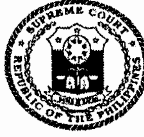

Republic of the Philippines
Supreme Court
Manila

SECOND DIVISION

SPOUSES MAXIMO ESPINOZA and WINIFREDA DE VERA,
Petitioners,

- *versus* -

SPOUSES ANTONIO MAYANDOC and ERLINDA CAYABYAB MAYANDOC,
Respondents.

G.R. No. 211170

Present:

CARPIO,* *J., Chairperson,*
PERALTA,**
MENDOZA,
LEONEN, and
MARTIRES, *JJ.*

Promulgated:

03 JUL 2017

x---x

DECISION

PERALTA, *J*.:

Before this Court is the Petition for Review on *Certiorari* under Rule 45, dated March 21, 2014, of petitioners-spouses Maximo Espinoza and Winifreda De Vera, that seeks to reverse and set aside the Decision[1] dated September 17, 2013 and Resolution dated January 28, 2014, both of the Court of Appeals (*CA*) which, in turn, affirmed with modifications the Decision[2] dated February 18, 2011 of the Regional Trial Court (*RTC*), Branch 42, Dagupan City, in a complaint for useful expenses under Articles 448[3] and 546[4] of the New Civil Code of the Philippines.

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* On wellness leave.

** Acting Chairperson, per Special Order No. 2445 dated June 16, 2017.

1 Penned by Associate Justice Danton Q. Bueser, with the concurrence of Associate Justices Amelita G. Tolentino and Ramon R. Garcia; *rollo*, pp. 34-43.

2 Penned by Presiding Judge A. Florentino R. Dumlao, Jr.; *id.* at 118-125.

3 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

The facts follow.

A parcel of land located in Dagupan City was originally owned by Eusebio Espinoza. After the death of Eusebio, the said parcel of land was divided among his heirs, namely: Pastora Espinoza, Domingo Espinoza and Pablo Espinoza. Petitioner Maximo is the son of Domingo Espinoza, who died on November 3, 1965, and Agapita Cayabyab, who died on August 11, 1963.

Thereafter, on May 25, 1972, Pastora Espinoza executed a Deed of Sale conveying her share of the same property to respondents and Leopoldo Espinoza. However, on that same date, a fictitious deed of sale was executed by petitioner Maximo's father, Domingo Espinoza, conveying the three-fourth (3/4) share in the estate in favor of respondent Erlinda Cayabyab Mayandoc's parents; thus, TCT No. 28397 was issued in the names of the latter.

On July 9, 1977, a fictitious deed of sale was executed by Nemesio Cayabyab, Candida Cruz, petitioners-spouses Maximo Espinoza and Winifreda De Vera and Leopoldo Espinoza over the land in favor of respondents- spouses Antonio and Erlinda Mayandoc; thus, TCT No. 37403 was issued under the names of the latter.

As a result of the foregoing, petitioners filed an action for annulment of document with prayer for the nullification of TCT No. 37403 and, on August 16, 1999, the RTC, Branch 40, Dagupan City rendered a Decision in favor of petitioners and ordering respondents to reconvey the land in dispute and to pay attorney's fees and the cost of the suit.

Respondents appealed, but the CA, in its Decision dated February 6, 2004, affirmed the RTC with modifications that the award of attorney's fees and litigation expenses be deleted for lack of factual basis. The said CA Decision became final and executory on March 8, 2004.

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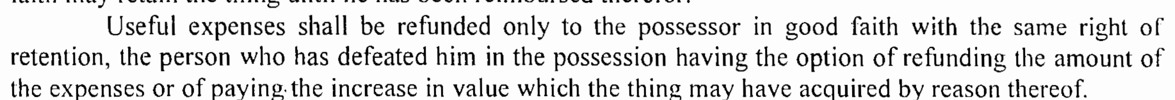
if its value is considerably more than that of the building or trees. In such case, he shall pay reasonable rent, if the owner of the land does not choose to appropriate the building or trees after proper indemnity. The parties shall agree upon the terms of the lease and in case of disagreement, the court shall fix the terms thereof.

[4] 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.



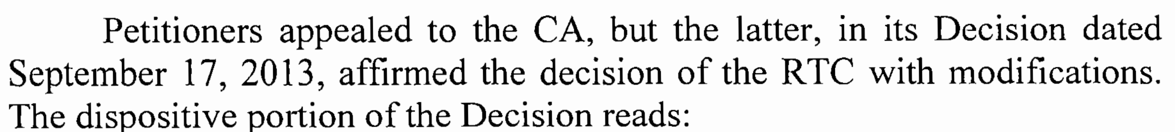
Thus, respondents filed a complaint for reimbursement for useful expenses, pursuant to Articles 448 and 546 of the New Civil Code, alleging that the house in question was built on the disputed land in good faith sometime in 1995 and was finished in 1996. According to respondents, they then believed themselves to be the owners of the land with a claim of title thereto and were never prevented by the petitioners in constructing the house. They added that the new house was built after the old house belonging to respondent Erlinda Mayandoc's father was torn down due to termite infestation and would not have reconstructed the said house had they been aware of the defect in their title. As such, they claimed that they are entitled to reimbursement of the construction cost of the house in the amount of ₱800,000.00. They further asserted that at the time that their house was constructed, they were possessors in good faith, having lived over the land in question for many years and that petitioners questioned their ownership and possession only in 1997 when a complaint for nullity of documents was filed by the latter.

Petitioners, in their Answer, argued that respondents can never be considered as builders in good faith because the latter were aware that the deeds of sale over the land in question were fictitious and, therefore, null and void; thus, as builders in bad faith, they lose whatever has been built over the land without right to indemnity.

Respondents, on January 5, 2011, manifested their option to buy the land where the house stood, but petitioners expressed that they were not interested to sell the land or to buy the house in question.

The RTC, on February 18, 2011, rendered its Decision with the following dispositive portion:

> WHEREFORE, judgment is hereby rendered requiring the defendants to sell the land, where the plaintiffs' house stands, to the latter at a reasonable price based on the zonal value determined by the Bureau of Internal Revenue (BIR).
>
> SO ORDERED.[5]



Petitioners appealed to the CA, but the latter, in its Decision dated September 17, 2013, affirmed the decision of the RTC with modifications. The dispositive portion of the Decision reads:

[5] *Rollo*, p. 125.

> WHEREFORE, the Decision dated February 18, 2011 by the Regional Trial Court, Branch 42 of Dagupan City, in Civil Case No. 2005-0271-D is hereby AFFIRMED with MODIFICATIONS.
>
> Let the case be REMANDED to the aforementioned trial court for further proceedings consistent with the proper application of Articles 448, 546 and 548 of the New Civil Code and to render a complete judgment of the case.
>
> SO ORDERED.[6]

The motion for reconsideration of petitioners were subsequently denied by the CA in its Resolution dated January 28, 2014.

Hence, the present petition.

Petitioners raise the following issues:

> I.
> WHETHER THE HONORABLE COURT OF APPEALS ERRED IN RULING THAT THE PETITIONERS WERE NOT ABLE TO PROVE BAD FAITH ON THE PART OF THE RESPONDENTS.
>
> II.
> WHETHER OR NOT THE HONORABLE COURT OF APPEALS ERRED IN RULING THAT *RES JUDICATA* DOES NOT APPLY IN THE INSTANT CASE.

According to petitioners, whether or not respondents were in bad faith in introducing improvements on the subject land is already moot, since the judgment rendered by the RTC of Dagupan City, Branch 40 and affirmed by the CA, that declared the two Deeds of Definite/Absolute Sale dated May 25, 1972 and July 9, 1977 as null and void, had long become final and executory on March 8, 2004. They also argue that respondents had not successfully shown any right to introduce improvements on the said land as their claim of laches and acquisitive prescription have been rejected by the CA on appeal; thus, it follows that the respondents were builders in bad faith because knowing that the land did not belong to them and that they had no right to build thereon, they still caused the house to be erected. They further insist that respondents are deemed builders in bad faith because their house has been built and reconstructed into a bigger one after respondent Erlinda's parents forged a fictitious sale. Finally, they claim that the principle of *res judicata* in the mode of "conclusiveness of judgment" applies in this case.

The petition lacks merit.

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6 *Id.* at 42-43.

The findings of facts of the Court of Appeals are conclusive and binding on this Court[7] and they carry even more weight when the said court affirms the factual findings of the trial court.[8] Stated differently, the findings of the Court of Appeals, by itself, which are supported by substantial evidence, are almost beyond the power of review by this Court.[9] Although this rule is subject to certain exceptions, this Court finds none that is applicable in this case. Nevertheless, the petition still fails granting that an exception obtains.

To be deemed a builder in good faith, it is essential that a person asserts title to the land on which he builds, *i.e.*, that he be a possessor in the concept of owner, and that he be unaware that there exists in his title or mode of acquisition any flaw which invalidates it.[10] The RTC, as affirmed by the CA, found respondents to be builders in good faith, thus:

> The plaintiffs are builders in good faith. As asserted by plaintiffs and not rebutted by defendants, the house of plaintiffs was built on the lot owned by defendants in 1995. The complaint for nullity of documents and reconveyance was filed in 1997, about two years after the subject conjugal house was constructed. Defendants-spouses believed that at the time when they constructed their house on the lot of defendants, they have a claim of title. Art. 526, New Civil Code, states that a possessor in good faith is one who has no knowledge of any flaw or defect in his title or mode of acquisition. This determines whether the builder acted in good faith or not. Surely, plaintiffs would not have constructed the subject house which plaintiffs claim to have cost them ₱800,000.00 to build if they knew that there is a flaw in their claim of title. Nonetheless, Art. 527, New Civil Code, states clearly that good faith is always presumed, and upon him who alleges bad faith on the part of the possessor lies the burden of proof. The records do not show that the burden of proof was successfully discharged by the defendants.
>
> x x x x
>
> Plaintiffs are in good faith in building their conjugal house in 1995 on the lot they believed to be their own by purchase. They also have in their favor the legal presumption of good faith. It is the defendants who had the burden to prove otherwise. They failed to discharge such burden until the Regional Trial Court, Br. 40, Dagupan City, promulgated an adverse ruling in Civil Case No. 97-0187-D. Thus, Art. 448 comes in to protect the plaintiffs-owners of their improvement without causing injustice to the lot owner. Art. 448 comes in to protect the plaintiff-owners of their improvement without causing injustice to the lot owner. Art. 448 provided a just resolution of the resulting "forced-ownership" by giving the defendants lot owners the option to acquire the conjugal house after

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[7] *Security Bank and Trust Company v. Triumph Lumber and Construction Corporation*, 361 Phil. 463, 474 (1999); *American Express International, Inc. v. Court of Appeals*, 367 Phil. 333, 339 (1999).

[8] *Borromeo v. Sun*, 375 Phil. 595, 602 (1999); *Boneng v. People*, 363 Phil. 594, 600 (1999).

[9] *Pimentel v. Court of Appeals*, 366 Phil. 494, 501 (1999).

[10] *Department of Education v. Delfina C. Casibang, et al.*, G.R. No. 192268, January 27, 2016, citing *Heirs of Victorino Sarili v. Lagrosa*, 724 Phil. 608, 623 (2014).

> payment of the proper indemnity or to oblige the builder plaintiffs to pay for the lot. It is the defendants-lot owners who are authorized to exercise the option as their right is older, and under the principle of accession where the accessory (house) follows the principal. x x x.[11]

The settled rule is bad faith should be established by clear and convincing evidence since the law always presumes good faith.[12] In this particular case, petitioners were not able to prove that respondents were in bad faith in constructing the house on the subject land. Bad faith does not simply connote bad judgment or negligence.[13] It imports a dishonest purpose or some moral obliquity and conscious doing of a wrong.[14] It means breach of a known duty through some motive, interest or ill will that partakes of the nature of fraud.[15] For anyone who claims that someone is in bad faith, the former has the duty to prove such. Hence, petitioners err in their argument that respondents failed to prove that they are builders in good faith in spite of the findings of the RTC and the CA that they are.

As such, Article 448[16] of the Civil Code must be applied. It applies when the builder believes that he is the owner of the land or that by some title he has the right to build thereon,[17] or that, at least, he has a claim of title thereto.[18] In *Tuatis v. Spouses Escol, et al.*,[19] this Court ruled that the seller (the owner of the land) has two options under Article 448: (1) he may appropriate the improvements for himself after reimbursing the buyer (the builder in good faith) the necessary and useful expenses under Articles 546[20] and 548[21] of the Civil Code; or (2) he may sell the land to the buyer, unless its value is considerably more than that of the improvements, in which case, the buyer shall pay reasonable rent, thus:

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[11] *Id.* at 120-121. (Citations omitted)

[12] *Ford Philippines, Inc. v. Court of Appeals*, 335 Phil. 1, 9-10 (1997).

[13] *Id.* at 9.

[14] *Id.*

[15] *Id.*

[16] 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. (361a)

[17] *Rosales v. Castelltort*, 509 Phil. 137, 147 (2005).

[18] *Briones v. Macabagdal*, 640 Phil. 343, 352 (2010).

[19] 619 Phil. 465, 483 (2009), cited in *Communities Cagayan, Inc. v. Spouses Arsenio and Angeles Nanol, et al.*, 698 Phil. 648 663-664 (2012).

[20] 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.

[21] 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 rule that the choice under Article 448 of the Civil Code belongs to the owner of the land is in accord with the principle of accession, *i.e.*, that the accessory follows the principal and not the other way around. Even as the option lies with the landowner, the grant to him, nevertheless, is preclusive. The landowner cannot refuse to exercise either option and compel instead the owner of the building to remove it from the land.
>
> The *raison d'etre* for this provision has been enunciated thus: Where the builder, planter or sower has acted in good faith, a conflict of rights arises between the owners, and it becomes necessary to protect the owner of the improvements without causing injustice to the owner of the land. In view of the impracticability of creating a state of forced co-ownership, the law has provided a just solution by giving the owner of the land the option to acquire the improvements after payment of the proper indemnity, or to oblige the builder or planter to pay for the land and the sower the proper rent. He cannot refuse to exercise either option. It is the owner of the land who is authorized to exercise the option, because his right is older, and because, by the principle of accession, he is entitled to the ownership of the accessory thing.[22]

The CA, therefore, did not err in its ruling that instead of requiring the petitioners to sell the land, the RTC must determine the option which the petitioners would choose. As aptly ruled by the CA:

> The rule that the right of choice belongs to the owner of the land is in accordance with the principle of accession. However, even if this right of choice is exclusive to the land owner, he cannot refuse to exercise either option and demand, instead for the removal of the building.
>
> Instead of requiring defendants-appellants to sell the land, the court *a quo* must determine the option which they would choose. The first option to appropriate the building upon payment of indemnity or the second option, to sell the land to the plaintiffs-appellees. Moreover, the court *a quo* should also ascertain: (a) under the first option, the amount of indemnification for the building; or (b) under the second option, the value of the subject property *vis-à-vis* that of the building, and depending thereon, the price of, or the reasonable rent for, the subject property.
>
> Hence, following the ruling in the recent case of *Briones v. Macabagdal*, this case must be remanded to the court *a quo* for the conduct of further proceedings to assess the current fair market of the land and to determine other matters necessary for the proper application of Article 448, in relation to Articles 546 and 548 of the New Civil Code.[23]

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22 *Tuatis v. Spouses Escol, et al., supra* note 19, at 488-489. (Citations omitted)

23 *Rollo*, p. 40. (Citation omitted).

Therefore, this Court agrees with the CA that there is a need to remand the case to the RTC for further proceedings, specifically, in assessing the current fair market value of the subject land and other matters that are appropriate in the application of Article 448, in relation to Articles 546 and 548 of the New Civil Code.

As to the issue of *res judicata*, the CA is correct in its ruling that there is no identity of subject matter and cause of action between the prior case of annulment of document and the present case, thus:

> In the instant case, *res judicata* will not apply since there is no identity of subject matter and cause of action. The first case is for annulment of document, while the instant case is for reimbursement of useful expenses as builders in good faith under article 448 in relation to Articles 546 and 548 of the New Civil Code.
>
> Moreover, We are not changing or reversing any findings of the RTC and by this Court in Our 6 February 2004 decision. The Court is still bound by this judgment insofar as it found the Deeds of Absolute Sale null and void, and that defendants-appellants are the rightful owners of the lot in question.
>
> However, if the court *a quo* did not take cognizance of the instant case, plaintiffs-appellees shall lose ownership of the building worth Php316,400.00 without any compensation. While, the defendant-appellants not only will recover the land but will also acquire a house without payment of indemnity. The fairness of the rules enunciated in Article 448 is explained by the Supreme Court in the case of Depra v. Dumlao, *viz.*:
>
>> Where the builder, planter or sower has acted in good faith, a conflict of rights arises between the owners, and it becomes necessary to protect the owner of the improvements without causing injustice to the owner of the land. In view of the impracticability of creating a state of forced ownership, the law has provided a just solution by giving the owner of the land the option to acquire the improvements after payment of the proper indemnity, or to oblige the builder or planter to pay for the land and the sower to pay the proper rent. It is the owner of the land who is authorized to exercise the option, because his right is older, and because, by the principle of accession, he is entitled to the ownership of the accessory thing.
>
> Finally, "*the decision of the court a quo should not be viewed as a denigration of the doctrine of immutability of final judgments, but a recognition of the equally sacrosanct doctrine that a person should not be allowed to profit or enrich himself inequitably at another's expense.*"[24]

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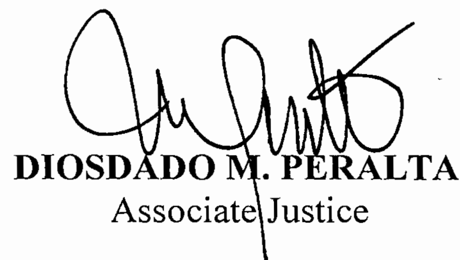
[24] *Id.* at 41-42. (Italics in the original)

The well-settled rule is that the principle or rule of *res judicata* is primarily one of public policy. It is based on the policy against multiplicity of suits,[26] whose primary objective is to avoid unduly burdening the dockets of the courts.[27] In this case, however, such principle is inapplicable.

WHEREFORE, the Petition for Review on *Certiorari* under Rule 45, dated March 21, 2014, of petitioners-spouses Maximo Espinoza and Winifreda De Vera, is **DENIED.** Consequently, the Decision dated September 17, 2013 and Resolution dated January 28, 2014, both of the Court of Appeals are **AFFIRMED**.

SO ORDERED.

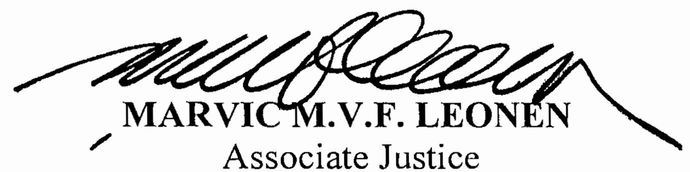


DIOSDADO M. PERALTA
Associate Justice

WE CONCUR:

On wellness leave
ANTONIO T. CARPIO
Associate Justice
Chairperson

JOSE CATRAL MENDOZA
Associate Justice



MARVIC M.V.F. LEONEN
Associate Justice

SAMUEL R. MARTIRES
Associate Justice

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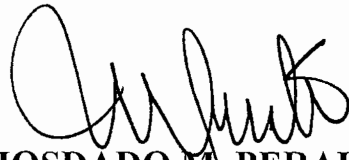
26 *Cruz v. Court of Appeals*, 369 Phil. 161, 170-171 (1999).

27 *Riviera Golf Club, Inc. v. CCA Holdings, B.V.*, G.R. No. 173783, June 17, 2015, 758 SCRA 691, 707

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.



DIOSDADO M. PERALTA
Associate Justice
Acting Chairperson, Second Division

CERTIFICATION

Pursuant to Section 13, Article VIII of the Constitution and the Division Acting 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