

FIL-ESTATE PROPERTIES, INC. AND FIL-ESTATE NETWORK, INC., PETITIONERS, VS. SPOUSES CONRADO AND MARIA VICTORIA RONQUILLO, RESPONDENTS.

G.R. No. 185798. January 13, 2014

Ponente: PEREZ, J.

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PEREZ, J.:

Before the Court is a petition for review on certiorari under Rule 45 of the 1997 Rules of Civil Procedure assailing the Decision^[1] of the Court of Appeals in CA-G.R. SP No. 100450 which affirmed the Decision of the Office of the President in O.P. Case No. 06-F-216.

As culled from the records, the facts are as follow:

Petitioner Fil-Estate Properties, Inc. is the owner and developer of the Central Park Place Tower while co-petitioner Fil-Estate Network, Inc. is its authorized marketing agent. Respondent Spouses Conrado and Maria Victoria Ronquillo purchased from petitioners an 82-square meter condominium unit at Central Park Place Tower in Mandaluyong City for a pre-selling contract price of FIVE MILLION ONE HUNDRED SEVENTY-FOUR THOUSAND ONLY (P5,174,000.00). On 29 August 1997, respondents executed and signed a Reservation Application Agreement wherein they deposited P200,000.00 as reservation fee. As agreed upon, respondents paid the full downpayment of P1,552,200.00 and had been paying the P63,363.33 monthly amortizations until September 1998.

Upon learning that construction works had stopped, respondents likewise stopped paying their monthly amortization. Claiming to have paid a total of P2,198,949.96 to petitioners, respondents through two (2) successive letters, demanded a full refund of their payment with interest. When their demands went unheeded, respondents were constrained to file a Complaint for Refund and Damages before the Housing and Land Use Regulatory Board (HLURB). Respondents prayed for reimbursement/refund of P2,198,949.96 representing the total amortization payments, P200,000.00 as and by way of moral damages, attorney's fees and other litigation expenses.

On 21 October 2000, the HLURB issued an Order of Default against petitioners for failing to file their Answer within the reglementary period despite service of summons.^[2]

Petitioners filed a motion to lift order of default and attached their position paper attributing the delay in construction to the 1997 Asian financial crisis. Petitioners denied committing fraud or misrepresentation which could entitle respondents to an award of moral damages.

On 13 June 2002, the HLURB, through Arbiter Atty. Joselito F. Melchor, rendered judgment ordering petitioners to jointly and severally pay respondents the following amount:

- a) The amount of TWO MILLION ONE HUNDRED NINETY-EIGHT THOUSAND NINE HUNDRED FORTY NINE PESOS & 96/100 (P2,198,949.96) with interest thereon at twelve percent (12%) per annum to

- be computed from the time of the complainants' demand for refund on October 08, 1998 until fully paid,
- b) ONE HUNDRED THOUSAND PESOS (P100,000.00) as moral damages,
 - c) FIFTY THOUSAND PESOS (P50,000.00) as attorney's fees,
 - d) The costs of suit, and
 - e) An administrative fine of TEN THOUSAND PESOS (P10,000.00) payable to this Office fifteen (15) days upon receipt of this decision, for violation of Section 20 in relation to Section 38 of PD 957.[3]

The Arbiter considered petitioners' failure to develop the condominium project as a substantial breach of their obligation which entitles respondents to seek for rescission with payment of damages. The Arbiter also stated that mere economic hardship is not an excuse for contractual and legal delay.

Petitioners appealed the Arbiter's Decision through a petition for review pursuant to Rule XII of the 1996 Rules of Procedure of HLURB. On 17 February 2005, the Board of Commissioners of the HLURB denied[4] the petition and affirmed the Arbiter's Decision. The HLURB reiterated that the depreciation of the peso as a result of the Asian financial crisis is not a fortuitous event which will exempt petitioners from the performance of their contractual obligation.

Petitioners filed a motion for reconsideration but it was denied[5] on 8 May 2006. Thereafter, petitioners filed a Notice of Appeal with the Office of the President. On 18 April 2007, petitioners' appeal was dismissed[6] by the Office of the President for lack of merit. Petitioners moved for a reconsideration but their motion was denied[7] on 26 July 2007.

Petitioners sought relief from the Court of Appeals through a petition for review under Rule 43 containing the same arguments they raised before the HLURB and the Office of the President:

I.

THE HONORABLE OFFICE OF THE PRESIDENT ERRED IN AFFIRMING THE DECISION OF THE HONORABLE HOUSING AND LAND USE REGULATORY BOARD AND ORDERING PETITIONERS-APPELLANTS TO REFUND RESPONDENTS-APPELLEES THE SUM OF P2,198,949.96 WITH 12% INTEREST FROM 8 OCTOBER 1998 UNTIL FULLY PAID, CONSIDERING THAT THE COMPLAINT STATES NO CAUSE OF ACTION AGAINST PETITIONERS-APPELLANTS.

II.

THE HONORABLE OFFICE OF THE PRESIDENT ERRED IN AFFIRMING THE DECISION OF THE OFFICE BELOW ORDERING PETITIONERS-APPELLANTS TO PAY RESPONDENTS-APPELLEES THE SUM OF P100,000.00 AS MORAL DAMAGES AND P50,000.00 AS ATTORNEY'S FEES CONSIDERING THE ABSENCE OF ANY FACTUAL OR LEGAL BASIS THEREFOR.

III.

THE HONORABLE OFFICE OF THE PRESIDENT ERRED IN AFFIRMING THE DECISION OF THE HOUSING AND LAND USE REGULATORY BOARD ORDERING PETITIONERS-APPELLANTS TO PAY P10,000.00 AS ADMINISTRATIVE FINE IN THE ABSENCE OF ANY FACTUAL OR LEGAL BASIS TO SUPPORT SUCH FINDING.[8]

On 30 July 2008, the Court of Appeals denied the petition for review for lack of merit. The appellate court echoed the HLURB Arbiter's ruling that "a buyer for a condominium/subdivision unit/lot unit which has not been developed in accordance with the approved condominium/subdivision plan within the time limit for complying

with said developmental requirement may opt for reimbursement under Section 20 in relation to Section 23 of Presidential Decree (P.D.) 957 x x x.”[9] The appellate court supported the HLURB Arbiter’s conclusion, which was affirmed by the HLURB Board of Commission and the Office of the President, that petitioners’ failure to develop the condominium project is tantamount to a substantial breach which warrants a refund of the total amount paid, including interest. The appellate court pointed out that petitioners failed to prove that the Asian financial crisis constitutes a fortuitous event which could excuse them from the performance of their contractual and statutory obligations. The appellate court also affirmed the award of moral damages in light of petitioners’ unjustified refusal to satisfy respondents’ claim and the legality of the administrative fine, as provided in Section 20 of Presidential Decree No. 957.

Petitioners sought reconsideration but it was denied in a Resolution[10] dated 11 December 2008 by the Court of Appeals.

Aggrieved, petitioners filed the instant petition advancing substantially the same grounds for review:

A.

THE HONORABLE COURT OF APPEALS ERRED WHEN IT AFFIRMED IN TOTO THE DECISION OF THE OFFICE OF THE PRESIDENT WHICH SUSTAINED RESCISSION AND REFUND IN FAVOR OF THE RESPONDENTS DESPITE LACK OF CAUSE OF ACTION.

B.

GRANTING FOR THE SAKE OF ARGUMENT THAT THE PETITIONERS ARE LIABLE UNDER THE PREMISES, THE HONORABLE COURT OF APPEALS ERRED WHEN IT AFFIRMED THE HUGE AMOUNT OF INTEREST OF TWELVE PERCENT (12%).

C.

THE HONORABLE COURT OF APPEALS LIKewise ERRED WHEN IT AFFIRMED IN TOTO THE DECISION OF THE OFFICE OF THE PRESIDENT INCLUDING THE PAYMENT OF P100,000.00 AS MORAL DAMAGES, P50,000.00 AS ATTORNEY’S FEES AND P10,000.00 AS ADMINISTRATIVE FINE IN THE ABSENCE OF ANY FACTUAL OR LEGAL BASIS TO SUPPORT SUCH CONCLUSIONS.[11]

Petitioners insist that the complaint states no cause of action because they allegedly have not committed any act of misrepresentation amounting to bad faith which could entitle respondents to a refund. Petitioners claim that there was a mere delay in the completion of the project and that they only resorted to “suspension and reformatting as a testament to their commitment to their buyers.” Petitioners attribute the delay to the 1997 Asian financial crisis that befell the real estate industry. Invoking Article 1174 of the New Civil Code, petitioners maintain that they cannot be held liable for a fortuitous event.

Petitioners contest the payment of a huge amount of interest on account of suspension of development on a project. They liken their situation to a bank which this Court, in *Overseas Bank v. Court of Appeals*, [12] adjudged as not liable to pay interest on deposits during the period that its operations are ordered suspended by the Monetary Board of the Central Bank.

Lastly, petitioners aver that they should not be ordered to pay moral damages because they never intended to cause delay, and again blamed the Asian economic crisis as the direct, proximate and only cause of their failure to complete the project. Petitioners submit that moral damages should not be awarded unless so stipulated except under the instances enumerated in Article 2208 of the New Civil Code. Lastly, petitioners refuse to pay the administrative fine because the delay in the project was caused not by their own deceptive intent to defraud their

buyers, but due to unforeseen circumstances beyond their control.

Three issues are presented for our resolution: 1) whether or not the Asian financial crisis constitute a fortuitous event which would justify delay by petitioners in the performance of their contractual obligation; 2) assuming that petitioners are liable, whether or not 12% interest was correctly imposed on the judgment award, and 3) whether the award of moral damages, attorney's fees and administrative fine was proper.

It is apparent that these issues were repeatedly raised by petitioners in all the legal fora. The rulings were consistent that first, the Asian financial crisis is not a fortuitous event that would excuse petitioners from performing their contractual obligation; second, as a result of the breach committed by petitioners, respondents are entitled to rescind the contract and to be refunded the amount of amortizations paid including interest and damages; and third, petitioners are likewise obligated to pay attorney's fees and the administrative fine.

This petition did not present any justification for us to deviate from the rulings of the HLURB, the Office of the President and the Court of Appeals.

Indeed, the non-performance of petitioners' obligation entitles respondents to rescission under Article 1191 of the New Civil Code which states:

Article 1191. The power to rescind obligations is implied in reciprocal ones, in case one of the obligors should not comply with what is incumbent upon him.

The injured party may choose between the fulfillment and the rescission of the obligation, with payment of damages in either case. He may also seek rescission, even after he has chosen fulfillment, if the latter should become impossible.

More in point is Section 23 of Presidential Decree No. 957, the rule governing the sale of condominiums, which provides:

Section 23. Non-Forfeiture of Payments. No installment payment made by a buyer in a subdivision or condominium project for the lot or unit he contracted to buy shall be forfeited in favor of the owner or developer when the buyer, after due notice to the owner or developer, desists from further payment due to the failure of the owner or developer to develop the subdivision or condominium project according to the approved plans and within the time limit for complying with the same. Such buyer may, at his option, be reimbursed the total amount paid including amortization interests but excluding delinquency interests, with interest thereon at the legal rate. (Emphasis supplied).

Conformably with these provisions of law, respondents are entitled to rescind the contract and demand reimbursement for the payments they had made to petitioners.

Notably, the issues had already been settled by the Court in the case of *Fil-Estate Properties, Inc. v. Spouses Go*[13] promulgated on 17 August 2007, where the Court stated that the Asian financial crisis is not an instance of *caso fortuito*. Bearing the same factual milieu as the instant case, G.R. No. 165164 involves the same company, *Fil-Estate*, albeit about a different condominium property. The company likewise reneged on its obligation to respondents therein by failing to develop the condominium project despite substantial payment of the contract price. *Fil-Estate* advanced the same argument that the 1997 Asian financial crisis is a fortuitous event which justifies the delay of the construction project. First off, the Court classified the issue as a question of fact which may not be raised in a petition for review considering that there was no variance in the factual findings of the HLURB, the Office of the President and the Court of Appeals. Second, the Court cited the previous rulings of *Asian Construction and Development Corporation v. Philippine Commercial International Bank*[14] and *Mondragon Leisure and Resorts Corporation v. Court of Appeals*[15] holding that the 1997 Asian financial crisis

did not constitute a valid justification to renege on obligations. The Court expounded:

Also, we cannot generalize that the Asian financial crisis in 1997 was unforeseeable and beyond the control of a business corporation. It is unfortunate that petitioner apparently met with considerable difficulty e.g. increase cost of materials and labor, even before the scheduled commencement of its real estate project as early as 1995. However, a real estate enterprise engaged in the pre-selling of condominium units is concededly a master in projections on commodities and currency movements and business risks. The fluctuating movement of the Philippine peso in the foreign exchange market is an everyday occurrence, and fluctuations in currency exchange rates happen everyday, thus, not an instance of *caso fortuito*.^[16]

The aforementioned decision becomes a precedent to future cases in which the facts are substantially the same, as in this case. The principle of *stare decisis*, which means adherence to judicial precedents, applies.

In said case, the Court ordered the refund of the total amortizations paid by respondents plus 6% legal interest computed from the date of demand. The Court also awarded attorney's fees. We follow that ruling in the case before us.

The resulting modification of the award of legal interest is, also, in line with our recent ruling in *Nacar v. Gallery Frames*,^[17] embodying the amendment introduced by the Bangko Sentral ng Pilipinas Monetary Board in BSP-MB Circular No. 799 which pegged the interest rate at 6% regardless of the source of obligation.

We likewise affirm the award of attorney's fees because respondents were forced to litigate for 14 years and incur expenses to protect their rights and interest by reason of the unjustified act on the part of petitioners.^[18] The imposition of P10,000.00 administrative fine is correct pursuant to Section 38 of Presidential Decree No. 957 which reads:

Section 38. Administrative Fines. The Authority may prescribe and impose fines not exceeding ten thousand pesos for violations of the provisions of this Decree or of any rule or regulation thereunder. Fines shall be payable to the Authority and enforceable through writs of execution in accordance with the provisions of the Rules of Court.

Finally, we sustain the award of moral damages. In order that moral damages may be awarded in breach of contract cases, the defendant must have acted in bad faith, must be found guilty of gross negligence amounting to bad faith, or must have acted in wanton disregard of contractual obligations.^[19] The Arbiter found petitioners to have acted in bad faith when they breached their contract, when they failed to address respondents' grievances and when they adamantly refused to refund respondents' payment.

In fine, we find no reversible error on the merits in the impugned Court of Appeals' Decision and Resolution.

WHEREFORE, the petition is **PARTLY GRANTED**. The appealed Decision is **AFFIRMED** with the **MODIFICATION** that the legal interest to be paid is **SIX PERCENT (6%)** on the amount due computed from the time of respondents' demand for refund on 8 October 1998.

SO ORDERED.

Carpio, (Chairperson), Brion, Del Castillo, and Perlas-Bernabe, JJ., concur.

[1] Penned by Associate Justice Arturo G. Tayag with Associate Justices Martin S. Villarama, Jr. (now Supreme Court Associate Justice) and Noel G. Tijam, concurring. Rollo, pp. 34-46.

[2] *Id.* at 68.

- [3] Id. at 92.
- [4] Id. at 113-115.
- [5] Id. at 129-130.
- [6] Id. at 178-180.
- [7] Id. at 191.
- [8] See Petition for Review filed with the Court of Appeals. Id. at 198-199.
- [9] Id. at 42.
- [10] Id. at 48-49.
- [11] Id. at 16-17.
- [12] 192 Phil. 355 (1981).
- [13] 557 Phil. 377 (2007).
- [14] 522 Phil. 168, 180-181 (2006).
- [15] 499 Phil. 268, 279 (2005).
- [16] Fil-Estate Properties, Inc. v. Spouses Go, supra note 13 at 384.
- [17] G.R. No. 189871, 13 August 2013.
- [18] Maglasang v. Northwestern University, Inc., G.R. No. 188986, 20 March 2013, 694 SCRA 128, 140.
- [19] Almeda Development and Equipment Corp. v. Metro Motor Sales, Inc., 534 Phil. 672, 675 (2006).

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