

ASTROLAND DEVELOPERS, INC., PETITIONER, VS. GOVERNMENT SERVICE INSURANCE SYSTEM AND COURT OF APPEALS, RESPONDENTS.*G.R. No. 129796. September 20, 2004*

Ponente: CALLEJO, SR., J.

Read online (full-text search, related cases, audio case brief): <https://batas.org/library/g-r-no-129796/>**CALLEJO, SR., J.:**

Queen's Row Subdivision, Inc. (QRSI) is the owner of a parcel of land located in Barangay Molino, Bacoor, Cavite. To finance the development of a portion of the property into a housing project, QRSI secured a loan from the Government Service Insurance System (GSIS) on May 13, 1971 in the amount of P10,000,000. QRSI was to construct 4,493 housing units on a portion of the property, consisting of 100 hectares, and, thereafter, sell the same to qualified members of the GSIS. It secured an additional loan of P4,000,000 from the GSIS on February 28, 1972. However, by 1980, only 1,250 housing units had been constructed.[1] In the interim, the National Housing Authority (NHA) issued a cease-and-desist order against the QRSI on April 11, 1979. QRSI and the GSIS were also sued by the contractors/suppliers for nonpayment of construction materials and services rendered in the amount of P7,639,768.[2] By September 1980, QRSI had an outstanding obligation on its loan availment with the GSIS in the amount of P28,088,661.89. QRSI requested an additional loan from the GSIS in the amount of P8,000,000 to which the latter agreed, on the condition that a new project manager be designated by QRSI to continue with the development of the property, free from any interference by the QRSI. The latter agreed to this condition, and designated the Astroland Developers, Inc. (ASTRO) as project manager for the unfinished project.

On September 30, 1980, QRSI, ASTRO, as the new project manager of the unfinished project, and the GSIS executed a Project Management Agreement (PMA) in which ASTRO agreed to continue the development of 630,000 square meters of the property and to construct 1,741 housing units thereon. ASTRO was tasked therein as follows:

- (hh) To take charge of the general operation, administration, disposition of the UNFINISHED PROJECT and to supervise and control all aspects of land development and maintenance of housing units thereon;
- (ii) To market and sell, any and all completed housing units and/or lots within the UNFINISHED PROJECT, upon such terms and conditions as it may deem proper. For this purpose, QUEEN'S ROW shall execute and convey unto the PROJECT MANAGER special power(s) of attorney and all other necessary documents;
- (jj) To request, demand, collect and receive from time to time any and all amounts accruing upon the contracts hereafter made for the sale of the housing units and/or lots aforesaid. All moneys paid to or collected by the PROJECT MANAGER, either upon contract or, otherwise, shall be distributed as follows:
 - (a) To the GSIS, the payment of any and all loans, including interests and other charges, previously or hereafter granted to QUEEN'S ROW and/or the PROJECT MANAGER;
 - (b) To the PROJECT MANAGER the amount of the commission or compensation then due to it;
 - (c) Taxes and assessments against the property embraced within the UNFINISHED PROJECT when and as the

same may be due; and

(d) Pro-rated payments to other creditors of QUEEN'S ROW as warranted by the cash flow projection and provided said payments do not adversely affect the working capital for the Project.[3]

The parties also agreed that the ASTRO would be paid by QRSI for its services, including a management fee. They, likewise, agreed that the PMA may be terminated or rescinded by the GSIS for valid cause without need of judicial action by giving sixty (60) days notice to that effect to both parties, which act shall be final and binding.

The parties executed an agreement in which the ASTRO bound itself to finish the construction of sixty (60) housing units a month on the average and to sell the completed units within the same period.[4]

ASTRO received the loan of P8,000,000 granted by the GSIS for the continuation and completion of the development of the project.

On September 30, 1980, the GSIS, QRSI, and ASTRO executed a Supplemental Contract to Project Management Agreement (SCPMA) in which they agreed to appoint Isabel V. Arrieta, the president of QRSI, as exclusive general sales agent to undertake the marketing and sales of the completed housing units and to amend Articles X and XI of the PMA.[5] Arrieta, as agent, and ASTRO, as principal, executed a Sales Agency Agreement. In the meantime, the NHA lifted its cease-and-desist order.

In a Letter dated February 22, 1982, Arrieta informed ASTRO of the balance of her commissions on the sales of the housing units amounting to P135,000 and requested for the remittance thereof.[6] On March 1, 1982, ASTRO wrote Arrieta that, because of her failure to comply with the provisions of their Sales Agency Agreement, she was not entitled to any commission.[7] When the Board of Trustees of the GSIS received reports of alleged activities of the contractors and/or ASTRO, including some GSIS officers, it approved Resolution No. 455 on May 28, 1982, authorizing the management of the GSIS to verify and investigate the report, to act thereon and hold in abeyance the processing of all claims for payment under the PMA pending full verification.[8]

On June 9, 1982, Arrieta wrote Atty. Manuel Lazaro, then Senior Vice-President of the GSIS, urging the immediate rescission and termination of the PMA and SCPMA on the allegation that ASTRO unscrupulously violated the terms and conditions thereof.[9] In its letter to Lazaro, ASTRO denied Arrieta's claims. It requested for an investigation to determine the truth of such allegations as soon as possible, and warned that it would institute an action for damages should the PMA and the SCPMA be rescinded.[10] Arrieta reiterated her request for the rescission of the said contract in a Letter dated June 28, 1982 which the GSIS received on July 5, 1982.[11] In the said letter, she suggested to the president and general manager of the GSIS that ASTRO be replaced by the CV Management Corporation.

In the meantime, Arrieta's June 9, 1982 Letter was referred to Atty. Lazaro, who was then Government Corporate Counsel, for legal study and recommendation. On June 28, 1982, Atty. Marius Corpuz, an attorney in the Office of the Government Corporate Counsel (OGCC), issued a memorandum to the GSIS Board of Trustees recommending the termination of the PMA and the SCPMA as follows:

For all the foregoing reasons, and because of the strained relations between QRSI and ASTRO, the undersigned respectfully recommends the following for the protection of the GSIS:

(a) That the GSIS, in order to preserve the viability of the Queen's Row Subdivision Project, terminate the Project Management Agreement and the Supplemental Contract To Project Management Agreement, both dated September 30, 1980, between QRSI and ASTRO pursuant to Article 10.02, supra, by giving sixty-day written notice to both parties. Such termination is without prejudice to the right of ASTRO to the fees to which it is legally entitled as of date of termination;

(b) That all contracts with third parties engaged by ASTRO, which are, likewise, cancelled and revoked as a consequence, be paid on the basis of quantum meruit, i.e., for whatever work actually accomplished per plans and specifications.[12]

On July 8, 1982, the Board of Trustees of the GSIS issued Resolution No. 587 approving the recommendations of the OGCC and appointing the CV Management Corporation as project manager, in lieu of ASTRO, to take effect upon the expiration of the sixty-day written notice thereof.[13] ASTRO did not file any request for the reconsideration of the resolution nor any judicial action to assail the same.

As of September 20, 1982, ASTRO had completed 626 house-lot units or an average of 37 housing units per month and had paid P15,500,000 for the account of QRSI to the GSIS.[14] It had yet to finish constructing 1,115 housing units. During the period of September 30, 1982 to December 31, 1982, ASTRO conducted the winding-up of its operations and turned over the unfinished project to QRSI and the GSIS.[15]

On December 27, 1982, QRSI wrote the GSIS requesting that ASTRO be directed to reimburse P10,000,000 for “over application of funds” for the period of January 1, 1981 to October 31, 1982.[16] In a Letter dated January 15, 1983, ASTRO informed the GSIS that the claim of QRSI was unfounded, and stated its counterclaim for management fees against the QRSI and the GSIS in the amount of P12,993,419 as of December 31, 1982, to wit:

For management fees failed to realize on the balance of 1,741 units contracted, computed at five (5%) percent of sales value of 1,106 housing units; for accruing interests on accounts payable to Contractors up to December 31, 1982 at the prevailing rate of two (2%) percent a month; for accrued interest on management fees due at prevailing rate of two (2%) percent a month up to December 31, 1982; for administrative and operational expenses incurred during “winding-up” period from September 30, 1982 to December 31, 1982; for damages suffered resulting from the unilateral cancellation of the Project Management Agreement and non-payment of legitimate obligations due and payable to Astroland and Contractors, and violations of the Project Management and related agreements; for attorney’s fees and expenses of collection,

P12,993,419.00

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(Itemized breakdown and supporting evidence of the above will be submitted in due course.)[17]

However, QRSI and the GSIS refused to pay the claim of ASTRO. On April 22, 1984 and October 15, 1984, ASTRO again wrote the GSIS, reiterating its demand for the payment of management fees in the total amount of P21,187,069, inclusive of interest and charges from January 1, 1983 to October 15, 1984.[18] On February 22, 1985, the GSIS Board of Trustees approved Resolution No. 216 denying the claim of ASTRO based on the following recommendation of the Technical Assistant II and Officer-In-Charge of the Housing Project Administrative Department:

- The claim of Astro Land Developers, Inc. should be addressed to QRSI and not to the GSIS, considering that all orders of payment covering sales proceeds of completed housing units under Astro Land Management have been fully paid.
- Contractors were hired by Astro Land Developers, Inc., Project Manager of QRSI, and not GSIS; hence, GSIS has no dealings with them. However, GSIS, in fact, accommodated them by granting loan to pay their pending claims at the time of termination of their management contract under quantum meruit basis, such loan, in effect, being additional loan granted to QRSI.
- At the time of termination of the project management contract, the amount representing partial accomplishment on land development works and house construction of Astro Land were jointly evaluated and agreed upon between QRSI and its Project Manager, which was coordinated by the Board Committee on

Housing, then audited by COA and the team of Mr. Carlos Velayo, SGV, and Internal Audit representatives.

Therefore, the works accomplished by Astroland Developers, Inc. at the time of termination of the contract were duly paid for based on amount which all the parties have agreed upon. There was no pending claim of Astro Land that remained outstanding as of said date covering management fees and unpaid work accomplished.[19]

On March 26, 1986, ASTRO filed a complaint solely against the GSIS in the Regional Trial Court of Manila for damages and attorney's fees, alleging, inter alia, the following:

(11) That the provisions of the Tri-Party Agreement, Annex "B," obliged QRSI to surrender and cede all its rights and prerogatives to the Project Manager in accordance with the designation of GSIS. (CF:2nd Whereas Clause, p. 2).

(12) That sometime in July 1981, Plaintiff ASTROLAND, as Project Manager, assumed actual land development and construction of the House-Lot Units comprised in the Unfinished Project as per designation of GSIS.

(13) That from the period 1 June 1982 to 31 August 1982, Plaintiff ASTROLAND completed the development and construction of 597 House-Lot Units duly accepted by GSIS and 38 House-Lot Units under various stages of construction or the total of 635 House-Lot Units.

(14) That on 8 July 1982, GSIS, without valid cause, unilaterally terminated and cancelled the Project Management Agreement and Supplemental Contract, Annexes "A" and "A-1," and the corresponding designation of Plaintiff as Project Manager, unduly depriving Plaintiff ASTROLAND of the Management Fees which it could have earned in the development and construction of the remaining 1,106 House-Lot Units pursuant to the aforesaid Agreements in the amount of at least Five Million Pesos (P5,000,000.00), Philippine Currency, or such amount as will be proved during the trial.

(15) That due to the unilateral termination and cancellation of the Project Management Agreement and Supplemental Contract, Annexes "A" and "A-1," and the corresponding designation of Plaintiff as Project Manager by GSIS, Plaintiff ASTROLAND suffered besmirched business reputation, the amount of which will be proven in due time.

(16) That in order to deter others similarly situated not to take their contractual obligations lightly and to serve as example to the public good, Defendant GSIS should be ordered to pay exemplary damages in such amount as may be proven in due time.

(17) That despite repeated demands, GSIS has failed and refused to pay the aforesaid claim of Plaintiff ASTROLAND for unearned Management Fees plus damages corresponding to the uncompleted 1,106 House-Lot Units resulting from the unilateral termination or cancellation of the abovesaid Agreements, Annexes "A" and "A-1," by GSIS without valid cause.

Copies of demand letters dated 15 January 1983 and 22 April 1985 are attached hereto and made integral parts hereof as Annexes "C" and "C-1."

III. SECOND CAUSE OF ACTION

(1) That the allegations contained in the preceding paragraphs are incorporated herein by reference.

(2) That by reason of the unjustified and groundless refusal and failure of Defendant GSIS to pay the valid and existing claim of Plaintiff ASTROLAND in the above-stated amount, ASTROLAND has been compelled to retain the services of undersigned counsel in an amount to be proved during the trial as and for attorney's fees, aside from costs and expenses of litigation.[20]

ASTRO prayed that, after due proceedings, judgment be rendered in its favor, thus:

WHEREFORE, it is respectfully prayed that judgment be rendered against the Defendant GSIS and in favor of Plaintiff ASTROLAND as follows:

FIRST – That Defendant GSIS be ordered to pay the Plaintiff's basic claim, representing unearned Management Fees and other benefits, in the amount of P5,000,000.00, or such amount as may be proved during the trial.

SECOND – That Defendant GSIS be ordered to pay Plaintiff ASTROLAND such amounts as may be proven during the trial by way of (a) moral damages to its besmirched business reputation and (b) exemplary damages to be assessed against GSIS as example to the public good.

THIRD – That defendant GSIS be ordered to pay Plaintiff attorney's fees and costs and expenses of litigation as may be proved during the trial.

PLAINTIFF prays for such other reliefs as may be deemed just and equitable in the premises.[21]

In its answer to the complaint, the GSIS averred that under the PMA and the SCPMA, ASTRO had no cause of action against it; the claim, if any, should be addressed to the QRSI which was liable therefor under the PMA, as amended.

In the meantime, Atty. William Saulon, the consultant of the housing program of the GSIS, submitted a Memorandum dated December 17, 1986 to Atty. Octavio del Callar, the deputy corporate counsel of the GSIS, recommending that the PMA and the SCPMA be retained.[22]

While the case was pending, a group of GSIS officers, namely, Cesar R. Alina, Octavio del Callar, Sabino V. Lumain and William O. Saulon (the consultant of the AD Hoc Committee on the GSIS Housing Program), submitted a consolidated report to the GSIS president and general manager on January 23, 1987. The report was on the termination of the PMA and SCPMA and the approval of CV Management Corporation as project manager which was submitted in compliance with Resolution No. 455 of the Board of Trustees. The report stated that ASTRO was estopped from assailing the termination of the PMA and SCPMA and recommended the following:

- A reasonable compromise be reached upon by the parties on such acceptable terms and conditions, and to restore to ASTRO the project management of the housing subdivision.
- Further inquiries/investigation be undertaken by the System so as to determine the civil and criminal liabilities of the GSIS and GCC officials concerned; for, apparently, violations of sub-paragraphs e, f, g, i and j of Sec. 4 of the Anti-Graft and Corrupt Practices Act (RA 3019, as amended) exist.[23]

On October 9, 1990, the trial court rendered judgment in favor of the ASTRO and against the GSIS. The fallo of the decision reads:

WHEREFORE, judgment is hereby rendered in favor of Plaintiff ASTROLAND and against Defendant GSIS, as follows:

Defendant is hereby ordered to pay plaintiff the following amounts:

- (a) P5,833,458.70, representing unearned management fees;
- (b) P875,000.00, representing increase in management fees which plaintiff ASTROLAND could have earned had it not for the arbitrary cancellation of the management agreements;
- (c) P693,819.00, representing actual and consequential damages by way of administrative and operational expenses during the winding up period from September 20, 1982 to March 31, 1983;
- (d) Legal interest on the aforementioned amounts computed from July 8, 1982;

- (e) P500,000.00 for exemplary damages;
- (f) P300,000.00, representing attorney's fees; and,
- (g) Costs of suit.SO ORDERED.[24]

The trial court ruled that the cancellation of the PMA and SCPMA made by the GSIS was arbitrary and illegal. It held that the Legal Opinion and Recommendation of the OGCC dated June 28, 1982 was grossly unreasonable and unreliable, there being no prior consultations between ASTRO and the different sections in the GSIS involved in its housing program. It also held that the PMA between the GSIS and the CV Management Corporation was manifestly disadvantageous to ASTRO. The trial court gave full credence to the January 23, 1987 consolidation report to the president and general manager of the GSIS.

The GSIS appealed the decision to the Court of Appeals where it asserted that the RTC erred in holding that its cancellation of the PMA and the SCPMA was irregular, and that it was liable for management fees and damages; and in not holding that ASTRO was estopped from assailing the cancellation of the PMA and the SCPMA.

On November 12, 1996, the CA rendered judgment reversing the decision of the RTC.[25] The appellate court ruled that, based on Article X of the PMA, as amended, the GSIS had the right to rescind the PMA and the SCPMA. The CA also held that the QRSI and not the GSIS was liable for any valid claim for management fees in connection with the housing project.

Upon the denial of its motion for reconsideration of the decision, ASTRO, now the petitioner, filed its petition for review on certiorari in this Court, asserting as follows:

- CONTRARY TO THE CONCLUSION OF THE COURT OF APPEALS, THE CLAIMS OF ASTROLAND AGAINST GSIS FOR THE ADMITTED UNEARNED MANAGEMENT FEES AND OTHER DAMAGES HAVE CONTRACTUAL BASIS.
- CONTRARY TO THE HOLDING OF THE COURT OF APPEALS, GSIS'S UNILATERAL TERMINATION/RESCISSION OF THE MANAGEMENT CONTRACTS BETWEEN ASTROLAND AND QRSI WAS PLAINLY ARBITRARY, IRREGULAR, UNJUSTIFIED AND COMPLETELY UNWARRANTED.
- EVEN ASSUMING THAT ASTROLAND'S CASE FOR DAMAGES AGAINST GSIS HAS NO CONTRACTUAL BASIS, IT IS EVIDENTLY FOUNDED ON AND IS JUSTIFIED UNDER THE SPECIFIC PROVISIONS OF THE CIVIL CODE, CONTRARY TO ERRONEOUS AND SPECULATIVE CONCLUSION OF THE COURT OF APPEALS.[26]

In its comment on the petition, the GSIS, now the respondent, asserts that the recommendation of the rescission of the PMA and the SCPMA and the designation of CV Management Corporation as the petitioner's replacement was made by QRSI. The respondent contends that under the PMA and the SCPMA, QRSI is liable for any management fees to which the petitioner may be entitled. The respondent avers that QRSI is an indispensable party, and should have been impleaded by the petitioner as party-defendant, and that the absence of QRSI deprived the trial court of any authority to act on the complaint as to the present parties and as to QRSI. The respondent posits that its rescission of the said agreement is expressly authorized under Article X of the PMA, as amended by the SCPMA which decision is final.

The threshold issues for resolution are as follows: (a) whether the rescission by the respondent of the PMA and the SCPMA is in accord with the PMA and the SCPMA; and (b) whether the petitioner is entitled to management fees from the respondent either under the PMA and the SCPMA; or for damages under Article 19 of the New Civil Code.

The petitioner asserts that the unilateral rescission by the respondent of the PMA and the SCPMA based on the June 28, 1982 Memorandum of the OGCC, through Atty. Marius Corpuz, was arbitrary, grossly unreasonable and without legal basis. The petitioner claims that the respondent relied solely on the said memorandum without conducting an investigation to ascertain the truth of Arrieta's complaint on the petitioner's denial of her claim for commission amounting to P135,000. The petitioner avers that the dispute between Arrieta and the petitioner relating to her claim for sales commission was trivial, and could not qualify as a valid cause for the rescission of the PMA and the SCPMA. By unilaterally canceling the PMA and the SCPMA on such ground, the respondent thereby found the petitioner at fault, even if no investigation whatsoever was conducted thereon.

For its part, the respondent posits that the rescission of the PMA and the SCPMA was at the instance of QRSI, which should be held liable for the management fees the petitioner may be lawfully entitled to. It contends that it was justified in canceling the contracts because as of the date of the cancellation, June 28, 1982, all the housing units should have been completed; however, the petitioner managed to construct only 626 housing units out of the 1,741 housing units agreed upon. There was thus no need for an investigation of the dispute between the petitioner and QRSI. The respondent asserts that a delay in the completion of the project would have a negative impact on the respondent, as it would not be able to realize a fair return of its financial expenditures on the project. The respondent asserts that, contrary to the petitioner's claim, Board Resolution No. 587 itself invoked the valid causes for the cancellation of the PMA and the SCPMA. The respondent further avers that the petitioner is estopped from assailing the validity of its cancellation of the PMA and the SCPMA.

We rule against the petitioner.

The assailed ruling of the Court of Appeals on the first issue reads:

It bears emphasizing that appellant's action was prompted by a Memorandum sent to it by the OGSS (sic) (Exh. J), which recommended the cancellation of the management contract between QRSI and appellee. In the said Memorandum appellant's attention was called to the existence of a "serious dispute between QUEEN'S ROW and the PROJECT MANAGER" which tend to jeopardize the project which appellant was financially assisting. Needless to state, such a serious dispute between QRSI and the project manager could undermine the success of the project and thereby jeopardize appellant's chances of recovering from or collecting the loan extended to QRSI. Given such situation, appellant had to act promptly and decisively in order to protect its interest. In that regard, appellant did not really have a choice since it was not possible to relieve QRSI which owned the subdivision project. Hence, its only option was to avail of the right granted to it by the parties in their management agreements (Exh. A & B), which was to terminate appellee's services and have QRSI appoint or employ another project manager.

In our perception, the mere existence of such a serious dispute between QRSI and appellee was enough to derail the completion of the project. Therefore, appellant was justified in terminating the management contract, as explicitly authorized therein, in order to save the project and protect its financial exposure therein. Hence, contrary to the lower court's observation, we find that appellant's actuation was far from arbitrary, for which reason, appellee has no cause of action against it both under its management agreements with QRSI or under the provisions of the Civil Code.[27]

Central to this issue are Sections 10.01 and 10.02 of Article X of the PMA, as amended by paragraph 8 of the SCPMA, thus:

8) With reference to Article X, Secs. 10.01 and 10.02, and Article XI, Sec. 11.03, QUEEN'S ROW and the PROJECT MANAGER hereby agree that as between themselves, their respective liabilities, if any, shall be governed by the following provisions:

...

“10.02 Notwithstanding the preceeding (sic) paragraph, QUEEN’S ROW and the PROJECT MANAGER hereby recognize the right of the GSIS to terminate and/or rescind this Agreement for valid cause without need of judicial action by giving sixty (60) days’ notice to that effect to both parties, which act shall be final and binding on all parties. In such event, the GSIS shall have, among others, the right to demand the appointment of a new project manager for the unfinished project; in such event, the PROJECT MANAGER shall only be entitled to fees rightfully earned up to time of termination.

“Within thirty (30) days after termination/rescission of this Agreement, the parties shall confer and settle their respective accountabilities and liabilities as of the date of rescission.

“10.03 In case of breach of violation by the PROJECT MANAGER or QUEEN’S ROW of any provision of this Agreement, the party at fault shall pay the other such damages as may have resulted from the breach or violation of this Agreement.”[28]

Irrefragably, the respondent is empowered, under the PMA, as amended, to unilaterally cancel or rescind the same, without need for judicial action. Upon the lapse of sixty (60) days from notice of the said cancellation or rescission, such act of the respondent is binding on the petitioner and QRSI. Thenceforth, the respondent had the right to dispense with the petitioner’s services as project manager, and to approve a substitute to complete the unfinished project. The respondent is not required, under the PMA, as amended, to first conduct an investigation with due notice to the petitioner and QRSI before exercising its right to cancel the PMA, as amended, the only requirement for a valid exercise of such right being a valid cause as provided in the PMA, the SCPMA, and the agreement of the parties, as well as the relevant provisions of the New Civil Code.

We are convinced that the petitioner’s complaint about the respondent’s arbitrary cancellation of the PMA, as amended, is a mere afterthought. This is so because, after receipt of Board Resolution No. 587 dated July 8, 1982, the petitioner did not even file any request for the reconsideration thereof, on the ground that there was no valid reason for the cancellation of the PMA, as amended, and that the cancellation was arbitrary without the respondent first conducting any investigation of Arrieta’s complaint and its reply thereto. The petitioner voluntarily turned over the unfinished project to the respondent and QRSI and proceeded to wind up its operations. The petitioner did not file a judicial action to assail the same because it was aware that the respondent’s decision to cancel the PMA, as amended, was final and binding on it. It was only after QRSI and the respondent refused to pay the management fees for the 1,741 housing units contracted by the petitioner that the latter complained of the alleged illegality and arbitrariness of the respondent’s cancellation of the PMA and the SCPMA. Far from trivial, Arrieta’s complaint to the respondent against the petitioner catalogued in her six-page letter to the respondent[29] was serious and very substantial. Even then, the respondent did not cancel the PMA, as amended. The respondent took into account the petitioner’s two-page letter to the respondent on June 11, 1982. The dispute between Arrieta and the petitioner transcended Arrieta’s claim for unpaid commissions, a matter exclusively between them. The dispute involved the petitioner’s failure to perform its obligations to the respondent under the PMA, as amended, to wit: (a) the petitioner completed and sold only 417 housing units out of the required 1,236 housing units, or only 33% of its projected accomplishment; (b) the petitioner incurred a deficit of P25,860,000 on the payment of QRSI’s account to the respondent based on the projected housing units completed; (c) the petitioner had a slow marketing of the housing units, and arbitrarily increased the cost of land development by 53%; (d) by engaging in another huge housing project in Mactan, Cebu, instead of devoting full time to the management and operation of the housing project at the Queen’s Row Subdivision, the petitioner violated the PMA; and, (e) petitioner undertook the project only on a “turn-key” basis, which is contrary to the provisions of the PMA, as amended.

In its June 16, 1982 Letter to the respondent, the petitioner admitted that it managed to construct an average of

only 38 housing units a month, as against the 60 housing units a month contracted by the petitioner.[30] Moreover, although the respondent had its own corporate counsel for legal opinion, it opted to seek the legal opinion and recommendation of the OGCC before canceling the PMA, as amended.

It bears stressing that the respondent had a horrendous experience with QRSI when the latter failed to complete the project and accomplish its obligations to the respondent under their contract. The respondent had to appoint the petitioner as project manager not only to insure the return of its huge expenditures, but also to insure that the respondent's qualified members would be able to acquire housing units. Such members had already been prejudiced by the intolerable and unacceptable delay in the petitioner's completion of the project. The repayment by QRSI and the petitioner of the amortizations on their loans had, likewise, been delayed. The funds loaned out to the petitioner and QRSI were held in trust by the respondent and were affected with public interest. For the respondent to first order an investigation and await the results thereof before making a decision on whether to cancel the PMA, as amended, would have resulted in greater prejudice to it and its members. There was an imperative need to preserve the viability of the project. Time was of the essence; the respondent had to act swiftly and decisively and did so by canceling the PMA, as amended, and replacing the petitioner as project manager. It cannot thus be claimed that, in canceling the PMA, as amended, the respondent acted arbitrarily and without any valid cause.

The respondent cannot be faulted for terminating the PMA, as amended, without waiting for the report of the investigation conducted by some of its officers in compliance with Board Resolution No. 455. It must be stressed that the said officers submitted their report to the president/general manager of the respondent only on January 23, 1987 or almost five years after the respondent cancelled the PMA, as amended, on July 8, 1982; had the respondent waited for the said report, it would have meant a further five-year delay in the completion of the project.

On the second issue, the petitioner avers that the CA erroneously rejected its claim for management fees against the respondent and ruled, thus:

We are not saying that appellee is not entitled to compensation or fees due under the management contracts (Exhs. A & B). But then, as emphasized by appellant, if appellee has not yet been paid in full or if it is still entitled to certain amounts in accordance with the management contract, it should proceed against QRSI which hired its services and not against appellant which is not party to the contract. Significantly, the compensation or fee to which appellee as project manager is entitled is spelled out in Article III of the PMA (Exh. A), and as explicitly provided therein, it is QRSI which has the obligation to pay it.[31]

The petitioner insists that the respondent is liable to it for management fees for the following reasons:

(3) It is a matter of record as it is not disputed by the parties that by way of implementing the granting by GSIS of an additional loan to Queen's Row Subdivision, Inc. (QRSI) in the sum of P8,000,000.00, three (3) agreements were admittedly [entered] into, to wit: (A) Project Management Agreement (or "PMA") dated September 30, 1980, executed between QRSI and ASTROLAND (Exhibit "A") and duly approved by GSIS pursuant to the explicit proviso therein that said Agreement "shall be invalid and of no force and effect unless and until the prior approval of the GSIS is secured;"

(B) Supplemental Contract to Project Management Agreement ("SCPMA") dated September 30, 1980 (Exhibit "B") executed between QRSI and ASTROLAND, providing additional conditions to the PMA; and

(C) Tripartite Agreement dated November 15, 1980 (Exhibit "C") executed by and among GSIS, QRSI and ASTROLAND which incorporated in its entirety the terms and conditions of the PMA as an integral part thereof.

(4) The salient features of these and undisputed Agreements relevant to ASTROLAND's position and plea that the Court of Appeals' conclusion of purported "no contractual basis" on ASTROLAND's claims is completely speculative, absolutely unfounded and directly contravenes the evidence and admissions of the parties, deserve emphasis, thus:

Under the PMA:

(A) Funds to be utilized for the unfinished project (subdivision development) "shall be subject to periodic audit by the GSIS or its authorized representative;"

(B) QRSI and/or ASTROLAND "shall secure the consent and/or approval of the GSIS to any contract or arrangement entered into by QUEEN'S ROW and/or PROJECT MANAGER (Astroland) involving the disbursement of the funds for the UNFINISHED PROJECT, and any and all such contracts or arrangements entered into without the consent or approval of the GSIS first having had or obtained shall be the sole financial liability of QUEEN'S ROW and/or the PROJECT MANAGER (Astroland);

(C) QRSI and ASTROLAND "recognize the right of GSIS to terminate and/or rescind this Agreement (PMA) for VALID CAUSE xxxx. In such event, the GSIS shall have, among others, the right to demand the appointment of a new project manager for the UNFINISHED PROJECT xxxx;"

(D) In case of any dispute between QRSI and ASTROLAND arising from the PMA "the parties agree to submit the same to the GSIS as the sole arbitrator xxxx;"

(E) The PMA "shall be invalid and of no force and effect unless and until the prior approval of the GSIS is secured."

Under the Tripartite Agreement:

(A) GSIS agreed to grant the additional loan of P8 Million to QRSI "provided that the latter shall surrender and cede all the rights and prerogatives to a management group to be named by the GSIS;"

(B) GSIS, with the consent of QRSI "has designated and appointed ASTROLAND DEVELOPERS, INC. as the management group to handle the planning, execution and marketing, and other aspects of the unfinished housing project;"

(C) The Tripartite Agreement "is subject to the terms and conditions of the Project Management Contract;"

(D) Any and all releases of the loan shall be made and/or drawn in favor of ASTROLAND. "However, no disbursement shall be made by ASTROLAND out of the proceeds of the loan from GSIS without the written consent of GSIS and, for the purpose of implementing this provision, the proceeds of the loan shall be deposited in a bank in which the representative of the GSIS, as comptroller, shall be a co-signatory together with the authorized officer or officers of ASTROLAND;"

(E) At least two (2) representatives of the GSIS shall sit as ex-officio members of the Boards of Directors of both QRSI and ASTROLAND with all the rights and powers of members of the Board;

(F) "Neither QRSI nor ASTROLAND shall terminate said Agreement (the Tripartite Agreement) without the prior written consent of the GSIS."

(5) All the foregoing self-explanatory provisions of the three (3) Agreements (Exhibits "A," "B" and "C") present themselves as irrefutable indicia and incontestable proofs of GSIS's contractual involvement and privity which is manifest from the start to the finish of the project.

(6) They further eloquently portray the vital and indispensable role actively played by GSIS in the contractual relationship between QRSI and ASTROLAND. By its active participation in all the stages of the project

implementation as specified in the aforequoted contracts, GSIS has made its indispensable presence and participation prominently felt.[32]

The petitioner further posits that the respondent is liable for damages under Articles 19, 20 and 2176 of the New Civil Code, to wit:

Art. 19. Every person must, in the exercise of his rights and in the performance of his duties, act with justice, give every one his due, and observe honesty and good faith.

...

Art. 20. Every person who, contrary to law, wilfully or negligently causes damage to another, shall indemnify the latter for the same.

...

Art. 2176. Whoever by act or omission causes damages to another, there being fault or negligence, is obliged to pay for the damage done. Such fault or negligence, if there is no pre-existing contractual relation between the parties is called quasi-delict and is governed by the provisions of this chapter.

We do not agree.

Under Article 1157 of the New Civil Code, obligations arise from law, contract, quasi-contract, acts or omissions punishable by law, and quasi-delict. Obligations arising from contracts have the force of law between the contracting parties and should be complied with in good faith.[33]

In this case, the petitioner, as project manager and borrower, QRSI, as the owner of the Queen's Row Subdivision and the borrower and mortgagor, and the petitioner, as the lender and mortgagee, executed three contracts: (a) the tripartite agreement;[34] (b) the Project Management Agreement; and, (b) the Supplemental Contract to the Project Management Agreement. Even a cursory reading of the three agreements/contracts of the parties will readily show that, under Article III of the PMA, as amended, QRSI and not the petitioner is liable for the petitioner's management fees, viz:

ARTICLE III
CONTRACT PRICE

QUEEN'S ROW hereby agrees to pay the PROJECT MANAGER as compensation/commission for services satisfactorily rendered, a fee in an amount equivalent to five (5%) per cent of the gross sales of completed housing units and/or lots, payable immediately after every collection of the proceeds of the sales, but subject to the order of distribution set forth in Article I(jj) of this Agreement.[35]

The bare fact that the funds utilized for the unfinished project were subject to periodic audit by the respondent or its authorized representative; that the consent of the respondent to any contracts involving the disbursements of the funds for the unfinished project; that the respondent had the right to rescind or cancel the PMA, as amended; or that the respondent was made the sole arbitrator of any dispute between QRSI and the petitioner separately and in conjunto, does not render the respondent liable for management fees due to the petitioner under the agreements. All the foregoing, as well as the requirement that a representative of the respondent be made a co-signatory to a bank deposit of the proceeds of the loan of the petitioner, and for at least two representatives to act as ex officio members of the Board of Trustees of both the petitioner and the QRSI, were designed to insure that the proceeds of the loans obtained by the petitioner and QRSI from the respondent were used for the project and conformably to the agreements of the parties, and that the said loans would be paid from the proceeds of the sale of the housing units. The respondent did not thereby make itself liable to the petitioner for management fees owing from QRSI.

Neither is the respondent liable to the petitioner for damages under Articles 19 and 20 of the New Civil Code. The elements of abuse of rights are the following: (a) the existence of a legal right or duty which is exercised in bad faith; and (b) for the sole intent of prejudicing or injuring another. Malice or bad faith is at the core of the said provision.[36] Good faith is presumed and he who alleges bad faith has the duty to prove the same.[37] Good faith refers to the state of the mind which is manifested by the acts of the individual concerned. It consists of the intention to abstain from taking an unconscionable and unscrupulous advantage of another.[38] Bad faith, on the other hand, does not simply connote bad judgment or simple negligence, it imparts dishonest purpose or some moral obloquy and conscious doing of a wrong, a breach of known duty due to some motives or interest or ill-will that partakes of the nature of fraud.[39] Malice connotes ill-will or spite and speaks not in response to duty. It implies an intention to do ulterior and unjustifiable harm. Malice is bad faith or bad motive.[40]

In this case, the respondent cancelled the PMA, as amended, conformably to the provisions of the said agreement. There is no evidence that the respondent acted in bad faith, much less with malice or with negligence in so doing. Patently, then, there is no factual and legal bases to hold the respondent liable for damages under Articles 19, 20 and 2176 of the New Civil Code.

IN LIGHT OF ALL THE FOREGOING, the petition is DENIED. The decision of the Court of Appeals is AFFIRMED. Costs against the petitioner.

SO ORDERED.

Puno, (Chairman), and Tinga, JJ., concur.
Austria-Martinez, J., on official leave.
Chico-Nazario, J., on leave.

[1] Records, p. 400.

[2] Ibid.

[3] Id. at 251-252.

[4] Exhibit "C."

[5] Id. at 268-269.

[6] Id. at 292.

[7] Id. at 293.

[8] Id. at 309.

[9] Id. at 294-299.

[10] Id. at 300-301.

[11] Id. at 302-303.

[12] Id. at 307-308.

[13] Id. at 309-314.

[14] Id. at 141.

[15] Id. at 317.

[16] Id. at 315.

[17] Id. at 317.

[18] Id. at 318-320.

[19] Id. at 323-324.

[20] Id. at 4-5.

[21] Id. at 5-6.

[22] Id. at 399-405.

[23] Id. at 333-334.

[24] Rollo, p. 98.

[25] Penned by Associate Justice Godardo A. Jacinto, with Associate Justices Salome A. Montoya (retired) and Maximiano C. Asuncion (deceased), concurring.

[26] Rollo, p. 43.

[27] Rollo, p. 79.

[28] Records, pp. 268-269.

[29] Exhibit "G."

[30] Exhibit "H."

[31] Rollo, p. 79.

[32] Id. at 44-48.

[33] Article 1159 of the New Civil Code.

[34] Exhibit "C."

[35] Records, p. 255.

[36] ABS-CBN Broadcasting Corporation v. Court of Appeals, 301 SCRA 572 (1999).

[37] Chua v. Court of Appeals, 242 SCRA 341 (1995).

[38] Farolan v. Solmac Marketing Corporation, 195 SCRA 168 (1991).

[39] Cojuangco, Jr. v. Court of Appeals, 309 SCRA 602 (1999).

[40] Borjal v. Court of Appeals, 301 SCRA 1 (1999).

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