

**### Title:**

**\*\*Philippine National Construction Corporation vs. Court of Appeals et al.\*\***

**### Facts:**

The case originated from a lease contract dispute involving a 30,000 square meter parcel of land between Philippine National Construction Corporation (PNCC) and the Raymundo family. On 18 November 1985, the parties executed a lease agreement stipulating a five-year term, commencing upon the issuance of an industrial clearance by the Ministry of Human Settlements, with a renewable option under the same terms. The agreed monthly rent was set at PHP 20,000.00, with a 5% annual increase and an upfront annual payment obligation.

After obtaining a Temporary Use Permit rather than the specified industrial clearance from the Ministry, PNCC received a demand from the Raymundos for the first annual rental of PHP 240,000.00. PNCC refused, citing the lease's commencement condition and expressing its decision to terminate the contract due to "financial, as well as technical, difficulties." The Raymundos rejected the pretermination, leading to a legal battle for specific performance with damages (Civil Case No. 53444) initiated by the Raymundos against PNCC at the Regional Trial Court (RTC) of Pasig.

Throughout the trial, PNCC requested multiple postponements and eventually failed to present its evidence, leading to the RTC ruling in the Raymundos' favor, ordering PNCC to pay PHP 492,000.00 for two years' rent, with interest, attorney's fees, and costs. PNCC's appeal to the Court of Appeals (CA) was unsuccessful, leading to a further appeal to the Supreme Court (SC) on similar grounds.

**### Issues:**

1. Whether the Temporary Use Permit issued by the Ministry of Human Settlements fulfilled the contract's condition for its commencement.
2. Whether PNCC can be excused from its obligations under the doctrine of "impossibility of performance" due to unforeseen events (EDSA Revolution and financial difficulties).
3. Whether the award of PHP 492,000.00 as rent for two years was excessive given PNCC did not occupy the land.
4. Whether PNCC was denied the right to be heard in the trial court proceedings.

**### Court's Decision:**

The Supreme Court denied PNCC's petition, affirming the CA's decision in totality. The

Court concluded that:

1. PNCC had acknowledged the Temporary Use Permit as the industrial clearance required for the lease agreement's effectivity, thus validating the lease's commencement.
2. The contract's obligatory force remained intact despite unforeseen political changes and financial difficulties, as these did not constitute legal or physical impossibilities to excuse non-performance under Article 1266 of the Civil Code, nor did they fit the *rebus sic stantibus* doctrine.
3. The award of PHP 492,000.00 was justified, as PNCC's failure to utilize the permit or occupy the property did not diminish their contractual obligation to pay the agreed rentals.
4. PNCC was not denied the right to be heard. The multiple postponements and their eventual failure to present evidence were within the control and fault of PNCC, not a denial of due process.

### ### Doctrine:

This case reiterates the principle that contracts, once perfected, must be complied with in good faith, barring exceptional circumstances of legal or physical impossibility that make performance impossible. Moreover, the principle of *rebus sic stantibus* does not automatically excuse contractual obligations due to significant changes in circumstance unless specifically provided for in the contract.

### ### Class Notes:

#### Key Legal Elements:

- Contractual Obligations: Contracts once perfected are binding and must be executed in good faith (Civil Code, Art. 1159).
- Article 1266 - Obligations to do are excused if they become legally or physically impossible without fault of the obligor.
- Doctrine of Impossibility of Performance: Financial difficulty or political climate changes do not void contractual obligations.
- Due Process: Opportunity to be heard is fundamental, which can be through pleadings or oral arguments.

#### Relevant Statutes:

- "The debtor in obligations to do shall also be released when the prestation becomes legally or physically impossible without the fault of the obligor." (Civil Code, Art. 1266).
- "If the lessor or the lessee should not comply with the obligations set forth in Articles 1654 and 1657, the aggrieved party may ask for rescission of the contract and indemnification for damages..." (Civil Code, Art. 1659).

Application:

This case demonstrates the stringent application of contractual obligations, the limited scope of the impossibility doctrine, and the importance of procedural diligence in litigation.

### Historical Background:

This case took place against the backdrop of the Philippines' tumultuous political climate during the mid-1980s, highlighting the courts' determination to uphold contractual obligations despite political upheavals and financial crises.