

JOSE V. LAGON, PETITIONER, VS. HONORABLE COURT OF APPEALS AND MENANDRO V. LAPUZ, RESPONDENTS.

G.R. NO. 119107. March 18, 2005

Ponente: CORONA, J.

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CORONA, J.:

On June 23, 1982, petitioner Jose Lagon purchased from the estate of Bai Tonina Sepi, through an intestate court,[1] two parcels of land located at Tacurong, Sultan Kudarat. A few months after the sale, private respondent Menandro Lapuz filed a complaint for torts and damages against petitioner before the Regional Trial Court (RTC) of Sultan Kudarat.

In the complaint, private respondent, as then plaintiff, claimed that he entered into a contract of lease with the late Bai Tonina Sepi Mengelen Guiabar over three parcels of land (the “property”) in Sultan Kudarat, Maguindanao beginning 1964. One of the provisions agreed upon was for private respondent to put up commercial buildings which would, in turn, be leased to new tenants. The rentals to be paid by those tenants would answer for the rent private respondent was obligated to pay Bai Tonina Sepi for the lease of the land. In 1974, the lease contract ended but since the construction of the commercial buildings had yet to be completed, the lease contract was allegedly renewed.

When Bai Tonina Sepi died, private respondent started remitting his rent to the court-appointed administrator of her estate. But when the administrator advised him to stop collecting rentals from the tenants of the buildings he constructed, he discovered that petitioner, representing himself as the new owner of the property, had been collecting rentals from the tenants. He thus filed a complaint against the latter, accusing petitioner of inducing the heirs of Bai Tonina Sepi to sell the property to him, thereby violating his leasehold rights over it.

In his answer to the complaint, petitioner denied that he induced the heirs of Bai Tonina to sell the property to him, contending that the heirs were in dire need of money to pay off the obligations of the deceased. He also denied interfering with private respondent’s leasehold rights as there was no lease contract covering the property when he purchased it; that his personal investigation and inquiry revealed no claims or encumbrances on the subject lots.

Petitioner claimed that before he bought the property, he went to Atty. Benjamin Fajardo, the lawyer who allegedly notarized the lease contract between private respondent and Bai Tonina Sepi, to verify if the parties indeed renewed the lease contract after it expired in 1974. Petitioner averred that Atty. Fajardo showed him four copies of the lease renewal but these were all unsigned. To refute the existence of a lease contract, petitioner presented in court a certification from the Office of the Clerk of Court confirming that no record of any lease contract notarized by Atty. Fajardo had been entered into their files. Petitioner added that he only learned of the alleged lease contract when he was informed that private respondent was collecting rent from the tenants of the building.

Finding the complaint for tortuous interference to be unwarranted, petitioner filed his counterclaim and prayed for

the payment of actual and moral damages.

On July 29, 1986, the court a quo found for private respondent (plaintiff below):

ACCORDINGLY, judgment is hereby rendered in favor of the plaintiff:

- Declaring the "Contract of Lease" executed by Bai Tonina Sepi Mangelen Guiabar in favor of the plaintiff on November 6, 1974 (Exh. "A" and "A-1") over Lot No. 6395, Pls-73. Lot No 6396. Pls.-73. Lot No. 6399. 3ls-73, and Lot no.9777-A. CSD-11-000076-D (Lot No. 3-A. 40124), all situated along Ledesma St., Tacurong, Sultan Kudarat, which document was notarized by Atty. Benjamin S. Fajardo, Sr. and entered into his notarial register as Doc. No. 619. Page No. 24. Book No. II. Series of 1974, to be authentic and genuine and as such valid and binding for a period of ten (10) years specified thereon from November 1, 1974 up to October 31, 1984;

- Declaring the plaintiff as the lawful owner of the commercial buildings found on the aforesaid lots and he is entitled to their possession and the collection (of rentals) of the said commercial buildings within the period covered by this "Contract of Lease" in his favor;

- Ordering the defendant to pay to the plaintiff the following:

a) Rentals of the commercial buildings on the lots covered by the "Contract of Lease" in favor of the plaintiff for the period from October 1, 1978 up to October 31, 1984, including accrued interests in the total amount of Five Hundred Six Thousand Eight Hundred Five Pesos and Fifty Six Centavos (P506, 850.56), the same to continue to bear interest at the legal rate of 12% per annum until the whole amount is fully paid by the defendant to the plaintiff;

b) Moral damages in the amount of One Million Sixty Two Thousand Five Hundred Pesos (P1,062,500.00);

c) Actual or compensatory damages in the amount of Three Hundred Twelve Thousand Five Hundred Pesos (P312, 500.00);

d) Exemplary or corrective damages in the amount of One Hundred Eighty Thousand Five Hundred Pesos (P187,500.00)

e) Temperate or moderate damages in the amount of Sixty Two Thousand Five Hundred Pesos (P62,500.00);

f) Nominal damages in the amount of Sixty Two Thousand Five Hundred Pesos (P62,500.00);

g) Attorney's fees in the amount of One Hundred Twenty Five Thousand Pesos (P125,000.00);

h) Expenses of litigation in the amount of Sixty Two Thousand Five Hundred Pesos (P62,500.00);

i) Interest on the moral damages, actual or compensatory damages temperate or moderate damages, nominal damages, attorney's fees and expenses of litigation in the amounts as specified hereinabove from May 24, 1982 up to June 27, 1986, in the total amount of Nine Hundred Thousand Pesos (P900,000.00); all of which will continue to bear interests at a legal rate of 12% per annum until the whole amounts are fully paid by the defendants to the plaintiffs;

- For failure of the defendant to deposit with this Court all the rentals he had collected from the thirteen (13) tenants or occupants of the commercial buildings in question, the plaintiff is hereby restored to the possession of his commercial buildings for a period of seventy-three (73) months which is the equivalent of the total period for which he was prevented from collecting the rentals from the tenants or occupants of his commercial buildings from October 1, 1978 up to October 31, 1984, and for this purpose a Writ of Preliminary Injunction is hereby issued, but the plaintiff is likewise ordered to pay to the defendant the monthly rental of Seven Hundred Pesos (P700.00) every end of the month for the entire period of seventy three (73) months. This portion of the judgment should be considered as a mere alternative should the defendant fail to pay the amount

of Five Hundred Five Pesos and Fifty Six Centavos (P506,805.56) hereinabove specified;

- Dismissing the counterclaim interposed by the defendant for lack of merit;
- With costs against the defendant.[2]

Petitioner appealed the judgment to the Court of Appeals.[3] In a decision dated January 31, 1995,[4] the appellate court modified the assailed judgment of the trial court as follows:

- a) The award for moral damages, compensatory damages, exemplary damages, temperate or moderate damages, and nominal damages as well as expenses of litigation in the amount of P62,500.00 and interests under paragraph 3-a(a), (b), (c), (d), (e), (f), (g), (h), and (i) are deleted;
- b) The award for attorney's fees is reduced to P30,000.00;
- c) Paragraphs 1,2,5 and 6 are AFFIRMED;
- d) Additionally, the defendant is hereby ordered to pay to the plaintiff by way of actual damages the sum of P178,425.00 representing the amount of rentals he collected from the period of October 1978 to August 1983, and minus the amount of P42,700.00 representing rentals due the defendant computed at P700.00 per month for the period from August 1978 to August 1983, with interest thereon at the rate until the same is fully paid;
- e) Paragraph 4 is deleted.[5]

Before the appellate court, petitioner disclaimed knowledge of any lease contract between the late Bai Tonina Sepi and private respondent. On the other hand, private respondent insisted that it was impossible for petitioner not to know about the contract since the latter was aware that he was collecting rentals from the tenants of the building. While the appellate court disbelieved the contentions of both parties, it nevertheless held that, for petitioner to become liable for damages, he must have known of the lease contract and must have also acted with malice or bad faith when he bought the subject parcels of land.

Via this petition for review, petitioner cites the following reasons why the Court should rule in his favor:

- The Honorable Court of Appeals seriously erred in holding that petitioner is liable for interference of contractual relation under Article 1314 of the New Civil Code;
- The Honorable Court of Appeals erred in not holding that private respondent is precluded from recovering, if at all, because of laches;
- The Honorable Court of Appeals erred in holding petitioner liable for actual damages and attorney's fees, and;
- The Honorable Court of Appeals erred in dismissing petitioner's counterclaims.[6]

Article 1314 of the Civil Code provides that any third person who induces another to violate his contract shall be liable for damages to the other contracting party. The tort recognized in that provision is known as interference with contractual relations.[7] The interference is penalized because it violates the property rights of a party in a contract to reap the benefits that should result therefrom.[8]

The core issue here is whether the purchase by petitioner of the subject property, during the supposed existence of private respondent's lease contract with the late Bai Tonina Sepi, constituted tortuous interference for which petitioner should be held liable for damages.

The Court, in the case of *So Ping Bun v. Court of Appeals*,[9] laid down the elements of tortuous interference with contractual relations: (a) existence of a valid contract; (b) knowledge on the part of the third person of the

existence of the contract and (c) interference of the third person without legal justification or excuse. In that case, petitioner So Ping Bun occupied the premises which the corporation of his grandfather was leasing from private respondent, without the knowledge and permission of the corporation. The corporation, prevented from using the premises for its business, sued So Ping Bun for tortuous interference.

As regards the first element, the existence of a valid contract must be duly established. To prove this, private respondent presented in court a notarized copy of the purported lease renewal.[10] While the contract appeared as duly notarized, the notarization thereof, however, only proved its due execution and delivery but not the veracity of its contents. Nonetheless, after undergoing the rigid scrutiny of petitioner's counsel and after the trial court declared it to be valid and subsisting, the notarized copy of the lease contract presented in court appeared to be incontestable proof that private respondent and the late Bai Tonina Sepi actually renewed their lease contract. Settled is the rule that until overcome by clear, strong and convincing evidence, a notarized document continues to be prima facie evidence of the facts that gave rise to its execution and delivery.[11]

The second element, on the other hand, requires that there be knowledge on the part of the interferer that the contract exists. Knowledge of the subsistence of the contract is an essential element to state a cause of action for tortuous interference.[12] A defendant in such a case cannot be made liable for interfering with a contract he is unaware of.[13] While it is not necessary to prove actual knowledge, he must nonetheless be aware of the facts which, if followed by a reasonable inquiry, will lead to a complete disclosure of the contractual relations and rights of the parties in the contract.[14]

In this case, petitioner claims that he had no knowledge of the lease contract. His sellers (the heirs of Bai Tonina Sepi) likewise allegedly did not inform him of any existing lease contract.

After a careful perusal of the records, we find the contention of petitioner meritorious. He conducted his own personal investigation and inquiry, and unearthed no suspicious circumstance that would have made a cautious man probe deeper and watch out for any conflicting claim over the property. An examination of the entire property's title bore no indication of the leasehold interest of private respondent. Even the registry of property had no record of the same.[15]

Assuming ex gratia argumenti that petitioner knew of the contract, such knowledge alone was not sufficient to make him liable for tortuous interference. Which brings us to the third element. According to our ruling in *So Ping Bun*, petitioner may be held liable only when there was no legal justification or excuse for his action[16] or when his conduct was stirred by a wrongful motive. To sustain a case for tortuous interference, the defendant must have acted with malice[17] or must have been driven by purely impious reasons to injure the plaintiff. In other words, his act of interference cannot be justified.[18]

Furthermore, the records do not support the allegation of private respondent that petitioner induced the heirs of Bai Tonina Sepi to sell the property to him. The word "induce" refers to situations where a person causes another to choose one course of conduct by persuasion or intimidation.[19] The records show that the decision of the heirs of the late Bai Tonina Sepi to sell the property was completely of their own volition and that petitioner did absolutely nothing to influence their judgment. Private respondent himself did not proffer any evidence to support his claim. In short, even assuming that private respondent was able to prove the renewal of his lease contract with Bai Tonina Sepi, the fact was that he was unable to prove malice or bad faith on the part of petitioner in purchasing the property. Therefore, the claim of tortuous interference was never established.

In *So Ping Bun*, the Court discussed whether interference can be justified at all if the interferer acts for the sole purpose of furthering a personal financial interest, but without malice or bad faith. As the Court explained it:

x x x, as a general rule, justification for interfering with the business relations of another exists where the

actor's motive is to benefit himself. Such justification does not exist where the actor's motive is to cause harm to the other. Added to this, some authorities believe that it is not necessary that the interferer's interest outweigh that of the party whose rights are invaded, and that an individual acts under an economic interest that is substantial, not merely de minimis, such that wrongful and malicious motives are negated, for he acts in self-protection. Moreover, justification for protecting one's financial position should not be made to depend on a comparison of his economic interest in the subject matter with that of the others. It is sufficient if the impetus of his conduct lies in a proper business interest rather than in wrongful motives.[20]

The foregoing disquisition applies squarely to the case at bar. In our view, petitioner's purchase of the subject property was merely an advancement of his financial or economic interests, absent any proof that he was enthused by improper motives. In the very early case of *Gilchrist v. Cuddy*,[21] the Court declared that a person is not a malicious interferer if his conduct is impelled by a proper business interest. In other words, a financial or profit motivation will not necessarily make a person an officious interferer liable for damages as long as there is no malice or bad faith involved.

In sum, we rule that, inasmuch as not all three elements to hold petitioner liable for tortuous interference are present, petitioner cannot be made to answer for private respondent's losses.

This case is one of *damnum absque injuria* or damage without injury. "Injury" is the legal invasion of a legal right while "damage" is the hurt, loss or harm which results from the injury.[22] In *BPI Express Card Corporation v. Court of Appeals*,[23] the Court turned down the claim for damages of a cardholder whose credit card had been cancelled by petitioner corporation after several defaults in payment. We held there that there can be damage without injury where the loss or harm is not the result of a violation of a legal duty. In that instance, the consequences must be borne by the injured person alone since the law affords no remedy for damages resulting from an act which does not amount to legal injury or wrong.[24] Indeed, lack of malice in the conduct complained of precludes recovery of damages.[25]

With respect to the attorney's fees awarded by the appellate court to private respondent, we rule that it cannot be recovered under the circumstances. According to Article 2208 of the Civil Code, attorney's fees may be awarded only when it has been stipulated upon or under the instances provided therein.[26] Likewise, being in the concept of actual damages, the award for attorney's fees must have clear, factual and legal bases[27] which, in this case, do not exist.

Regarding the dismissal of petitioner's counterclaim for actual and moral damages, the appellate court affirmed the assailed order of the trial court because it found no basis to grant the amount of damages prayed for by petitioner. We find no reason to reverse the trial court and the Court of Appeals. Actual damages are those awarded in satisfaction of, or in recompense for, loss or injury sustained. To be recoverable, they must not only be capable of proof but must actually be proved with a reasonable degree of certainty.[28] Petitioner was unable to prove that he suffered loss or injury, hence, his claim for actual damages must fail. Moreover, petitioner's prayer for moral damages was not warranted as moral damages should result from the wrongful act of a person. The worries and anxieties suffered by a party hailed to court litigation are not compensable.[29]

With the foregoing discussion, we no longer deem it necessary to delve into the issue of laches.

WHEREFORE, premises considered, the petition is hereby GRANTED. The assailed decision of the Court of Appeals is hereby REVERSED and SET ASIDE.

No costs.

SO ORDERED.

Panganiban, (Chairman), Sandoval-Gutierrez, Carpio-Morales, and Garcia, JJ., concur.

[1] Special Proceedings No. 731, CFI Cotobato Branch.

[2] Decided by Judge Valentino G. Tablang, Rollo, p. 42.

[3] CA-G.R. CV. No. 19467.

[4] Penned by Justice Delilah Vidallon-Magtolis, concurred by Justice Antonio M. Martinez (a retired Justice of the Supreme Court) and Justice Fermin A. Martin of the 7th Division, Rollo pp. 41-59.

[5] Rollo, pp. 58-59.

[6] Rollo, pp. 21-22.

[7] Torts and Damages, Timoteo B. Aquino, p. 771, Third Edition (2001).

[8] 45 Am Jur 2d, pp.280-281.

[9] 373 Phil. 532 (1999).

[10] Exhibit "A" to "D."

[11] Evidence, R.J. Francisco, p. 516.

[12] 45 Am Jur 2d, p. 280.

[13] Id.

[14] Id.

[15] Under Article 1648 of the Civil Code, every lease of real estate may be recorded in the registry of property and unless a lease is recorded, it shall not be binding upon third person.

[16] Supra, at 8.

[17] 45 Am Jur 2d, p. 278.

[18] Id., p. 282.

[19] Restatement of Law, Torts 2d, p. 11.

[20] 373 Phil. 532, 541 (1999).

[21] 29 Phil 542 (1915).

[22] Custodio v. Court of Appeals, 323 Phil. 575 (1996).

[23] 357 Phil. 262 (1998).

[24] Id.

[25] Supra, at 8.

[26] (1) When exemplary damages are awarded;

(2) When the defendant's act or omission has compelled the plaintiff to litigate with third persons or to incur expenses to protect his interest;

- (3) In criminal cases of malicious prosecution against the plaintiff;
 - (4) In case of clearly unfounded civil action or proceeding against the plaintiff;
 - (5) Where the defendant acted in gross and evident bad faith in refusing to satisfy the plaintiff's valid, just and demandable claim;
 - (6) In action for legal support;
 - (7) In action for the recovery of wages of household helpers, laborers and skilled workers.
- [27] Dela Paz v. Intermediate Appellate Court, No. L-71537, 17 September 1987, 154 SCRA 65.
- [28] Civil Code of the Philippines on Special Contracts, Arturo Tolentino, Vol. V, 1992 Edition
- [29] Filinvest Credit Corporation v. Mendez, No. L-66419, 31 July 1987, 152 SCRA 593.

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