

**THE MANILA REMNANT CO., INC., PETITIONER, VS. THE
HONORABLE COURT OF APPEALS AND AND OSCAR VENTANILLA, JR.
AND CARMEN GLORIA DIAZ, RESPONDENTS.**

G.R. No. 82978. November 22, 1990

Ponente: FERNAN, C.J.

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FERNAN, C.J.:

Like any other couple, Oscar Ventanilla and his wife Carmen, both faculty members of the University of the Philippines and renting a faculty unit, dreamed of someday owning a house and lot. Instead of attaining this dream, they became innocent victims of deceit and found themselves in the midst of an ensuing squabble between a subdivision owner and its real estate agent.

The facts as found by the trial court and adopted by the Appellate Court are as follows:

Petitioner Manila Remnant Co., Inc. is the owner of the parcels of land situated in Quezon City covered by Transfer Certificates of Title Nos. 26400, 26401, 30783 and 31986 and constituting the subdivision known as Capital Homes Subdivision Nos. I and II. On July 25, 1972, Manila Remnant and A.U. Valencia & Co. Inc. entered into a written agreement entitled "Confirmation of Land Development and Sales Contract" to formalize an earlier verbal agreement whereby for a consideration of 17 and 1/2% fee, including sales commission and management fee, A.U. Valencia and Co., Inc. was to develop the aforesaid subdivision with authority to manage the sales thereof, execute contracts to sell to lot buyers and issue official receipts.[1]

At that time the President of both A.U. Valencia and Co. Inc. and Manila Remnant Co., Inc. was Artemio U. Valencia.

On March 3, 1970, Manila Remnant thru A.U. Valencia and Co. executed two "contracts to sell" covering Lots 1 and 2 of Block 17 in favor of Oscar C. Ventanilla and Carmen Gloria Diaz for the combined contract price of P66,571.00 payable monthly for ten years.[2] As thus agreed in the contracts to sell, the Ventanillas paid the down payments on the two lots even before the formal contract was signed on March 3, 1970.

Ten (10) days after the signing of the contracts with the Ventanillas or on March 13, 1970, Artemio U. Valencia, as President of Manila Remnant, and without the knowledge of the Ventanilla couple, sold Lots 1 and 2 of Block 17 again, this time in favor of Carlos Crisostomo, one of his sales agents without any consideration.[3] Artemio Valencia then transmitted the fictitious Crisostomo contracts to Manila Remnant while he kept in his files the contracts to sell in favor of the Ventanillas. All the amounts paid by the Ventanillas were deposited in Valencia's bank account.

Beginning March 13, 1970, upon orders of Artemio Valencia, the monthly payments of the Ventanillas were remitted to Manila Remnant as payments of Crisostomo for which the former issued receipts in favor of Crisostomo. Since Valencia kept the receipts in his files and never transmitted the same to Crisostomo, the latter and the Ventanillas remained ignorant of Valencia's scheme. Thus, the Ventanillas continued paying their

monthly installments.

Subsequently, the harmonious business relationship between Artemio Valencia and Manila Remnant ended. On May 30, 1973, Manila Remnant, through its General Manager Karl Landahl, wrote Artemio Valencia informing him that Manila Remnant was terminating its existing collection agreement with his firm on account of the considerable amount of discrepancies and irregularities discovered in its collections and remittances by virtue of confirmations received from lot buyers.[4] As a consequence, on June 6, 1973, Artemio Valencia was removed as President by the Board of Directors of Manila Remnant. Therefore, from May of 1973, Valencia stopped transmitting Ventanilla's monthly installments which at that time had already amounted to P17,925.40 for Lot 1 and P18,141.95 for Lot 2, (which appeared in Manila Remnant's record as credited in the name of Crisostomo).[5]

On June 8, 1973, A.U. Valencia and Co. sued Manila Remnant before Branch 19 of the then Court of First Instance of Manila[6] to impugn the abrogation of their agency agreement. On June 10 and July 10, 1973, said court ordered all lot buyers to deposit their monthly amortizations with the court.[7] But on July 17, 1973, A.U. Valencia and Co. wrote the Ventanillas that it was still authorized by the court to collect the monthly amortizations and requested them to continue remitting their amortizations with the assurance that said payments would be deposited later in court.[8] On May 22, 1974, the trial court issued an order prohibiting A.U. Valencia and Co. from collecting the monthly installments.[9] On July 22, 1974 and February 6, 1976 the same court ordered the Valencia firm to furnish the court with a complete list of all lot buyers who had already made down payments to Manila Remnant before December 1972.[10] Valencia complied with the court's order on August 6, 1974 by submitting a list which excluded the name of the Ventanillas.[11]

Since A.U. Valencia and Co. failed to forward its collections after May 1973, Manila Remnant caused on August 20, 1976 the publication in the Times Journal of a notice cancelling the contracts to sell of some lot buyers including that of Carlos Crisostomo in whose name the payments of the Ventanillas had been credited.[12]

To prevent the effective cancellation of their contracts, Artemio Valencia instigated on September 22, 1976 the filing by Carlos Crisostomo and seventeen (17) other lot vendees of a complaint for specific performance with damages against Manila Remnant before the Court of First Instance of Quezon City. The complaint alleged that Crisostomo had already paid a total of P17,922.40 and P18,136.85 on Lots 1 and 2, respectively.[13]

It was not until March 1978 when the Ventanillas, after learning of the termination of the agency agreement between Manila Remnant and A.U. Valencia & Co., decided to stop paying their amortizations to the latter. The Ventanillas, believing that they had already remitted P37,007.00 for Lot 1 and P36,911.00 for Lot 2 or a grand total, inclusive of interest, of P73,122.35 for the two lots, thereby leaving a balance of P13,531.58 for Lot 1 and P13,540.22 for Lot 2, went directly to Manila Remnant and offered to pay the entire outstanding balance of the purchase price.[14] To their shock and utter consternation, they discovered from Gloria Caballes, an accountant of Manila Remnant, that their names did not appear in the records of A.U. Valencia and Co. as lot buyers. Caballes showed the Ventanillas copies of the contracts to sell in favor of Carlos Crisostomo, duly signed by Artemio U. Valencia as President of Manila Remnant.[15] Whereupon, Manila Remnant refused the offer of the Ventanillas to pay for the remainder of the contract price because they did not have the personality to do so. Furthermore, they were shown the published Notice of Cancellation in the January 29, 1978 issue of the Times Journal rescinding the contracts of delinquent buyers including Crisostomo.

Thus, on November 21, 1978, the Ventanillas commenced an action for specific performance, annulment of deeds and damages against Manila Remnant, A.U. Valencia and Co. and Carlos Crisostomo before the Court of First Instance of Quezon City, Branch 17-B.[16] Crisostomo was declared in default for failure to file an answer.

On November 17, 1980, the trial court rendered a decision 1) declaring the contracts to sell issued in favor of the

Ventanillas valid and subsisting and annulling the contracts to sell in Crisostomo's favor; 2) ordering Manila Remnant to execute in favor of the Ventanillas an Absolute Deed of Sale free from all liens and encumbrances; and 3) condemning defendants A.U. Valencia and Co. Inc., Manila Remnant and Carlos Crisostomo jointly and severally to pay the Ventanillas the amount of P100,000.00 as moral damages, P100,000.00 as exemplary damages, and P100,000.00 as attorney's fees. The lower court also added that if, for any legal reason, the transfer of the lots could no longer be effected, the defendants should reimburse jointly and severally to the Ventanillas the total amount of P73,122.35 representing the total amount paid for the two lots plus legal interest thereon from March 1970 plus damages as aforesaid. With regard to the cross claim of Manila Remnant against Valencia, the court found that Manila Remnant could have not been dragged into this suit without the fraudulent manipulations of Valencia. Hence, it adjudged A.U. Valencia and Co. to pay the Manila Remnant P5,000.00 as moral damages and exemplary damages and P5,000.00 as attorney's fees.[17]

Subsequently, Manila Remnant and A.U. Valencia and Co. elevated the lower court's decision to the Court of Appeals through separate appeals. On October 13, 1987, the Appellate Court affirmed in toto the decision of the lower court. Recon-sideration sought by petitioner Manila Remnant was denied, hence the instant petition.

There is no question that the contracts to sell favor of the Ventanilla spouses are valid and subsisting. The only issue remaining is whether or not petitioner Manila Remnant should be held solidarily liable together with A.U. Valencia and Co. and Carlos Crisostomo for the payment of moral, exemplary damages and attorney's fees in favor of the Ventanillas.[18]

While petitioner Manila Remnant has not refuted the legality of the award of damages per se, it believes that it cannot be made jointly and severally liable with its agent A.U. Valencia and Co. since it was not aware of the illegal acts perpetrated nor did it consent or ratify said acts of its agent.

The argument is devoid of merit.

In the case at bar, the Valencia realty firm had clearly overstepped the bounds of its authority as agent-- and for that matter, even the law -- when it undertook the double sale of the disputed lots. Such being the case, the principal, Manila Remnant, would have been in the clear pursuant to Article 1897 of the Civil Code which states that "(t)he agent who acts as such is not personally liable to that party with whom he contracts, unless he expressly binds himself or exceeds the limits of his authority without giving such party sufficient notice of his powers."

However, the unique relationship existing between the principal and the agent at the time of the dual sale must be underscored. Bear in mind that the president then of both firms was Artemio U. Valencia, the individual directly responsible for the sale scam. Hence, despite the fact that the double sale was beyond the power of the agent, Manila Remnant as principal was chargeable with the knowledge or constructive notice of that fact and not having done anything to correct such an irregularity was deemed to have ratified the same.[19]

More in point, we find that by the principle of estoppel, Manila Remnant is deemed to have allowed its agent to act as though it had plenary powers. Article 1911 of the Civil Code provides:

"Even when the agent has exceeded his authority, the principal is solidarily liable with the agent if the former allowed the latter to act as though he had full powers." (Underscoring supplied).

The above-quoted article is new. It is intended to protect the rights of innocent persons. In such a situation, both the principal and the agent may be considered as jointfeasors whose liability is joint and solidary.[20]

Authority by estoppel has arisen in the instant case because by its negligence, the principal, Manila Remnant, has permitted its agent, A.U. Valencia and Co., to exercise powers not granted to it. That the principal might not have

had actual knowledge of the agent's misdeed is of no moment. Consider the following circumstances:

Firstly, Manila Remnant literally gave carte blanche to its agent A.U. Valencia and Co. in the sale and disposition of the subdivision lots. As a disclosed principal in the contracts to sell in favor of the Ventanilla couple, there was no doubt that they were in fact contracting with the principal. Section 7 of the Ventanillas' contracts to sell states:

"7. That all payments whether deposits, down payment and monthly installment agreed to be made by the vendee shall be payable to A.U. Valencia and Co., Inc. It is hereby expressly understood that unauthorized payments made to real estate brokers or agents shall be the sole and exclusive responsibility and at the risk of the vendee and any and all such payments shall not be recognized by the vendors unless the official receipts therefor shall have been duly signed by the vendors' duly authorized agent, A.U. Valencia and Co., Inc." (Underscoring supplied).

Indeed, once Manila Remnant had been furnished with the usual copies of the contracts to sell, its only participation then was to accept the collections and pay the commissions to the agent. The latter had complete control of the business arrangement.[21]

Secondly, it is evident from the records that Manila Remnant was less than prudent in the conduct of its business as a subdivision owner. For instance, Manila Remnant failed to take immediate steps to avert any damage that might be incurred by the lot buyers as a result of its unilateral abrogation of the agency contract. The publication of the cancelled contracts to sell in the Times Journal came three years after Manila Remnant had revoked its agreement with A.U. Valencia and Co.

Moreover, Manila Remnant also failed to check the records of its agent immediately after the revocation of the agency contract despite the fact that such revocation was due to reported anomalies in Valencia's collections. Altogether, as pointed out by the counsel for the Ventanillas, Manila Remnant could and should have devised a system whereby it could monitor and require a regular accounting from A.U. Valencia and Co., its agent. Not having done so, Manila Remnant has made itself liable to those who have relied on its agent and the representation that such agent was clothed with sufficient powers to act on behalf of the principal.

Even assuming that Manila Remnant was as much a victim as the other innocent lot buyers, it cannot be gainsaid that it was precisely its negligence and laxity in the day to day operations of the real estate business which made it possible for the agent to deceive unsuspecting vendees like the Ventanillas.

In essence, therefore, the basis for Manila Remnant's solidary liability is estoppel which, in turn, is rooted in the principal's neglectfulness in failing to properly supervise and control the affairs of its agent and to adopt the needed measures to prevent further misrepresentation. As a consequence, Manila Remnant is considered estopped from pleading the truth that it had no direct hand in the deception employed by its agent.[22]

A final word. The Court cannot help but be alarmed over the reported practice of supposedly reputable real estate brokers of manipulating prices by allowing their own agents to "buy" lots in their names in the hope of reselling the same at a higher price to the prejudice of bona fide lot buyers, as precisely what the agent had intended to happen in the present case. This is a serious matter that must be looked into by the appropriate government housing authority.

WHEREFORE, in view of the foregoing, the appealed decision of the Court of Appeals dated October 13, 1987 sustaining the decision of the Quezon City trial court dated November 17, 1980 is AFFIRMED. This judgment is immediately executory. Costs against petitioner.

So ordered.

Gutierrez, Jr., and Bidin, JJ., concur.
Feliciano, J., on leave.

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- [1] Exhibit U.
 - [2] Exhibits 1 and 2.
 - [3] Exhibits 3 and 4.
 - [4] Exhibit Q.
 - [5] Exhibits N to N-37.
 - [6] Civil Case No. 90979.
 - [7] Exhibit I.
 - [8] Exhibit C.
 - [9] Exhibit J.
 - [10] Exhibits K and L.
 - [11] Exhibits 0-6 to 8.
 - [12] Exhibits G and G-1.
 - [13] Civil Case No. 22015; Exhibit H.
 - [14] Exhibits A-7 to Exhibits A-74 and B-8 to B-82; TSN, Valencia, July 17, 1979, p. 16.
 - [15] Exhibits E and F.
 - [16] Civil Case No. 26411.
 - [17] Rollo, p. 44.
 - [18] Rollo, p. 13.
 - [19] See Art. 1910, Civil Code.
 - [20] Verzosa vs. Lim, 45 Phil. 416.
 - [21] Original Record, p. 164, TSN, October 1, 1979, p. 10.
 - [22] See Machem on Agency, Section 720.

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