



Republic of the Philippines
SUPREME COURT
Manila

THIRD DIVISION

**BLISS DEVELOPMENT
CORP./HOME GUARANTY
CORPORATION,**

Petitioner,

- versus -

**MONTANO DIAZ, DOMINGO
TAPAY, and EDGAR H. ARREZA,**
Respondents.

G.R. No. 213233

Present:

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

Promulgated:

August 5, 2015

x-----*Welford S. Reyes*-----x

DECISION

VELASCO, JR., *J.*:

The Case

This is a Petition for Review on Certiorari assailing the Decision¹ of the Court of Appeals (CA), promulgated on January 21, 2014, and its subsequent Resolution dated June 27, 2014, both in CA-G.R. CV No. 99179. The assailed Decision reversed and set aside the Decision of the Regional Trial Court (RTC), Makati City, Branch 59, dated November 21, 2011, in Civil Case No. 96-1372. The assailed Resolution, meanwhile, denied petitioner's Motion for Reconsideration.

The Facts

Petitioner Bliss Development Corporation (BDC) (subsequently reorganized as Home Guaranty Corporation) is the registered owner of Lot No. 27, Block 30, New Capitol Estates I, Brgy. Matandang Balara, Diliman, Quezon City, and covered by Transfer Certificate of Title (TCT) No. 331582. On October 19, 1984, it entered into and executed a Deed of Sale over the said property in favor of Spouses Emiliano and Leonila Melgazo (Sps. Melgazo), both of whom are now deceased.²

* Acting member per Special Order No. 2084 dated June 29, 2015.

¹ *Rollo*, pp. 21-42. Penned by Associate Justice Mario V. Lopez and concurred in by Associate Justices Francisco P. Acosta and Socorro B. Inting.

² *Id.* at 32.

On May 7, 1991, a certain Rodolfo Nacua (Nacua) sent a letter to BDC, saying that Sps. Melgazo transferred to him their rights over the property. He further expressed willingness to pay the outstanding obligations of Sps. Melgazo to BDC. Before the property was fully paid, however, Nacua sold his rights to Olivia Garcia (Garcia), through a Deed of Transfer of Rights. Later, Garcia transferred her rights to Elizabeth Reyes (Reyes). Reyes then transferred her rights to Domingo Tapay (Tapay), who then later sold his rights to herein respondent Montano Diaz (Diaz) for Six Hundred Thousand Pesos (₱600,000.00). Diaz then paid BDC the amortizations due on the property, amounting to ₱406,915.15, and BDC issued a permit to occupy the property in favor of Diaz. Diaz then introduced improvements on the property, amounting to ₱700,000.00.

On April 14, 1992, BDC executed a Contract to Sell in favor of Diaz.³ On April 15, 1994, however, BDC informed Diaz that respondent Edgar Arreza (Arreza) was claiming that the heirs of Sps. Melgazo sold to him the rights over the property.⁴ BDC then placed Diaz's account in "inactive status." To resolve the conflicting claims of Arreza and Diaz, BDC filed a complaint for Interpleader against them, before the RTC, Makati City, Branch 146. On March 27, 1996, the Makati City RTC Branch 146 ruled that the signatures of Sps. Melgazo transferring their rights to Nacua were mere forgeries. Thus, it ruled that Arreza had a better right over the property. This decision became final and executory.⁵

On August 27, 1996, Diaz filed the present complaint for sum of money against BDC before the RTC, Makati City, Branch 59.⁶ This was later amended to include Arreza and Tapay as defendants. Diaz argued that BDC and Tapay's representations led him to believe that he had a good title over the property, but due to the court's ruling in the interpleader case, he was constrained to transfer the property to Arreza. Thus, he prayed for the following:

- (1) For BDC and Arreza to pay him ₱1,106,915.58, plus interest, representing the amount he paid for the assumption of Tapay's rights;
- (2) For Tapay to pay him ₱600,000.00, plus interests, representing the amount he paid Tapay;
- (3) For BDC and Tapay to pay him ₱500,000.00 as moral damages;
- (4) For BDC to pay him ₱500,000 as exemplary damages; and
- (5) For BDC, Tapay, and Arreza to pay him ₱100,000 as attorney's fees and costs of suit.⁷

³ Id. at 33.

⁴ Id.

⁵ Id. at 34.

⁶ Id.

⁷ Id. at 35.

Both BDC and Tapay argued that their respective acts were lawful and done in good faith. Arreza filed a Motion to Dismiss, citing *res judicata*, arguing that the claim of Diaz is a compulsory counterclaim that should have been pleaded in the Interpleader case. The RTC denied the Motion to Dismiss, which the CA, on certiorari, affirmed. When the issue reached this Court in G.R. No. 133113,⁸ this Court ruled that the claim as against Arreza is barred by *res judicata*. The Court upheld the argument that the claim is in the nature of a compulsory counterclaim. Thus, the case against Arreza was dismissed.

The Decision of the RTC

After trial, the RTC rendered its Decision on November 21, 2011, finding that Diaz failed to prove that he is an assignee in good faith, and thus dismissed the complaint for lack of merit in this wise:

Plaintiff must show that he inquired not only into the title of the assignor but also into the assignor's capacity to convey. The failure of plaintiff to diligently inquire as such, indicated that he is not an assignee in good faith. Plaintiff Diaz downplays the need to extend his examination to intervening transferor farther than Domingo Tapay from whom he acquired the subject property. Such attitude, however, is not in accord with what a reasonably prudent person would do under the circumstances.

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WHEREFORE, premises considered, plaintiff's Complaint is hereby DISMISSED for lack of merit. Defendant Domingo Tapay's [counterclaim] is likewise dismissed. No costs.⁹

Aggrieved, Diaz appealed to the CA.

The Decision of the CA

In its presently assailed Decision promulgated on January 21, 2014, the CA reversed the ruling of the RTC and, instead, ruled that Diaz is entitled to be paid reimbursement and damages. The CA anchored its ruling on its finding that Diaz is both a buyer in good faith and a builder in good faith, thus:

A careful examination of the records convinces Us that Diaz is both a buyer and builder in good faith. We note that while Bliss executed a Deed of Sale with Mortgage in favor of the spouses Emiliano and Leonila Melgazo, title over the property was in Bliss' name. The title remained in Bliss' name when Tapay offered to transfer his rights over the property to Diaz. Considering that the property involved is registered land, Diaz need not go beyond the title to be considered a buyer in good faith. Indeed, after Diaz accepted Tapay's offer, he dealt directly with Bliss which received the monthly amortizations due on the property. For almost three years, from 1991

⁸ *Arreza v. Diaz, Jr.*, G.R. No. 133113, August 30, 2001, 364 SCRA 88.

⁹ *Rollo*, p. 37.

to 1994, Bliss accepted Diaz's payment without informing Diaz of Arreza's conflicting claim over the property. Bliss even issued Diaz a permit to occupy the property in 1992; thus, allowing Diaz to introduce improvements on the property. In other words, at the time when Diaz purchased the property from Tapay and when he introduced the improvements, he had no notice that some other person has a right over the property. He also had a well-founded belief that the property he was building on was his. Accordingly, Diaz is a buyer and builder in good faith.¹⁰

In ruling that Diaz is a buyer in good faith, the CA noted that Diaz need not go beyond the title to be considered a buyer in good faith, because what is involved is a registered land.

With regard to the liability of BDC, the CA ruled that the provision in the Contract to Sell excusing it from reimbursing the monthly amortizations to Diaz cannot exempt it from liability, because it acted in bad faith. The CA said:

Next, Bliss' argument that the Additional Provision in the Contract to Sell excuses it from reimbursing the monthly amortizations paid by Diaz cannot be given credence. Any stipulation exempting the vendor from the obligation to answer for eviction shall be void, if he acted in bad faith. The vendor's bad faith consists in his knowledge beforehand at the time of the sale, of the presence of the fact giving rise to eviction, and its possible consequence. It is undisputed that Bliss knew about Arreza's claim in 1991. It even received amortization payments from Arreza. Yet, Bliss is aware that should Arreza pursue his claim in court, Diaz may be evicted from the property. Yet, Bliss only informed Diaz about Arreza's claim in 1994 when Arreza followed up his claim. Indubitably, Bliss acted in bad faith in dealing with Diaz and should not be absolved from liability by the Additional Provision in the Contract to Sell.¹¹

Thus, the CA dispositively held:

FOR THESE REASONS, the November 21, 2011 Decision of the Regional Trial Court of Makati City, Branch 59, is SET ASIDE. The Court hereby DIRECTS: (1) Defendant-appellee Bliss Development Corporation/Home Guaranty Corporation to **PAY** plaintiff-appellant Montano Diaz P1,106,915.58 for the amortizations paid and amount spent on improvements on the property, P100,000.00 as moral damages, P50,000.00 as exemplary damages, and P25,000.00 as attorney's fee; and (2) defendant-appellee Domingo Tapay to **PAY** plaintiff-appellant Montano M. Diaz P600,000.00, the amount he paid for the transfer of rights.

Petitioner BDC moved for reconsideration, insisting that Diaz cannot be declared a buyer in good faith, in light of the March 27, 1996 Decision of the Makati City RTC, Branch 146 in the Interpleader case, which had long been final and executory. Tapay also moved for reconsideration, arguing that

¹⁰ Id. at 39-40.

¹¹ Id. at 40.

he was not aware of the defect in the title sold to Diaz, and, hence, he should not be made liable for the ₱600,000.00 that Diaz paid to him. In the CA's assailed Resolution dated June 27, 2014,¹² the CA denied both motions for reconsideration.

Hence, the present Petition for Review on Certiorari filed by BDC, raising the following issues:

I.

WHETHER THE CA ERRED IN NOT DISMISSING THE APPEAL, IN VIEW OF THE APPLICATION OF THE DOCTRINE OF IMMUTABILITY OF JUDGMENT IN THE DECISION OF THE COURT IN G.R. NO. 133113

II.

WHETHER THE CA ERRED IN DECLARING BDC IN BAD FAITH

III.

WHETHER THE CA ERRED IN DECLARING THAT THERE WAS UNJUST ENRICHMENT ON THE PART OF BDC

IV.

WHETHER DIAZ CAN STILL CLAIM REIMBURSEMENT EVEN IF UNDER THE CONTRACT, HIS POSSESSION IS IN THE NATURE OF A LESSOR

V.

WHETHER BDC IS LIABLE TO REIMBURSE DIAZ OF THE AMOUNT OF ₱1,106,915.58

In fine, petitioner argues that it is not liable to respondent Diaz, both for the amortizations that Diaz paid to it, and the value of the improvements that Diaz introduced to the property.

Meanwhile, Tapay failed to elevate before this Court the CA's ruling against him.

The Court's Ruling

The petition is partially granted. The CA committed reversible error in ruling that Diaz was a buyer in good faith and for value. Nevertheless, BDC is liable to Diaz because it acted in bad faith, as discussed below.

The claim is not barred by the doctrine of immutability of judgment

First, We dispose of the issue of the applicability of the doctrine of immutability of judgment, in view of the ruling of this Court in G.R. No. 133113. We find that the present claim is not barred by the court's ruling in G.R. No. 133113—to the effect that Diaz can no longer claim

¹² Id. at 44-49.

reimbursement from Arreza because of *res judicata*—for his failure to allege the claim in the interpleader case between them.

In G.R. No. 133113, We ruled that the claim against Arreza is barred by *res judicata*, because of a prior Interpleader case between Arreza and Diaz. We ruled that the claim for reimbursement should have been alleged and proved in the prior case, and failure to do so bars any future action on such claims. We reiterated the rule on *res judicata*, thus:

In cases involving *res adjudicata*, the parties and the causes of action are identical or substantially the same in the prior as well as the subsequent action. The judgment in the first action is conclusive as to every matter offered and received therein and as to any other matter admissible therein and which might have been offered for that purpose, hence said judgment is an absolute bar to a subsequent action for the same cause. The bar extends to questions necessarily involved in an issue, and necessarily adjudicated, or necessarily implied in the final judgment, although no specific finding may have been made in reference thereto, and although such matters were directly referred to in the pleadings and were not actually or formally presented. **Said prior judgment is conclusive in a subsequent suit between the same parties on the same subject matter, and on the same cause of action**, not only as to matters which were decided in the first action, but also as to every other matter which the parties could have properly set up in the prior suit.¹³ (emphasis added)

In the case at bar, We find that the essential elements of *res judicata* are not present. *First*, the interpleader case was between Arreza and Diaz. While it was BDC that initiated the interpleader case, the opposing parties in that prior case is, in fact, Arreza and Diaz. *Second*, the issues resolved in the interpleader case revolved around the conflicting claims of Arreza and Diaz, and not whatever claim either of them may have against BDC. Thus, there is no identity of parties, nor identity of subject matter, between the interpleader case and the one at bar.

Petitioner BDC acted in bad faith in dealing with respondent Diaz

On the second issue, We find that the CA committed no reversible error in finding that BDC acted in bad faith, when it allowed Diaz to take over the payment of the amortizations over the subject property. As the CA correctly noted, “It is undisputed that Bliss knew about Arreza’s claim in 1991. It even received amortization payments from Arreza. Yet, Bliss acknowledged the transfer to Diaz and received the monthly amortizations paid by Diaz. Also, Bliss is aware that should Arreza pursue his claim in court, Diaz may be evicted from the property.”¹⁴

BDC anchors its claim of good faith on the fact that it did not act as seller to Diaz. Rather, BDC claims, it was Diaz who came forward and presented himself to BDC as the lawful successor-in-interest of Emiliano

¹³ *Arreza v. Diaz, Jr.*, supra note 8, at 98.

¹⁴ *Rollo*, p. 40.

and Leonila Melgazo, by virtue of the several deeds of transfer of rights, all of which he presented to BDC. It was on the basis of this claim that BDC allowed Diaz to occupy the property and pay amortizations accruing over the property.¹⁵

Nevertheless, BDC does not dispute that as early as 1991, even before respondent came forward presenting the deeds of transfer to BDC, BDC was already aware of the claim of Arreza. In fact, it even received amortizations from Arreza. Despite this, BDC also later acknowledged the transfer to Diaz, and also accepted amortizations from him.¹⁶ This uncontroverted sequence of events led the CA to correctly rule that BDC, indeed, acted in bad faith.

When Diaz came forward and presented the deeds of transfer, including the deed of transfer executed by Tapay in his favor, BDC was already well aware of a conflicting claim by Arreza. Instead of waiting for the resolution on the matter, BDC immediately accepted the deed of transfer presented by Diaz, as well as the amortizations he paid over the property. It was only in 1994 that BDC filed the Interpleader case to resolve the conflicting case. This is nothing short of evident bad faith.

**Respondent Diaz is not a purchaser
for value and in good faith**

We, however, fail to find sufficient basis for the CA's ruling that Diaz is a purchaser for value and in good faith. In a long line of cases, this Court had ruled that a purchaser in good faith and for value is one who buys property of another without notice that some other person has a right to, or interest in, such property and pays full and fair price for the same at the time of such purchase or before he or she has notice of the claim or interest of some other person in the property.¹⁷ For one to be considered a purchaser in good faith, the following requisites must concur: (1) that the purchaser buys the property of another without notice that some other person has a right to or interest in such property; and (2) that the purchaser pays a full and fair price for the property at the time of such purchase or before he or she has notice of the claim of another.¹⁸ We find that in the case at bar, the first element is lacking.

The CA, in disposing the issue of Diaz's good faith, merely said that "considering that the property involved is registered land, Diaz need not go beyond the title to be considered a buyer in good faith."¹⁹ We find this to be a serious and reversible error on the part of the CA. In the first place, while it is true that the subject lot is registered lot, the doctrine of not going beyond the face of the title does not apply in the case here, because what was subjected to a series of sales was not the lot itself but the right to

¹⁵ Id. at 17.

¹⁶ Id. at 40.

¹⁷ *Philippine National Bank v. Heirs of Estanislao Militar*, G.R. No. 164801, June 30, 2006, 494 SCRA 308, 314.

¹⁸ *Tamani v. Salvador*, G.R. No. 171497, April 4, 2011, 647 SCRA 132, 150.

¹⁹ *Rollo*, p. 39.

purchase the lot from BDC. The CA itself observed: “while [BDC] executed a Deed of Sale with Mortgage in favor of the spouses Emiliano and Leonila Melgazo, title over the property was in [BDC’s] name. The title remained in [BDC’s] name when Tapay offered to transfer his rights over the property to Diaz.”²⁰ Notably, the several transfers themselves did not purport to be Deeds of Absolute Sale, but merely deeds of assignment of rights. The subject of those deeds of assignment was never the real right over the subject property, but merely the personal right to purchase it. Therefore, the mirror doctrine finds no application in the case at bar.

A careful review of the records of this case reveals that Diaz, in fact, failed to diligently inquire into the title of his predecessor before entering into the contract of sale. As such, he cannot be considered a buyer in good faith. There is no issue that despite the several transfers of rights from Nacua to Garcia to Reyes to Tapay to Diaz, title over the property remained in BDC’s name. When Diaz transacted with Tapay, it was also clear that what was being transferred was merely rights to purchase the property, and not title over the lot itself; if it were, the sale would have been void because Tapay never had ownership over the subject property. As the buyer in such a transaction, it was incumbent upon Diaz not only to inquire as to the right of Tapay to transfer his rights, but also to trace the source of that right to purchase the property. Had he discharged this duty diligently, he would have found out that Nacua’s right was without basis, because it was founded on a forged deed. For his failure to inquire diligently and trace the source of the right to purchase the property, Diaz cannot claim to be a purchaser in good faith and for value.

Petitioner BDC is liable to return the amortizations paid by respondent Diaz, under the doctrine of unjust enrichment

Notwithstanding the fact that Diaz is not an innocent purchaser in good faith and for value, BDC is nevertheless liable to return to him the amortizations which he already paid on the property, applying the rule on unjust enrichment.

Unjust enrichment exists when a person unjustly retains a benefit to the loss of another, or when a person retains money or property of another against the fundamental principles of justice, equity and good conscience. Under Article 22 of the Civil Code,²¹ there is unjust enrichment when (1) a person is unjustly benefited and (2) such benefit is derived at the expense of or with damages to another.²²

²⁰ Id.

²¹ The principle of unjust enrichment is provided under Art. 22 of the Civil Code which provides:
Art. 22. Every person who through an act of performance by another, or any other means, acquires or comes into possession of something at the expense of the latter without just or legal ground, shall return the same to him.

²² *Philippine Realty and Holdings Corporation v. Ley Construction and Development Corporation*, G.R. No. 165548, June 13, 2011, 651 SCRA 719.

Allowing BDC to keep the amortizations paid by Diaz is tantamount to unjust enrichment. It would result in BDC receiving amortizations twice the amount it should have received, that is, the amortizations paid by Diaz and Arreza. While BDC claims that it did not receive amortizations from both Diaz and Arreza covering the same period, such a claim is self-serving, and is not amply supported by any documentary evidence.

Even if BDC can prove that there was no overlap between the payments made by Diaz and those made by Arreza, allowing it to keep the amortizations paid by Diaz still amounts to unjust enrichment. As a direct result of the final and executory ruling that Arreza is the rightful buyer of the subject property, the buyer-seller relationship between Diaz and BDC is rendered null and void. Consequently, there remains no valid consideration whatsoever for the payments made by Diaz to BDC. There being no indication of intent to donate, because such payments were made under the impression that Diaz is the rightful buyer of the property, it is only but just that Diaz be allowed to claim back what he has paid. This is only a natural consequence of the final and executory ruling that Diaz is not the rightful buyer of the subject property. Allowing BDC to keep such payments, at the expense of and to the damage of Diaz, still amounts to unjust enrichment.

**Both parties being in bad faith,
BDC is liable to Diaz for the value
of the improvements he introduced
on the subject property**

Next, We resolve the issue of whether BDC is liable to Diaz for the value of the improvements that Diaz introduced to the property. Arts. 448, 453, 546, and 548 of the Civil Code are material in resolving the issue:

Art. 448. The owner of the land on which anything has been built, sown or planted in good faith, shall have the right to appropriate as his own the works, sowing or planting, after payment of the indemnity provided for in Articles 546 and 548, or to oblige the one who built or planted to pay the price of the land, and the one who sowed, the proper rent. However, the builder or planter cannot be obliged to buy the land if its value is considerably more than that of the building or trees. In such case, he shall pay reasonable rent, if the owner of the land does not choose to appropriate the building or trees after proper indemnity. The parties shall agree upon the terms of the lease and in case of disagreement, the court shall fix the terms thereof.

Art. 453. If there was bad faith, not only on the part of the person who built, planted or sowed on the land of another, but also on the part of the owner of such land, the rights of one and the other shall be the same as though both had acted in good faith.

It is understood that there is bad faith on the part of the landowner whenever the act was done with his knowledge and without opposition on his part.

Art. 546. Necessary expenses shall be refunded to every possessor; but only the possessor in good faith may retain the thing until he has been reimbursed therefor.

Useful expenses shall be refunded only to the possessor in good faith with the same right of retention, the person who has defeated him in the possession having the option of refunding the amount of the expenses or of paying the increase in value which the thing may have acquired by reason thereof.

Art. 548. Expenses for pure luxury or mere pleasure shall not be refunded to the possessor in good faith; but he may remove the ornaments with which he has embellished the principal thing if it suffers no injury thereby, and if his successor in the possession does not prefer to refund the amount expended.

The CA may have made the erroneous conclusion that Diaz acted in good faith, but because BDC equally acted in bad faith, Art. 453 of the Civil Code commands that the rights of one and the other shall be the same as though both had acted in good faith. The CA made the correct observation then, when it said:

Under Article 448, the landowner is given the option, either to appropriate the improvement as his own upon payment of the proper amount of indemnity or to sell the land to the possessor in good faith. Relatedly Article 546 provides that a builder in good faith is entitled to full reimbursement for all the necessary and useful expenses incurred. In this case, however, the option of selling the land to the builder in good faith is no longer viable in light of the ruling in the interpleader case. Hence, there is only one thing left for [BDC] to do: indemnify Diaz for the improvements introduced on the property.²³


Nevertheless, because the law treats both parties as if they acted in good faith, the CA committed reversible error in awarding moral and exemplary damages, there being no basis therefor. We find it proper to delete the award of ₱100,000.00 as moral damages, ₱50,000.00 as exemplary damages, and ₱25,000.00 as attorney's fees.

In sum, the CA correctly reversed the ruling of the RTC, and ordered BDC to pay Diaz the amount he paid as amortizations, as well as the value of the improvements that he introduced on the subject property. However, because both parties acted in bad faith, there is no basis for the award of moral and exemplary damages, as well as attorney's fees.


WHEREFORE, in view of the foregoing, the January 21, 2014 Decision of the Court of Appeals in CA-G.R. CV No. 99179 is hereby **MODIFIED** to read as follows: (1) petitioner Bliss Development Corporation/Home Guaranty Corporation is ordered to pay respondent Montano M. Diaz the amount of ₱1,106,915.58 for the amortizations paid and the amount spent on improvements on the property; and (2) Domingo Tapay is ordered to pay respondent Montano M. Diaz the amount of ₱600,000.00, the amount he paid for the transfer of rights.

²³ *Rollo*, p. 40.

SO ORDERED.



PRESBITERO J. VELASCO, JR.
Associate Justice

WE CONCUR:


DIOSDADO M. PERALTA
Associate Justice

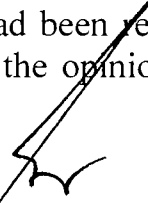

MARTIN S. VILLARAMA, JR.
Associate Justice


JOSE PORTUGAL PEREZ
Associate Justice


FRANCIS H. JARDELEZA
Associate Justice

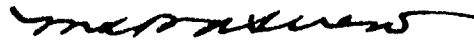
ATTESTATION

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

CERTIFICATION

Pursuant to Section 13, Article VIII of the Constitution and the Division Chairperson's Attestation, I certify 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