

Title: **Philippine Realty and Holdings Corporation vs. Ley Construction and Development Corporation**

Facts:

The case involves disputes arising from four construction agreements between Ley Construction and Development Corporation (LCDC) and Philippine Realty & Holdings Corporation (PRHC) for the construction of several buildings. The agreements specified fixed contract prices and conditions under which the contract prices could be escalated. Disputes arose when LCDC claimed that unforeseen hikes in the prices of construction materials and other delays justified an escalation in the contract prices and extensions of time for project completion. Despite these claims, PRHC refused to agree to the price escalation for one of the projects (the Tektite Building), leading LCDC to continue the work after receiving a letter from PRHC's construction manager suggesting that an escalation would be allowed. PRHC later denied any liability to pay the escalation amount, set off LCDC's claim against alleged liquidated damages for delays, and refused to pay additional amounts claimed by LCDC for other projects. LCDC filed a complaint with the Regional Trial Court (RTC) of Makati City, which eventually ruled in favor of LCDC. PRHC appealed, and the Court of Appeals reversed the RTC's decision. Both parties then filed petitions with the Supreme Court.

Issues:

1. Whether a valid escalation agreement was entered into by the parties and to what amount.
2. Whether LCDC was delayed in the performance of its obligation and whether PRHC is entitled to liquidated damages for the supposed delay.
3. Whether the court can and should rule on causes of action not alleged in the pleadings or omitted in the stipulation of facts.
4. Whether LCDC should be held liable for the amount of corrective works for defective waterproofing in one of the projects.
5. Whether LCDC is entitled to attorney's fees, expenses of litigation, and costs.

Court's Decision:

1. **Escalation Agreement:** The Court found in favor of LCDC, ruling that a subsequent escalation agreement was validly entered into by the parties, allowing an escalation of P36 million for the Tektite Building project.
2. **Liquidated Damages for Delays:** The Court ruled that LCDC was not liable for liquidated damages for delays in construction, as the delays were caused by force majeure

and factors beyond LCDC's control.

3. **Ruling on Causes of Action Not in the Pleadings:** The Court held that it could rule on matters proven during the trial without objection from the opposing party, thus affirming the amounts due to LCDC for Project 3, its driver's quarters, and concreting works in the Tektite Building.
4. **Liability for Corrective Works:** LCDC was found liable for the costs of corrective works to redo/repair defective waterproofing in one of the projects.
5. **Attorney's Fees and Litigation Expenses:** The Court reinstated the lower court's award of attorney's fees to LCDC but reduced the amount from P750,000 to P200,000.

Doctrine:

This case establishes that subsequent agreements modifying a construction contract's terms, such as price escalation clauses, are valid and binding if entered into by the parties' authorized representatives. It also reaffirms the principle that unforeseeable events or force majeure exempt a contractor from liability for delays. Furthermore, the Supreme Court clarified that it could decide on issues proven during trial even if not included in the initial pleadings as long as there was no objection to the evidence presented.

Class Notes:

1. **Valid Contract Modification:** Parties to a contract can enter into a subsequent agreement that amends the original terms, including price escalation, if properly authorized and agreed upon.
2. **Force Majeure and Construction Delays:** Contractors are not liable for delays caused by unforeseen events or force majeure, provided these are communicated and documented appropriately.
3. **Admissibility and Ruling on New Issues:** Courts can rule on issues not initially included in pleadings if these issues are proven during trial without objection.
4. **Liability for Subcontractor's Work:** Contractors may be held liable for the costs of rectifying work done by a subcontractor if the contractor approved or accepted the subcontractor's work, depending on the contract terms.
5. **Attorney's Fees and Expenses:** Attorney's fees and the expenses of litigation can be awarded based on stipulatory provisions, statutory authority, or equitable grounds; however, courts may adjust the amounts deemed excessive or unreasonable.

Historical Background:

This legal battle elucidates the complexities and challenges in construction contracts, especially regarding unforeseen events that affect project costs and timelines. It highlights

the judiciary's role in interpreting contract provisions, assessing parties' actions and representations, and ensuring fair and equitable outcomes based on law and equity principles.