

DOWNTOWN PROPERTIES, INC., PLAINTIFF-APPELLEE, VS. MANILA BAY REALTY AND MANAGEMENT CORPORATION, DEFENDANT-APPELLANT.

Ponente: GONZALES-SISON, M., J.

Read online (full-text search, related cases, audio case brief): <https://batas.org/library/f8dcdba2aa29/>

GONZALES-SISON, M., J.:

Before this Court is an Appeal[1] from the Decision (Assailed Decision) of the Regional Trial Court of Pasay City, Branch 111 dated 25 February 2013 in Civil Case No. 03-0404-CFM which is for Specific Performance, Collection of Sum of Money and Damages.

Briefly, the facts of the case, as culled from the records, are as follows:

At the heart of the controversy is a Lease Agreement dated 17 December 1986 over a parcel of land with an area of 240 sq. meters located at Quezon Boulevard, Quiapo Maynila and covered by TCT No. 123331. The lessors: Maria B. Trinidad, Gloria T. Caniza, Paz T. Pardo and Remedios Fuentes agreed to lease the above property to herein appellant Manila Bay Realty and Management Corporation (Manila Bay Realty) for fifteen years beginning on 1 January 1987 until 31 December 2001. Part of the Lease Agreement is a stipulation, which is reproduced as follows:

“4. BUILDING. The LESSEE shall build a four-story building of concrete and strong materials in the leased premises and which building shall automatically belong to the LESSORS on a turn-key basis upon the expiration of the 15-year period of this Lease;”[2] (underscoring supplied)

In accordance with the above provision, Manila Bay Realty constructed a building over the leased land.

Subsequently, the lessors formed a corporation named Downtown Properties, Inc., exchanging their shares in the leased premise for the shares of the newly created company. Forthwith, Downtown Properties, Inc., (Downtown Properties) and Manila Bay Realty entered into an Amendment to Lease Agreement dated 21 May 1996 in order to reflect Downtown Properties as the new lessor under the same terms and conditions of the Lease Agreement.[3]

On 2 January 2002, or after the expiration of the Lease Agreement, Manila Bay Realty turned over to Downtown Properties the leased land and the building. However, Downtown Properties found out that the building was not in a good and tenantable condition in accordance with the “turn key” basis under the Lease Agreement. Moreover, Downtown Properties discovered that Manila Bay Realty failed to pay the real estate taxes on the building from 1996 to 2001, the last five (5) years of the lease. In addition, Manila Bay Realty allegedly failed to pay the rent for the months of November and December 2001 amounting to P77,000.00.

As a result, on 19 March 2002, Downtown Properties, thru counsel, sent a demand letter to Manila Bay Realty demanding the payment of P1,154,838.39 representing back real estate taxes.[4]

In a letter dated 4 May 2002, Manila Bay Realty's counsels thus requested that they be given time to verify the validity of Downtown properties claim and advised Downtown Properties not to make representations with any individual or entity on said claim, otherwise, Manila Bay Realty will not reimburse Downtown Properties for any

payment made.[5]

Later however, Downtown Properties entered into a Compromise Agreement with the City of Manila to pay the past due real estate taxes in a reduced amount of P504,873.70 with the understanding that Downtown Properties is not admitting any responsibility for the same.

Thereafter, Downtown Properties engaged the services of several contractors in order to repair the building, the electrical system, the plumbing and the roof. On 18 June 2003, Downtown Properties thru counsel sent a demand letter to Manila Bay Realty demanding the payment of P5,394,840.70 representing the repairs made, unpaid real property taxes and the unpaid rentals.[6] When said demand was left unheeded, Downtown Properties filed a Complaint[7] against Manila Bay Realty before the Regional Trial Court of Pasay City, Branch 111 (trial court) for Specific Performance, Collection of Sum of Money and Damages. In its prayer, Downtown Properties asked that it be awarded P5,394,840.70 in actual damages, P500,000.00 as moral damages, P500,000.00 as exemplary damages as well as P100,000.00 as attorney's fees plus P2,5000 per appearance on top of cost of suit.

In its Answer With Compulsory Counterclaim[8] Manila Bay argued in seriatim that the case was filed in the wrong venue, that there is nothing in the Lease Agreement which made Manila Bay liable for real estate tax, that the building was turned over to Downtown Properties in a habitable and tenantable condition, and that it paid Downtown Properties three (3) months advance and three (3) months cash deposit in the amount of P150,000.00 which are more than enough to cover the lease rentals for November and December 2001. Most importantly, Manila Bay Realty stressed that Downtown Properties failed to first make a demand from the Manila Bay Realty to make the necessary repairs before engaging the services of the contractors. The absence of such demand, according to Manila Bay Realty absolves it from the expenses incurred by Downtown Properties for the repairs made thereon. Consequently, Manila Bay Realty asked for the award of exemplary damages, attorney's fees and costs of litigation.

During pre-trial, the issues were narrowed down as follows:

- Whether or not defendant complied with its obligation to turn over the building in a good and tenantable condition;
- Whether or not defendant is liable to the plaintiff for the latter's expenses in the repairs of the building amounting to P4,812,267.99 introduced thereto without prior knowledge of defendant;
- Whether or not defendant is liable to the plaintiff for the amount of P504,873.70 representing alleged unpaid real estate taxes;
- Whether or not defendant is liable to the plaintiff for the amount of P77,000.00 representing rental arrears;
- Whether or not defendant is liable to the plaintiff for the latter's claim for attorney's fees, moral and exemplary damages and costs of suit; and
- Whether or not plaintiff should pay defendant exemplary damages amounting to P500,000.00, attorney's fees and costs of litigation.[9]

After the parties failed to settle the case,[10] the trial of the case ensued.

First to testify on the part of Downtown Properties was Elizabeth P. Orbeta, its President. The witness stated that after the building was turned over to them by Manila Bay Realty, they took some pictures of the same and discovered that it was in disarray. Allegedly, the roof and the ceiling have collapsed and the fourth floor was uninhabitable. Moreover, Manila Bay Realty allegedly did not turn over several keys of the different rooms, hence Downtown Properties requested these including the as-built plants to locate the electrical and plumbing utilities as

well as the official receipts for the real estate taxes. However, Manila Bay Realty failed to accede to said request and told Downtown Properties to just change the locks. Just the same, Downtown Properties sent another letter requesting for the official receipts of the real estate taxes which were needed for the building permits to allow Downtown Properties to start construction. Due to the delay in obtaining said official receipts from Manila Bay Realty, Downtown Properties then went to the Manila City Hall and discovered that there were arrears in real estate taxes of almost P1,000,000.00. Downtown Properties then sent another letter to obtain the official receipts but Manila Bay Realty replied that it was not its responsibility to pay said taxes. Afterward, Downtown Properties took upon itself to negotiate for the reduction of the real estate tax due and it ended up paying the City Treasurer of Manila in the amount of P500,000.00 plus. As a result, the official receipts reflect Downtown Properties as the payor. After the payment of the real estate taxes, Downtown Properties went on to hire several contractors to renovate the building. The total expenses for the repairs amounted to P4,400,000.00 plus. Subsequently, Downtown Properties sent a demand letter to Manila Bay Realty for the payment of the repairs expenses, back rentals and real estate taxes, but to no avail, hence Downtown Properties was constrained to institute the instant case.[11]

On cross-examination, the witness admitted that Downtown Properties did not notify Manila Bay Realty when the repairs were being made because after informing Manila Bay Realty about the poor condition of the building, the latter failed to reply immediately and that Downtown Properties did not want the building to be left vacant for a long time.[12]

Next to testify was Rochelle Ciudad-Baylon, the architect hired by Downtown Properties to assess the condition of the building. According to the witness she first saw the building in October of 2001. She then came back in the last week of January 2002 and took some pictures. The witness then noticed that the walls and ceilings of the building were dilapidated, the paint was peeling off, the floor was broken down, and that there were no water and electricity. The witness thus recommended that extensive renovations and repairs are needed as well as the replacement of the plumbing fixtures, tiles, flooring and electrical wiring in order to use the building.[13]

Afterward, Downtown Properties presented Diana P. Aguilar, the Treasurer and Vice President of Downtown Properties. The witness explained that she was the one who negotiated with the City Hall of Manila to compromise the real estate taxes over the building. From P1,000,000.00 she was able to have it brought down to roughly P500,000.00. After getting the official receipts, Downtown Properties was then able to get the permits needed to repair the building.[14]

Last to testify for Downtown Properties was its lawyer Victor Pablo C. Trinidad. The witness narrated that he and his associate were the ones who drafted the final demand letter to Manila Bay Realty for the payment of the repairs, unpaid taxes and rentals. However, Manila Bay Realty failed to reply to said demand, hence they filed the instant case against the said company.[15]

Thereafter, it was the turn of Manila Bay Realty which then presented its Vice President and Treasurer, Cynthia Y. Escalona. The witness was adamant in stating that the building was handed over to Downtown Properties in a good and tenantable condition as she herself conducted its repairs prior to the turn over. Further, the witness expressed dismay that Downtown Properties did not inform Manila Bay Realty beforehand as to the repairs needed, until a case had already been filed. As to the real estate taxes, the witness attested that Manila Bay Realty asked to Downtown Properties to give Manila Bay Realty some time to check the records but Downtown Properties in haste, settled the bill without first informing Manila Bay Realty. Manila Bay Realty also did not authorize Diana P. Aguilar to make to compromise the real estate taxes. As to unpaid rentals amounting to P77,000.00, the witness stated that she was hopeful that the advance payments made by Manila Bay Realty to the original lessors amounting to P120,000.00 would be more than sufficient to offset the said balance.[16]

Subsequently, Manila Bay Realty presented its employee, Eduardo Pangan who was in charge of overseeing the rooms of the building. The witness testified that at the time of the turn over, the building was in a tenantable condition with water and electricity. [17]

After trial, the case was deemed submitted for decision.[18]

On 25 February 2013, the trial court then rendered the Assailed Decision favoring Downtown. The trial court ratiocinated that under the turnkey provision of the Lease Agreement, the building constructed by Manila Bay Realty should be in a condition ready for use or occupation. However, the trial court found that Manila Bay Realty breached said obligation after finding that the building was in disrepair at the time of the transfer. The trial court thus ordered Manila Bay Realty to pay Downtown Properties the expenses incurred by the latter for the necessary repairs which excludes the renovations made on the mezzanine and the second floor. As to the real estate taxes, the trial court found that Manila Bay Realty was liable for their payment, hence any payment made by Downtown Properties redounded to the benefit of Manila Bay Realty which is then obliged to reimburse Downtown Properties for the same. With respect to the unpaid rentals, the trial court ruled that Manila Bay Realty failed to prove that it paid any advance payments to Downtown, hence, there is nothing to offset. Finally, the trial court awarded the payment of attorney's fees to Downtown Properties due to Manila Bay Realty's unjustified failure to heed the repeated demands to comply with its obligation under the Lease Agreement. The fallo of the trial court's Decision reads:

“WHEREFORE, judgment is in favor of plaintiff. Accordingly, defendant Manila Bay Realty and Management Corporation is ordered to pay plaintiff:

1. P3,512,267.00 as actual damages representing the total necessary repair expenses;
2. P504,873.70 as reimbursement of realty taxes paid;
3. P77,700.00 unpaid rentals for November and December 2001 plus legal interest from demand on 08 August 2002 until fully paid;
4. P100,000.00 as attorney's fees plus P2,500.00 for every court appearance; and
5. Cost of suit.

SO ORDERED.”[19]

Subsequently, Manila Bay Realty filed a Motion for Reconsideration of the above Decision.

After finding that the parties did stipulate that there were advance payments made at the start of the Lease Agreement, the trial court modified its Decision on 4 June 2013 as follows:

“WHEREFORE, the Decision dated 25 February 2013 is MODIFIED. The order to pay unpaid rentals is DELETED.

SO ORDERED.”[20]

Dissatisfied still, Manila Bay Realty files this instant Appeal presenting the following issues:

A.

WHETHER OR NOT THE TRIAL COURT ERRED IN HOLDING APPELLANT LIABLE FOR ACTUAL DAMAGES REPRESENTING REPAIR EXPENSES

B.

WHETHER OR NOT THE TRIAL COURT ERRED IN HOLDING APPELLANT LIABLE FOR THE AMOUNT OF PHP 504,873.70 AS REIMBURSEMENT FOR REALTY TAXES

C.

WHETHER OR NOT THE TRIAL COURT ERRED IN HOLDING APPELLANT LIABLE FOR ATTORNEY'S FEES.

D.

WHETHER OR NOT THE TRIAL COURT ERRED IN NOT HOLDING PLAINTIFF-APPELLEE LIABLE FOR MORAL AND EXEMPLARY DAMAGES, ATTORNEY'S FEES AND COSTS OF LITIGATION

Again, Manila Bay Realty asserts that the building in question was relinquished to Downtown Properties in a good and habitable condition citing the testimonies of its own witnesses. Also, Manila Bay reiterates its argument that since no demand was made to it by Downtown Properties to repair the building, the former is not liable to reimburse the latter for the expenses already made, citing Article 1169 of the New Civil Code in support thereof. Moreover, Manila Bay Realty disagrees with the finding of the trial court that it is liable for the payment of the real estate taxes which were paid by Downtown Properties without its consent. With the above reasons, Manila Bay Realty then claims that there is no ground for the award of attorney's fees and Downtown Properties should instead be made liable for the damages allegedly sustained by Manila Bay Realty.

After carefully sifting the evidence and considering the arguments of the parties, the Court finds the instant Appeal bereft of merit.

At the outset, it is beyond question that the turn-key condition in the Lease Agreement mandates that the building constructed by Manila Bay Realty should be turned over in a complete and ready to be used condition.[21]

Whether such condition was complied with by Manila Bay Realty is an issue strongly contested by the parties. At this juncture, this Court holds and finds that the trial court committed no reversible error in ruling that Manila Bay Realty reneged on this responsibility. The testimony of Architect Ciudad-Baylon indubitably showed that the building was in a decrepit state when it was handed over to Downtown Properties, thus:

“Q So that was in October. So after that, what happened next?

A I came back together with an engineer in about the last week of January 2002. I took some pictures. The building was already unoccupied except for the ground floor which had tenants still but the upper floors were... did not have any occupants already so we were able to go inside each room again, each floor and inspected the state of the premises. And during that time, as evidence by the pictures, we saw that the inside of the building was in a state of inhabitable[22] condition.

Q Why do you say so? That is your impression of the building?

A Yes, sir.

Q Why do you say that?

A First of all, there was no electricity already. It was dark. We depended on the day light for us to see the inside of the building. Most of the finishes of the building, the floorings, as well as the walls and ceilings were dilapidated already and the paint was peeling off, the flooring was broken down, well, it was dirty at that time. The faucets were not working, I guess, it was left in a state that basic utilities like water and power were not available at that time.”[23]

The vivid depiction was also supported by the pictures taken and identified by Architect Ciudad-Baylon showing the sorry state of the facilities.[24]

At any rate, well-entrenched in our jurisprudence is the doctrine that the assessment of the credibility of witnesses lies within the province and competence of trial courts. This doctrine is based on the time-honored rule that the matter of assigning values to declarations on the witness stand is best and most competently performed by the trial judge who, unlike appellate magistrates, can weigh the testimony in the light of the declarant's demeanor, conduct and attitude at the trial and is thereby placed in a more competent position to discriminate between truth and falsehood.[25] The findings of the trial court on such matters then are binding and conclusive on the appellate court unless some facts or circumstances of weight and substance have been overlooked, misapprehended or misinterpreted, which is not true in the present case.[26]

With respect to the lack of demand to repair, a review of Article 1169 of the New Civil Code is in order. It provides:

“Those obliged to deliver or to do something incur in delay from the time the obligee judicially or extrajudicially demands from them the fulfillment of their obligation.

However, the demand by the creditor shall not be necessary in order that delay may exist:

- 1) When the obligation or the law expressly so declare; or
- 2) When from the nature and the circumstances of the obligation it appears that the designation of the time when the thing is to be delivered or the service is to be rendered was a controlling motive for the establishment of the contract; or
- 3) When demand would be useless, as when the obligor has rendered it beyond his power to perform.

In reciprocal obligations, neither party incurs in delay if the other does not comply or is not ready to comply in a proper manner with what is incumbent upon him. From the moment one of the parties fulfills his obligation, delay by the other begins.”

Manila Bay Realty claims that none of the exceptions appear in this case that would excuse the sending of a demand for repair. We do not agree.

Assuming arguendo that the demand for reimbursement will not suffice, the third exception under Article 1169 – that the demand would be useless, is present in this case. It is worth stressing that the reason that Manila Bay Realty ardently refuses to pay the cost of the renovation is because Cynthia Y. Escalona insists that she has already repaired the building before the turn over albeit without any receipts for the materials used and services engaged to support such claim. Thus, it will not make any difference if Downtown Properties would send a demand letter for repairs instead of reimbursement as Manila Bay Realty is expected to continue to cling to its defense that it surrendered a sound and safe building. True enough, even after several demands were made to Manila Bay Realty to reimburse Downtown Properties, the former has failed or refused to reply back. At any time, Manila Bay Realty could have told Downtown Properties to stop all repairs, to undo what has been made and for Manila Bay Realty to take over the renovations, but it did not. This clearly indicates that Manila Bay Realty would resist all claims may it be for repairs or reimbursement, making any demand an exercise in futility.

Accordingly, Downtown Properties has every right to utilize Article 1167 of the New Civil Code in its favor, which reads:

“If a person obliged to do something fails to do it, the same shall be executed at his cost.

This same rule shall be observed if he does it in contravention of the tenor of the obligation. Furthermore, it

may be decreed that what has been poorly done be undone.”

Withal, in the absence of any evidence that the expenses were unreasonable or unnecessary, the trial court was correct in ordering Manila Bay Realty to make reimbursements to Downtown Properties.

As to the issue of real estate taxes, it is uncontested that the building is under Alex Escalona's name, who was then the President of Manila Bay Realty at the time of the Lease Agreement.[27] Consequently, it is the obligation of Manila Bay Realty to pay for such real estate taxes which have accumulated through the years. The fact that Downtown Properties unilaterally negotiated its reduction and subsequently settled it will not absolve Manila Bay Realty from liability as it was still benefited thereby. The second paragraph of Article 1236 of the New Civil Code is clear:

“Whoever pays for the debt of another may demand from the debtor what he has paid, except that if he paid without the knowledge or against the will of the debtor, he can recover only insofar as the payment has been beneficial to the debtor.”

Also, Article Article 1302(3) of the New Civil Code reinforces the right of Downtown Properties for reimbursement thus:

It is presumed that there is legal subrogation:

xxxx.

(3) When, even without the knowledge of the debtor, a person interested in the fulfillment of the obligation pays, without prejudice to the effects of confusion as to the latter's share.[28]

Further, even after learning that Downtown Properties has advanced the payment for the real estate taxes, Manila Bay Realty did nothing to repudiate it with the City Treasurer's Office which shows that Manila Bay Realty could not have gotten a better deal for its reduction.

Anent the award of attorney's fees, we affirm the same considering that it is evident that Manila Bay Realty's act or omission has compelled Downtown Properties to incur expenses to protect its interest.[29]

With the above discussion, we find no cogent reason to belabor on the other issues raised by Manila Bay Realty.

WHEREFORE, premises considered, the instant Appeal is DENIED for lack of merit and the Assailed Decision of the Regional Trial Court of Pasay City, Branch 111 dated 25 February 2013 is hereby AFFIRMED.

SO ORDERED.

De Guia-Salvador, R., Chairperson and Cruz, R.A., JJ., concur.

[1] Notice of Appeal, Records, pp. 910-911.

[2] Exhibit “A”, Records, p. 17.

[3] Exhibit “B”, Records, pp. 19-20.

[4] Exhibit “G”, Records, p. 34.

[5] Exhibit “H”, Records, p. 35.

[6] Exhibit “R”, Records, pp. 85-86.

[7] Records, pp. 3-14.

- [8] Records, pp. 325-339.
- [9] Minutes of Preliminary Conference, Records, p 438.
- [10] Mediator's Report, Records, p. 452.
- [11] TSN, 24 November 2009, pp.8-42.
- [12] TSN, 26 February 2010, pp. 16-17.
- [13] TSN, 23 April 2010, pp. 11-22.
- [14] TSN, 8 June 2010, pp. 10-15.
- [15] TSN, 17 September 2010, pp. 12-13.
- [16] TSN, 10 May 2011, pp. 21-34.
- [17] TSN, 23 June 2011, pp. 18- 19.
- [18] Records, Order dated 13 June 2012, p. 848.
- [19] Records, p. 842.
- [20] Records, p. 901.
- [21] <http://www.merriam-webster.com/dictionary/turnkey> last visited on 3 January 2015.
- [22] Should be uninhabitable.
- [23] TSN, 23 April 2010, pp. 14-16.
- [24] Exhibits "C - C4"
- [25] People v. Soriano, G.R. No. 171085, 17 March 2009.
- [26] Sumbillo v. People of the Philippines, G.R. No. 167464, 21 January 2010.
- [27] Exhibits "A" and "I", Records, pp. 18 and 37.
- [28] See Cecillevile Realty and Service Corporation v. Spouses Acuña, G.R. No. 162074, 13 July 2009.
- [29] In accordance with Article 2208(2) of the New Civil Code.

ABOUT BATAS.ORG

Study smarter at BATAS.org

The Philippine bar review and law-school companion built around how your brain actually remembers.

The complete Philippine law library - free for everyone.

More than 100,000 Supreme Court decisions, Republic Acts, and executive issuances - full-text searchable, browsable by category and year, and always free. No paywall, no login. This PDF came from it.

Audio case-brief lectures.

Any decision becomes a podcast-style lecture - facts, issues, ruling, and doctrine - with read-along highlighting and a hands-free presentation mode. Study while commuting, working out, or resting your eyes.

Bar review built on the science of memory.

Complete, sequenced courses for all eight bar subjects, narrated like podcasts and reinforced with retrieval practice and spaced review - the study techniques with the strongest evidence behind them.

The full law-school curriculum.

One subscription unlocks the entire J.D. curriculum - every subject, every lesson, with your progress tracked down to the paragraph so you can pick up exactly where you left off, on any device.

Mock exams that tell you where you stand.

Timed multiple-choice exams graded instantly, with per-subject score breakdowns and focus suggestions that point you at your weakest topics first.

A study planner that keeps you on pace.

Set your schedule and BATAS tells you every day whether you are on track for bar day - and exactly which lesson to take next.

Start free at <https://batas.org>

The law library is free forever - and your first lesson is one click away.

The text of this document is an official public record and remains in the public domain. Formatting, presentation, and compilation © 2026 batas.org.

Downloaded free from the batas.org Law Library. Share it freely - the library is free for every law student, bar reviewee, and practitioner.