

IMMACULATE CONCEPTION ACADEMY AND THE LATE DR. PAULO C. CAMPOS SUBSTITUTED BY HIS HEIRS, DR. JOSE PAULO E. CAMPOS, ATTY. PAULO E. CAMPOS, JR. AND DR. ENRIQUE E. CAMPOS, PETITION...

G.R. No. 173575. February 02, 2011

Ponente: ABAD, J.

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ABAD, J.:

This case is about the rescission of a lease contract on the ground that the building turned out to be structurally unsafe even as the lessee had previously inspected the same.

The Facts and the Case

Immaculate Conception Academy (ICA) owned a three-storey building in Dasmariñas, Cavite. The property caught the eye of AMA Computer College, Inc. (AMA) and it sought to buy the same but did not succeed. Subsequently, after inspecting the building, AMA settled on leasing it.[2] The parties signed a contract of lease for 10 years from September 22, 1997 to September 21, 2007. The agreed rent was P561,000.00 plus VAT per month. In accordance with the contract, AMA paid ICA P500,000.00 in earnest money, three months advance rentals, and security deposit.

After the signing of the contract, officials of AMA re-inspected the building and began renovating it for the upcoming school year. But during an inspection, AMA's Chief Operating Officer for its Cavite Campus noted several cracks on the floor and walls of the building's second storey. This prompted more inspections. Eventually, AMA applied with the municipal engineer's office for an occupancy permit.[3] After inspection, Municipal Engineer Gregorio C. Bermejo wrote AMA a letter dated September 29, 1997, detailing his findings and conclusion, thus:

x x x x

[The] inspection reveals the following defects in the building, such as:

1. Multiple cracks in the second floor slabs showing signs of insufficient or improper reinforcements.
2. Deflections in the second floor slabs and bears ranging from 20 mm to 50 mm which are beyond normal and allowable.
3. Unusual vibrations in the second floor level which are apparent when subjected to live loadings.

Based from the above observations we are in doubt as to the structural soundness and stability of that three-storey building. Whether it can withstand against any natural calamity is presently under question. We are convinced that the building is structurally unsafe for human occupancy.[4]

On the same date, September 29, 1997, AMA wrote ICA demanding the return of all that it paid within 24 hours

from notice. AMA cited the building's structural deficiency, which it regarded as a violation of ICA's implied warranty against hidden defects. AMA did not pursue the lease contract and instead leased another property from a different party.

When its request for reimbursement remained unheeded, AMA filed an action^[5] for breach of contract and damages with prayer for the issuance of a writ of preliminary attachment against ICA before the Regional Trial Court (RTC) of Dasmariñas, Cavite. In its complaint, AMA alleged that ICA (represented by the late Dr. Paulo C. Campos) fraudulently entered into the lease agreement, fraudulently breached the same, and violated its implied warranty against hidden defects; that despite knowledge of the instability of the building, ICA insisted on offering it to AMA; and that ICA had been unable to produce the building's certificate of occupancy. AMA prayed for restitution of the amounts it paid to ICA with interest and award of exemplary damages and attorney's fees.

In its Answer, ICA denied that AMA asked for the building's certificate of occupancy. ICA alleged that it was AMA's responsibility to secure the certificate from the municipal government as stipulated in the contract. Further, ICA claims that it never misrepresented the condition of the building and that AMA inspected it before entering into the contract of lease.

In its Decision dated April 8, 2003, the RTC took AMA's side and ruled that the latter entered into the lease contract without knowing the actual condition of the building. The RTC held that ICA failed to disclose the building's condition, thus justifying AMA's rescission of the contract. The RTC ordered ICA to return the P4,072,150.00 it got from AMA, representing five months security deposit and three months advance rentals plus interest of 6% per annum, from January 19, 1998 until full payment and, further, to pay AMA P300,000.00 and P200,000.00 as exemplary damages and attorney's fees, respectively.^[6]

On appeal,^[7] the Court of Appeals (CA) rendered a Decision dated February 27, 2006, holding that ICA did not violate its implied warranty against hidden defects, misrepresent the building's condition, or act in bad faith since AMA inspected the building before it entered into the lease agreement. It should have noticed the patent cracks on the second floor. Still, the CA ruled that AMA was justified in rescinding the lease contract considering ICA's default in repairing the defects in the building's structure. The CA held that AMA's demand for the certificate of occupancy amounted to a demand for repairs. Thus, the CA affirmed the decision of the RTC but deleted the grant of exemplary damages and attorney's fees. ICA now turns to this Court for succor.

The Issues Presented

The issues presented in this case are:

1. Whether or not AMA was justified in rescinding the contract of lease either on account of ICA's fraudulent representation regarding the condition of its building or on account of its failure to make repairs on the same upon demand; and
2. Whether or not ICA and Dr. Campos are entitled to their claims for damages against AMA.

The Court's Rulings

One. The Court is not convinced that AMA was justified in rescinding the contract of lease on account of ICA's alleged fraudulent representation regarding the true condition of its building. The fact is that AMA's representatives inspected the building to determine if it was suitable for their school's needs. The cracks on the floor and on the walls were too obvious to suggest to them that something was amiss. It was their fault that they did not check the significance of such signs. ICA for its part was candid about the condition of the building and did not in fact deny AMA access to it.

Apparently, AMA did not, at the beginning, believe that the cracks on the floor and on the walls were of a serious nature. It realized that such cracks were manifestations of structural defects only when it sought the issuance of a municipal occupancy permit. The local building official inspected the cracks and concluded that they compromised the building's structural safety.

The CA ruled that, upon the discovery of the building's structural defects, AMA had the right to seek their repair by ICA on the strength of the following stipulations in their contract:[8]

x x x x

LESSEE shall comply with any and all laws, ordinances, regulations or orders of national or local governments concerned arising from the occupation and/or sanitation of the leased PROPERTY.

x x x x

8. REPAIRS - LESSEE hereby agrees that all minor repairs or those caused by the use of the leased PROPERTY or use due to any ordinary wear and tear shall be for the account of the LESSEE while the major repairs or those affecting the structural condition of the building and those due to fortuitous events shall be for the account of the LESSOR. (Underscoring supplied)

The CA ruled that AMA's demand for ICA to produce a certificate of occupancy covering the building from the local building official amounted to a demand for ICA to undertake a repair of its structural defects.

But this ruling reads from AMA's letter a demand for repair that was not there. AMA simply asked ICA to produce a certificate of occupancy for the building even when the contract placed on AMA the responsibility for complying with the government's occupancy requirement. Indeed, it was AMA that applied for the certificate of occupancy.[9] A demand to repair the defects in the building's structure, a clearly difficult and costly proposition, cannot be so easily implied from AMA's demand that ICA produce such certificate.

True, the quoted provision of the lease contract requires ICA to undertake major repairs "affecting the structural condition of the building and those due to fortuitous events." But AMA's outright rescission of the lease contract and demand that ICA return the deposit and advance rentals it got within 24 hours from such demand precluded ICA, first, from contesting the findings of the local building official or getting some structural specialists to verify such findings or, second, from making the required repair. Clearly, AMA's hasty rescission of the contract gave ICA no chance to exercise its options.

AMA belatedly invokes Article 1660 of the Civil Code which reads:

Art. 1660. If a dwelling place or any other building intended for human habitation is in such a condition that its use brings imminent and serious danger to life or health, the lessee may terminate the lease at once by notifying the lessor, even if at the time the contract was perfected the former knew of the dangerous condition or waived the right to rescind the lease on account of this condition.

AMA is actually changing its theory of the case. It claimed in its complaint that it was entitled to rescind the contract of lease because ICA fraudulently hid from it the structural defects of its building. The CA did not agree with this theory but held that AMA was nonetheless entitled to rescind the contract for failure of ICA to make the repairs mentioned in the contract. Now, AMA claims that it has a statutory right to rescind the lease contract on the ground mentioned in Article 1660, even if it may be deemed to have initially waived such right.

Article 1660 is evidently intended to protect human lives. If ICA's building was structurally defective and in danger of crashing down during an earthquake or after it is made to bear the load of a crowd of students, AMA had no right to waive those defects. It can rescind the lease contract under Article 1660. But this assumes that the

defects were irremediable and that the parties had no agreement for rectifying them. As pointed out above, the lease contract implicitly gave ICA the option to repair structural defects at its expense. If that had been done as the contract provides, the risk to human lives would have been removed and the right to rescind, rendered irrelevant.

In any event, the fact is that the local building official found ICA's building structurally defective and unsafe. Such finding is presumably true.[10] For this reason, ICA has no justification for keeping AMA's deposit and advance rentals. Still, the Court holds that AMA is not entitled to recover more than the return of its deposit and advance rental considering that, contrary to AMA's claim, ICA acted in good faith and did not mislead it about the condition of the building.

Two. Aside from seeking the dismissal of the complaint, ICA and Dr. Campos separately seek moral and exemplary damages in the amount of P90 million and P10 million plus attorney's fees and cost of suit.

To be entitled to moral damages, ICA needed to prove that it had a good reputation and that AMA's action besmirched the same.[11] Such proof is wanting in this case. As for Dr. Campos, he has amply proved that he suffered mental anguish, serious anxiety, and social humiliation following AMA's unfounded accusation that he fraudulently misled AMA regarding the structural condition of ICA's building. However, due to his untimely demise before the finality of this case, his claim for moral damages does not survive and is not transmissible to his substitutes, for being extremely personal to him.[12]

Since AMA acted in a reckless, wanton, oppressive, and malevolent manner in imputing fraud and deceit on ICA and Dr. Campos, the Court finds ground for awarding them exemplary damages. Further, the Court holds that, having been compelled to litigate in order to protect their interests, ICA and Dr. Campos are also entitled to attorney's fees.

WHEREFORE, the Court GRANTS the petition and REVERSES and SETS ASIDE the Decision of the Court of Appeals in CA-G.R. CV 82266 dated February 27, 2006. Further, the Court:

1. DIRECTS petitioner Immaculate Conception Academy to return to respondent AMA Computer College, Inc. its security deposit and advance rentals for the lease of the subject building totaling P4,072,150.00 plus interest of 6% per annum from the date of the finality of this decision until it is fully paid; and
2. DIRECTS respondent AMA Computer College, Inc. to pay the heirs of Dr. Paulo C. Campos, namely, Jose Paulo, Paulo, Jr., and Enrique, all surnamed Campos and the Immaculate Conception Academy P100,000.00 as exemplary damages and P50,000.00 as attorney's fees.

SO ORDERED.

Carpio, (Chairperson), Nachura, Peralta, and Mendoza, JJ., concur.

[1] Per Resolution dated December 3, 2007.

[2] TSN, October 15, 1998, p. 26.

[3] TSN, November 21, 2000, p. 5.

[4] Records, Vol. I, p. 28.

[5] Docketed as Civil Case 1662-98.

[6] Thereafter, AMA moved for execution of the Decision dated April 8, 2003 pending appeal which the RTC

granted. ICA questioned the Order of the RTC allowing execution of the decision pending appeal on certiorari with the CA. The CA reversed the Order of the RTC and disallowed the execution of the decision. AMA filed a petition for review on the decision of the CA and is now pending before this Court [G.R. 161398].

[7] Docketed as CA-G.R. CV 82266.

[8] Records, Vol. I, pp. 12-17.

[9] Supra note 3.

[10] Rules of Court, Rule 131, Sec. 3, "(m) That official duty has been regularly performed;" x x x.

[11] Manila Electric Company v. T.E.A.M. Electronics Corporation, G.R. No. 131723, December 13, 2007, 540 SCRA 62, 81-82, cited in Handbook on Philippine Commercial Law, 2[nd] Ed., Divina, N., 2010.

[12] See Bonilla v. Barcena, 163 Phil. 516, 521 (1976), cited in Cruz v. Cruz, G.R. No. 173292, September 1, 2010 and Ruiz v. Court of Appeals, 363 Phil. 263, 269 (1999): "The question as to whether an action survives or not depends on the nature of the action and the damage sued for. In the cause of action which survive, the wrong complained [of] affects primarily and principally property and property rights, the injuries to the person being merely incidental, while in the causes of action which do not survive, the injury complained of is to the person, the property and rights of property affected being incidental." (Emphasis supplied)

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