 SCRA 718.

property as early as October 20, 1960.<sup>57</sup> Petitioners also previously requested for the release of the owner's duplicate certificate of title<sup>58</sup> sometime in 1973 but was given a Certification/Acknowledgment of Full Payment instead as the title then could not be released due to a pending case involving the property.<sup>59</sup>

More importantly, petitioners were not parties to Civil Case No. Q-22850 between respondents Ramos, Cruz and ARC Marketing. They cannot therefore be presumed to be aware of the January 13, 1993 decision in said case for their action for reconveyance filed four years after (or in 1997) to be barred by laches.

*Petitioners are entitled to the reconveyance of the property*

Petitioners have alleged a legal right over the property and presented ample documentary evidence to support their claim. In fact, the complete payment of the purchase price by petitioners (and/or their predecessors-in-interest) is not disputed. ARC Marketing, however, claims that certain provisions of the original contract to sell in relation to the disposal of the property were not complied with and so petitioners (and/or their predecessors-in-interest) did not acquire ownership of the property.<sup>60</sup>

Paragraphs 7 and 8 of the Contract to Sell read:

xxx

**7. The PURCHASER/S agree/s not to sell, cede, incumber, transfer or in any other manner dispose of his/her/their rights and obligations under this contact without the previous written consent of the OWNER.**

xxx

8. Should the PURCHASER/S fail/s to pay any installments or payments, when due, of the aforesaid purchase price within ninety (90) days from the date of the last payment made, or if the PURCHASER/S violate/s any of the conditions herein set forth, **the OWNER shall have the right to cancel this AGREEMENT, without further notice, in which event, this contract, "Ipso Facto" without the necessity of a notification or judicial action, shall be forfeited and cancelled,** and the OWNER shall be at liberty to dispose of said parcel/s of land to any other person in the manner as if this contract had never been made or entered into. In the event of such forfeiture, all

<sup>57</sup> Rollo, p. 258.

<sup>58</sup> Upon full payment, presumably for purposes of having the title over the property transferred to their name.

<sup>59</sup> Rollo, p. 151.

<sup>60</sup> ARC Marketing's Motion to Dismiss in Civil Case No. 97-30738, rollo, pp. 242-245.

sums of money paid under this contract will be considered as rentals and liquidated damages for the use and occupancy of said parcel/s of land and the PURCHASER/S waive/s all rights and interests on the said property, or to ask or demand to return the amount thereof, and he/she/they shall vacate the said land within sixty (60) days, and all the improvements built by him/her/them shall be removed from said property without any prejudice to the OWNER.<sup>61</sup>

According to ARC Marketing, the subsequent transfers made by the Faustino spouses (from which petitioners derive their title) were made without the written consent or approval of Del Rosario (and/or his assignees). This caused the *ipso facto* cancellation of the contract to sell.

We are not persuaded.

While the contract to sell indeed provided for the *ipso facto* cancellation of the contract “without need of notification or judicial action,” jurisprudence requires, for cancellation to be effective, that written notice be sent to the defaulter informing him of said cancellation/rescission.<sup>62</sup> In *Palay, Inc. v. Clave*, we held that the cancellation of the contract to sell was void because of lack of notice, stating thus:

Well-settled is the rule, as held in previous jurisprudence, that judicial action for rescission of a contract is not necessary where the contract provides that it may be revoked and cancelled for violation of any of its terms and conditions. However, even in the cited cases, there was at least a written notice to the defaulter informing him of the rescission. As stressed in *University of the Philippines v. Walfrido de los Angeles*, the act of the party in treating a contract as cancelled should be made known to the other.<sup>63</sup>

In this case, it does not appear that ARC Marketing (nor its predecessors-in-interest) took any steps to cancel the contract and/or eject petitioners from the premises (much less notify petitioners about said cancellation) prior to the latter’s institution of the action for reconveyance. ARC Marketing’s predecessors-in-interest also seemed to have continued to accept payments for the property without protest or qualification. Respondent Antonio A. Ramos, representing the heirs of Socorro A. Ramos, even issued a certification<sup>64</sup> acknowledging full payment for the property on March 20, 1973, long before the same was allegedly adjudged in ARC

<sup>61</sup> Contract to Sell, *rollo*, pp. 145-146. Emphasis and underscoring supplied.

<sup>62</sup> *Siska Development Corporation v. Office of the President*, G.R. No. 93176, April 22, 1994, 231 SCRA 674 citing *Palay, Inc. v. Clave*, G.R. No. L-56076 September 21, 1983, 124 SCRA 638 and *Cheng v. Genato*, G.R. No. 129760, December 29, 1998, 300 SCRA 722.

<sup>63</sup> G.R. No. L-56076, September 21, 1983, 124 SCRA 638 citing *University of the Philippines v. De los Angeles*, G.R. No. L-28602, September 29, 1970, 35 SCRA 102 (1970).

<sup>64</sup> Annex F of Complaint for Reconveyance with Damages, *rollo*, p. 151.

Marketing's favor in 1993. ARC Marketing is thus estopped from invoking cancellation of the contract to defeat petitioners' rights over the property.<sup>65</sup>

*ARC Marketing is not an innocent purchaser for value*

An action for reconveyance is always available as a remedy for a rightful owner to retrieve his property for as long as the same has not passed to an innocent purchaser for value.<sup>66</sup> An innocent purchaser for value is one who buys the property of another without notice that some other person has a right to or interest in it, and who pays a full and fair price at the time of the purchase or before receiving any notice of another person's claim.<sup>67</sup>

In *Spouses Ching v. Spouses Adolfo and Arsenia Enrile*, we held that one who purchases real estate with knowledge of a defect or lack of title in his vendor cannot claim that he has acquired title thereto in good faith as against the true owner of the land or of an interest therein. The same rule must be applied to one who has knowledge of facts which should have put him upon such inquiry and investigation as might be necessary to acquaint him with the defects in the title of his vendor.<sup>68</sup>

In this case, Vicente Padiernos (petitioners' predecessor-in-interest) caused the annotation on the title of his adverse claim over the property as early as October 20, 1960.<sup>69</sup> Thus, when ARC Marketing agreed, by way of the judicially-approved Compromise Agreement, to purchase the property on January 13, 1993, it already had constructive notice of the adverse claim registered earlier. It is also beyond dispute that petitioners have been in possession of the property even prior to the time of the Compromise Agreement in Civil Case No. Q-22850. These circumstances should have put ARC Marketing on guard and required it to ascertain whether one of the properties subject of the Compromise Agreement it is entering into has already been sold to another. ARC Marketing cannot thus be considered an innocent purchaser for value. It cannot rely on the indefeasibility of its title as such defense does not extend to a transferee who takes the certificate of title with notice of a flaw in his title.<sup>70</sup>

**WHEREFORE**, we **GRANT** the petition and **SET ASIDE** the assailed *Decision* and *Resolution* of the Court of Appeals dated October 22, 2004 and April 13, 2005, respectively, in CA G.R. SP No. 73670. Judgment is hereby rendered declaring petitioners the owners of Lot 4, Block 2, Ilang-Ilang Street, Sunrise Hills Subdivision, Quezon City presently covered by

<sup>65</sup> *Angeles v. Torres Calasanz*, G.R. No. L-42283 March 18, 1985, 135 SCRA 323; *Rapanut v. Court of Appeals*, G.R. No. 109680 July 14, 1995, 246 SCRA 323. See also *De Guzman v. Guieb*, G.R. No. L-28862 November 24, 1972, 48 SCRA 68.

<sup>66</sup> *Pacete v. Asotigue*, G.R. No. 188575, December 10, 2012, 687 SCRA 570.

<sup>67</sup> *Heirs of Felix Bucton v. Go*, G.R. No. 188395, November 20, 2013, 710 SCRA 457.

<sup>68</sup> G.R. No. 156076, September 17, 2008, 565 SCRA 402.

<sup>69</sup> *Supra* note 56.

<sup>70</sup> *Spouses Alfredo, et al. v. Spouses Borrás, supra*.

Transfer Certificate of Title No. TCT No. RT-17876 (242918). The Register of Deeds of Quezon City is hereby ordered to:

- (a) **CANCEL** TCT No. RT-17876 (242918) in the name of ARC Marketing Corporation; and
- (b) **ISSUE** a Transfer Certificate of Title in the name of petitioners Jose V. Toledo, Glenn Padiernos and Danilo Padiernos.

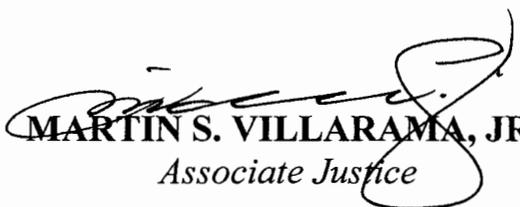
**SO ORDERED.**

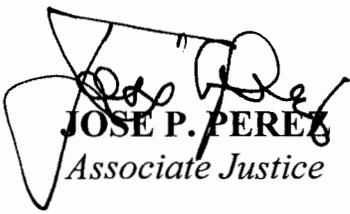
  
**FRANCIS H. JARDELEZA**  
*Associate Justice*

WE CONCUR:

  
**PRESBITERO J. VELASCO, JR.**  
*Associate Justice*  
*Chairperson*

  
**DIOSDADO M. PERALTA**  
*Associate Justice*

  
**MARTIN S. VILLARAMA, JR.**  
*Associate Justice*

  
**JOSE P. PEREZ**  
*Associate Justice*

**ATTESTATION**

I attest that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.

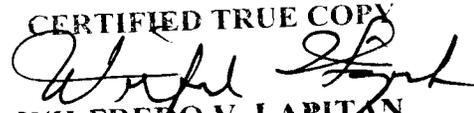
  
**PRESBITERO J. VELASCO, JR.**  
*Associate Justice*  
*Chairperson, Third Division*

**CERTIFICATION**

Pursuant to Section 13, Article VIII of the Constitution, and the Division Chairperson's attestation, it is hereby certified that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.



**MARIA LOURDES P. A. SERENO**  
*Chief Justice*

CERTIFIED TRUE COPY  
  
**WILFREDO V. LAPITAN**  
Division Clerk of Court  
Third Division  
SEP 01 2015