



Republic of the Philippines
Supreme Court
Manila

SECOND DIVISION

SPOUSES ALBERTO AND
SUSAN CASTRO,

Petitioners,

- versus -

AMPARO PALENZUELA, for herself
and as authorized representative of
VIRGINIA ABELLO,
GERARDO ANTONIO ABELLO,
ALBERTO DEL ROSARIO,
INGEBORG REGINA DEL ROSARIO,
HANS DEL ROSARIO,
MARGARET DEL ROSARIO ISLETA,
ENRIQUE PALENZUELA and
CARLOS MIGUEL PALENZUELA,

Respondents.

G.R. No. 184698

Present:

CARPIO, *Chairperson,*
DEL CASTILLO,
PEREZ,
PERLAS-BERNABE, *and*
LEONEN, ** JJ.*

Promulgated:
JAN 21 2013

X ----- X

DECISION

DEL CASTILLO, J.:

A demand letter presented in evidence by a lessee to prove a lesser liability for unpaid rentals than that awarded by the trial court constitutes an admission of liability to the extent of such lesser amount.

This Petition for Review on *Certiorari*¹ assails the January 29, 2008 Decision² of the Court of Appeals (CA) which dismissed the appeal in CA-G.R. CV No. 86925, and its September 15, 2008 Resolution³ denying petitioners' Motion for Reconsideration.

¹ Per Special Order No. 1408 dated January 15, 2013.

² *Rollo*, pp. 10-40.

³ *Id.* at 43-55; penned by Associate Justice Hakim S. Abdulwahid and concurred in by Associate Justices Rodrigo V. Cosico and Arturo G. Tayag.

⁴ *Id.* at 57-58; penned by Associate Justice Hakim S. Abdulwahid and concurred in by Associate Justices Remedios Salazar-Fernando and Arturo G. Tayag.

Factual Antecedents

Respondents Amparo Palenzuela, Virginia Abello, Gerardo Antonio Abello, Alberto Del Rosario, Ingeborg Regina Del Rosario, Hans Del Rosario, Margaret Del Rosario Isleta, Enrique Palenzuela and Carlos Miguel Palenzuela own several fishponds in Bulacan, Bulacan totaling 72 hectares.⁴ In March 1994, respondents, through their duly appointed attorney-in-fact and co-respondent Amparo Palenzuela, leased out these fishponds to petitioners, spouses Alberto and Susan Castro. The lease was to be for five years, or from March 1, 1994 up to June 30, 1999.⁵ The Contract of Lease⁶ of the parties provided for the following salient provisions:

1. For the entire duration of the lease, the Castro spouses shall pay a total consideration of ₱14,126,600.00,⁷ via postdated checks⁸ and according to the following schedule:

- a. Upon signing of the lease agreement, petitioners shall pay ₱842,300.00 for the lease period March 1, 1994 to June 30, 1994;⁹
- b. On or before June 1, 1994, petitioners shall pay ₱2,520,000.00 for the one-year lease period July 1, 1994 to June 30, 1995;¹⁰
- c. On or before June 1, 1995, petitioners shall pay ₱2,520,000.00 for the one-year lease period July 1, 1995 to June 30, 1996;¹¹
- d. On or before June 1, 1996, petitioners shall pay ₱2,520,000.00 for the one-year lease period July 1, 1996 to June 30, 1997;¹²

⁴ Id. at 122-123.

⁵ Id. at 124.

⁶ Id. at 122-133.

⁷ Id. at 123.

⁸ Id. at 126.

⁹ Id. at 124.

¹⁰ Id.

¹¹ Id.

¹² Id.

e. On or before June 1, 1997, petitioners shall pay ₱2,796,000.00 for the one-year lease period July 1, 1997 to June 30, 1998;¹³ and

f. On or before June 1, 1998, petitioners shall pay ₱2,928,300.00 for the one-year lease period July 1, 1998 to June 30, 1999.¹⁴

2. Petitioners committed to pay respondents the amount of ₱500,000.00 in five yearly installments from June 1, 1994. The amount represents arrears of the previous lessee, which petitioners agreed to assume;¹⁵

3. Petitioners shall exercise extraordinary care and diligence in the maintenance of the leased premises, with the obligation to maintain in good order, repair and condition, among others, two warehouses found thereon;¹⁶

4. Necessary repairs,¹⁷ licenses, permits, and other fees¹⁸ necessary and incidental to the operation of the fishpond shall be for petitioners' account;

5. Petitioners shall not sublease the premises to third parties;¹⁹ and,

6. Should respondents be constrained to file suit against petitioners on account of the lease, the latter agrees to pay liquidated damages in the amount of ₱1,000,000.00, 25% as attorney's fees, and costs of the suit.²⁰

The lease expired on June 30, 1999, but petitioners did not vacate and continued to occupy and operate the fishponds until August 11, 1999, or an additional 41 days beyond the contract expiration date.

¹³ Id.

¹⁴ Id.

¹⁵ Id. at 124-125.

¹⁶ Id. at 126.

¹⁷ Id.

¹⁸ Id. at 127.

¹⁹ Id. at 128.

²⁰ Id. at 130-131.

Previously, or on July 22, 1999, respondents sent a letter²¹ to petitioners declaring the latter as trespassers and demanding the settlement of the latter’s outstanding obligations, including rent for petitioners’ continued stay within the premises, in the amount of ₱378,451.00, broken down as follows:

Unpaid balance as of May 31, 1999 for the fifth year of the lease	₱111,082.00
Accrued interest from May 31, 1999 to July 31, 1999 at 16%	23,344.00
Trespassing fee for the whole month of July 1999	<u>244,025.00²²</u>
Total owed to the Lessors	₱378,451.00

Petitioners are in actual receipt of this letter.²³

On June 8, 2000,²⁴ respondents instituted Civil Case No. Q-00-41011 for collection of a sum of money with damages in the Regional Trial Court (RTC) of Quezon City, Branch 215, claiming that petitioners committed violations of their lease agreement – non-payment of rents as stipulated, subletting the fishponds, failure to maintain the warehouses, and refusal to vacate the premises on expiration of the lease – which caused respondents to incur actual and liquidated damages and other expenses in the respective amounts of ₱570,101.00²⁵ for unpaid rent, ₱275,430.00²⁶ for unpaid additional rent for petitioners’ one-month extended stay beyond the contract date, and ₱2,000,000.00²⁷ for expenses incurred in restoring and repairing their damaged warehouses. In addition, respondents prayed to be awarded moral and exemplary damages, attorney’s fees, and costs of litigation.²⁸

²¹ Id. at 74.
²² Which amount represents the monthly rental for the fifth and final year of the lease, arrived at by dividing ₱2,928,300.00 (or the stipulated one-year total lease consideration for the fifth and final year) by 12 (the total number of months comprising the said fifth and final one-year lease period).
²³ *Rollo*, pp. 23, 69.
²⁴ Records, Vol. 1, p. 1.
²⁵ Id. at 5.
²⁶ Id. at 6.
²⁷ Id.
²⁸ Id. at 7-8.

For failure to file their Answer, petitioners were declared in default,²⁹ and on August 16, 2000, during the presentation of evidence for the plaintiffs, respondent Amparo Palenzuela testified, detailing petitioners' several violations of the lease contract; petitioners' failure to maintain the warehouses in good condition; their unauthorized subleasing of the premises to one Cynthia Reyes; their failure to pay the license fees, permits and other fees; their extended stay for 41 days, or until August 11, 1999 despite expiration of the lease on June 30, 1999; and petitioners' unpaid rents in the aggregate amount of ₱863,796.00, interest included.³⁰

During said proceedings, respondents presented in evidence a statement of account³¹ detailing petitioners' outstanding obligations as of July 31, 1999.

In a subsequent Order,³² the trial court, on petitioners' motion, lifted its previous Order of default, and the latter were given the opportunity to cross-examine respondents' witnesses which they failed to do. Moreover, they also failed to attend subsequent scheduled hearings. The trial court thus declared the forfeiture, on waiver, of petitioners' rights to cross-examine and present their evidence, and considered the case submitted for decision based solely on respondents' evidence.³³ However, on petitioners' motion,³⁴ the trial court again reconsidered, and scheduled the presentation of their evidence on October 5, 2001.³⁵

However, petitioners moved to reset the October 5, 2001 hearing.³⁶ After several postponements, the trial was reset to April 11, 2002.³⁷ On said date, the testimony of the first witness for the defense, petitioner Alberto Castro, was taken

²⁹ Id. at 40.

³⁰ TSN, August 16, 2000, pp. 7-17.

³¹ Exhibit "K," Records, Vol. 1, pp. 119-124.

³² See Order dated October 11, 2000, id. at 137.

³³ See Order dated May 3, 2001, id. at 144.

³⁴ Id. at 145-146.

³⁵ See Order dated August 28, 2001, id. at 157-158.

³⁶ See Order dated September 26, 2001, id. at 165.

³⁷ See Order dated February 20, 2002, id. at 190.

and completed. Cross-examination was scheduled on May 30, 2002,³⁸ but was rescheduled to be taken on August 21, 2002.³⁹

On August 21, 2002, petitioners once more failed to appear; the trial court, in an Order⁴⁰ of even date, decreed that petitioner Alberto Castro's testimony be stricken off the record and declared the case submitted for decision. Petitioners moved for reconsideration;⁴¹ respondents opposed,⁴² noting that for more than two years and in spite of several opportunities afforded them, petitioners have been unable to participate in the proceedings and present their evidence. The trial court did not reconsider.⁴³

Petitioners took issue in the CA via Petition for *Certiorari*,⁴⁴ but the appellate court, in a February 18, 2004 Decision,⁴⁵ sustained the trial court and declared that no grave abuse of discretion was committed when it ordered the striking out of petitioner Alberto Castro's testimony and the termination of trial.

Petitioners next filed a Motion to Inhibit⁴⁶ claiming that they could not obtain justice and a fair trial from the presiding judge. In her April 21, 2003 Order,⁴⁷ Judge Ma. Luisa Quijano-Padilla voluntarily inhibited herself from trying the case. She stressed, however, that she was doing so only in order that the probity and objectivity of the court could be maintained, but not because petitioners' grounds for seeking inhibition are meritorious.

The case was then re-raffled to Branch 85 of the Quezon City RTC, which

³⁸ Id.

³⁹ Id. at 206.

⁴⁰ Id. at 214.

⁴¹ Id. at 218-220.

⁴² Id. at 225-230.

⁴³ See Order dated November 22, 2002, id. at 231-232.

⁴⁴ Id. at 233-243. Docketed as CA-G.R. SP No. 75348.

⁴⁵ *Rollo*, pp. 135-139; penned by Associate Justice Eliezer R. De los Santos and concurred in by Associate Justices B.A. Adefuin De la Cruz and Jose C. Mendoza (now a Member of this Court).

⁴⁶ Records, Vol. 1, pp. 253-255.

⁴⁷ Id. at 272-273.

required the parties to submit memoranda.⁴⁸ While respondents submitted theirs, petitioners did not.

Ruling of the Regional Trial Court

On January 31, 2005, the trial court issued its Decision,⁴⁹ decreeing as follows:

WHEREFORE, judgment is hereby rendered ordering the defendants, jointly and severally, to pay plaintiffs the following:

1. Eight Hundred Sixty-three Thousand Seven Hundred Ninety Six Pesos (₱863,796.00), by way of actual or compensatory damages;
2. Fifty Thousand Pesos (₱50,000.00), by way of moral damages;
3. Fifty Thousand Pesos (₱50,000.00), by way of exemplary damages;
4. The amount equivalent to twenty-five (25%) percent of the total amount recoverable herein by plaintiffs, by way of attorney's fees; and
5. Costs of suit.

SO ORDERED.⁵⁰

The trial court held that petitioners violated the terms of the lease.⁵¹ petitioners failed to pay rent on time,⁵² the warehouses were shown to be in damaged condition,⁵³ and they overstayed beyond the contract period.⁵⁴ However, respondents failed to prove the actual amount of their pecuniary losses in regard to the damaged warehouses, which entitles them merely to nominal damages.⁵⁵ As to moral damages, the trial court held that because petitioners acted in gross and wanton disregard of their contractual obligations, respondents are entitled to such

⁴⁸ See Order dated October 25, 2004, id. at 294.

⁴⁹ CA *rollo*, pp. 56-65; penned by Judge Marlene Gonzales-Sison.

⁵⁰ Id. at 64-65.

⁵¹ Id. at 60.

⁵² Id. at 62.

⁵³ Id. at 64.

⁵⁴ Id.

⁵⁵ Id.

damages, as well as attorneys fees as stipulated at 25% of the total amount recoverable.⁵⁶

With respect to petitioners, the trial court said that although they claim to have paid all their obligations in full, no evidence to such effect has been presented,⁵⁷ for the precise reason that they failed to participate in the proceedings on their own account.

Both parties moved for reconsideration. Respondents prayed that petitioners be made additionally liable for liquidated damages and ₱2,000,000.00 as compensation for the restoration of the damaged warehouses.⁵⁸

Petitioners, in their Verified Motion for Reconsideration,⁵⁹ argued that the evidence is not sufficient to warrant a finding of liability on their part, and the award is excessive. They claimed that they should not be made to pay additional rent for their unauthorized stay beyond the lease expiration date, or from July 1 to August 11, 1999, because the lease agreement did not provide for such. Likewise, they claimed that, as represented by respondents themselves in their July 22, 1999 demand letter,⁶⁰ which they annexed to their Verified Motion for Reconsideration and was presented to the court for the first time, petitioners' outstanding obligation, including back rentals, interest, and the supposed one-month additional rent, was pegged at a mere ₱378,451.00; thus, the judgment award of ₱863,796.00 is excessive and illegal. Petitioners added that there is no factual basis for the award of moral and exemplary damages. Thus, they prayed that the Decision be reconsidered and that the Complaint be dismissed.

In a January 30, 2006 Omnibus Order,⁶¹ the trial court declined to

⁵⁶ Id.

⁵⁷ Id. at 63.

⁵⁸ Id. at 89.

⁵⁹ Id. at 71-84.

⁶⁰ *Rollo*, p. 74.

⁶¹ Id. at 75-77.

reconsider. Only petitioners went up to the CA on appeal.

Ruling of the Court of Appeals

In the CA, petitioners maintained that the Decision is erroneous and the awards excessive, echoing their previous argument below that the lease agreement did not authorize respondents to charge additional rents for their extended stay and interest on delayed rental payments. They added that respondents are not entitled to moral and exemplary damages and attorney's fees. Finally, they bemoaned the trial court's act of resolving their Verified Motion for Reconsideration of the Decision without conducting oral arguments.

The CA, however, was unconvinced. It held that the preponderance of evidence,⁶² which remained uncontroverted by petitioners, points to the fact that petitioners indeed failed to pay rent in full, considering that their postdated checks bounced upon presentment,⁶³ and their unauthorized extended stay from July 1 until August 11, 1999.⁶⁴ It added that petitioners were undeniably guilty of violating several provisions of the lease agreement, as it has also been shown that they failed to pay rent on time and illegally subleased the property to one Cynthia Reyes, who even made direct payments of rentals to respondents on several occasions.⁶⁵

On petitioners' argument that respondents are not entitled to additional rent for petitioners' extended stay beyond the lease expiration date, the CA held that the respondents are in fact authorized to collect whatever damages they may have incurred by reason of the lease,⁶⁶ citing Section 16 of the lease agreement which provides as follows:

⁶² Id. at 51.

⁶³ Id. at 51-52.

⁶⁴ Id. at 51.

⁶⁵ Id. at 52.

⁶⁶ Id. at 53.

SECTION 16. TERMINATION OR CANCELLATION OF THE LEASE. Any delay in or violation, failure or refusal of the LESSEE to perform and comply with any of the obligations stipulated hereunder shall automatically give an absolute right to the LESSORS to cancel, terminate or otherwise rescind this Contract of Lease. x x x.

x x x x

The above provisions shall, however, be without prejudice to any right of claim by the LESSORS against the LESSEE for whatever damages which may be incurred or assessed under this Contract of Lease.⁶⁷
(Emphasis supplied)

The CA found no error in the award of moral and exemplary damages, noting that petitioners' violations of the lease agreement compelled respondents to litigate and endure unreasonable delays, sleepless nights, mental anguish, and serious anxiety.⁶⁸ As for attorney's fees, the CA sustained the trial court's award of 25%, saying that such stipulation may be justified under Article 2208 of the Civil Code.⁶⁹ Since respondents were compelled to incur expenses to protect their interests as a result of petitioners' acts and omissions, they should be allowed to collect the stipulated attorney's fees.⁷⁰

Finally, the CA held that the matter of conducting further oral arguments on a party's Motion for Reconsideration rests upon the sound discretion of the court. Because petitioners' Verified Motion for Reconsideration is a mere reiteration of their defenses which they raised all throughout the proceedings below, conducting

⁶⁷ Id. at 128-129.

⁶⁸ Id. at 52.

⁶⁹ Art. 2208. In the absence of stipulation, attorney's fees and expenses of litigation, other than judicial costs, cannot be recovered, except:

- (1) When exemplary damages are awarded;
- (2) When the defendant's act or omission has compelled the plaintiff to litigate with third persons or to incur expenses to protect his interest;
- (3) In criminal cases of malicious prosecution against the plaintiff;
- (4) In case of a clearly unfounded civil action or proceeding against the plaintiff;
- (5) Where the defendant acted in gross and evident bad faith in refusing to satisfy the plaintiff's plainly valid, just and demandable claim;
- (6) In actions for legal support;
- (7) In actions for the recovery of wages of household helpers, laborers and skilled workers;
- (8) In actions for indemnity under workmen's compensation and employer's liability laws;
- (9) In a separate civil action to recover civil liability arising from a crime;
- (10) When at least double judicial costs are awarded;
- (11) In any other case where the court deems it just and equitable that attorney's fees and expenses of litigation should be recovered.

In all cases, the attorney's fees and expenses of litigation must be reasonable.

⁷⁰ *Rollo*, p. 53.

a hearing on the motion would have been a mere superfluity.⁷¹

The CA thus dismissed the petitioners' appeal and sustained *in toto* the January 31, 2005 decision of the trial court.⁷² Their Motion for Reconsideration⁷³ was denied as well, through the questioned September 15, 2008 Resolution.⁷⁴

Issues

The instant Petition thus raises the following issues:

A

THE HONORABLE COURT OF APPEALS GRIEVOUSLY ERRED IN NOT CALLING THE TRIAL COURT TO TASK FOR REFUSING TO RECEIVE EVIDENCE IN SUPPORT OF THE VERIFIED MOTION FOR RECONSIDERATION OF PETITIONERS ON THE GROUND THAT THE AWARD OF DAMAGES IS EXCESSIVE.

B

THE HONORABLE COURT OF APPEALS GRIEVOUSLY ERRED IN NOT DISCERNING THE INTERNAL FACTUAL INCONSISTENCIES OF THE FINDINGS OF THE TRIAL COURT AS WELL AS THE LACK OF LEGAL BASIS THEREOF, *VIS-À-VIS* THE CLAIM OF UNPAID RENT AND INTEREST, IN CLEAR DISREGARD OF THE PRONOUNCEMENTS OF THIS HONORABLE COURT IN *MARTIN V. COURT OF APPEALS*.

C

THERE IS SIMILARLY NO BASIS FOR THE AWARD OF MORAL AND EXEMPLARY DAMAGES, AND THE HONORABLE COURT OF APPEALS WAS IN GRIEVOUS ERROR IN SUSTAINING THE TRIAL COURT IN CLEAR DISREGARD OF THIS HONORABLE COURT'S PRONOUNCEMENTS IN *ABS-CBN BROADCASTING CORPORATION V. COURT OF APPEALS*.⁷⁵

Petitioners' Arguments

Petitioners pray for the setting aside of the questioned Decision and Resolution of the CA, as well as the dismissal of respondents' Complaint,

⁷¹ Id. at 54.

⁷² Id. at 55.

⁷³ CA *rollo*, pp. 225-242.

⁷⁴ *Rollo*, pp. 57-58.

⁷⁵ Id. at 20.

claiming that they have in fact settled all their obligations to respondents.

Petitioners first claim that they should have been given the opportunity to present evidence during proceedings covering their Verified Motion for Reconsideration of the trial court's Decision, invoking Section 1, Rule 37 of the Rules of Court⁷⁶ which allows them to question the trial court's Decision on the ground that the damages awarded are excessive or that the evidence is insufficient to justify the Decision.⁷⁷

Petitioners direct the Court's attention to respondents' July 22, 1999 demand letter⁷⁸ indicating that their outstanding obligation was only ₱378,451.00, which thus renders excessive the award of ₱863,796.00.

Petitioners next insist that the lease agreement did not authorize respondents to charge additional rents for their July 1 to August 11, 1999 extended stay,⁷⁹ which thus renders without legal or factual basis and excessive the award of ₱863,796.00.⁸⁰ If at all, the basis for computation thereof should be the immediately preceding monthly rental of ₱244,025.00.⁸¹ Nor is the imposition of interest allowed under the agreement. Petitioners concede that in the absence of stipulation as to interest, respondents are entitled only to 6% annual interest as indemnity for damages,⁸² pursuant to Article 2209 of the Civil Code.⁸³

⁷⁶ Section 1. *Grounds of and period for filing motion for new trial or reconsideration.* – Within the period for taking an appeal, the aggrieved party may move the trial court to set aside the judgment or final order and grant a new trial for one or more of the following causes materially affecting the substantial rights of said party:

(a) Fraud, accident, mistake or excusable negligence which ordinary prudence could not have guarded against and by reason of which such aggrieved party has probably been impaired in his rights; or

(b) Newly discovered evidence, which he could not, with reasonable diligence, have discovered and produced at the trial, and which if presented would probably alter the result.

Within the same period, the aggrieved party may also move for reconsideration upon the grounds that the damages awarded are excessive, that the evidence is insufficient to justify the decision or final order, or that the decision or final order is contrary to law.

⁷⁷ *Rollo*, pp. 21-23.

⁷⁸ *Id.* at 23.

⁷⁹ *Id.* at 27.

⁸⁰ *Id.* at 27-28.

⁸¹ *Id.* at 28.

⁸² *Id.*

⁸³ Article 2209. If the obligation consists in the payment of a sum of money, and the debtor incurs in delay, the indemnity for damages, there being no stipulation to the contrary, shall be the payment of the interest agreed upon, and in the absence of stipulation, the legal interest, which is six percent per annum.

On the issue of petitioners' contract violations, it is claimed that petitioners are not guilty of subleasing the property to one Cynthia Reyes (Reyes). They argue that although Reyes paid a portion of the rentals, this may not be taken as sufficient proof of the existence of a sublease agreement between them; and even assuming that a sublease agreement indeed existed between them, such arrangement was condoned by respondents when they accepted payments of rents made directly to them by Reyes.⁸⁴

Regarding damages and attorney's fees, petitioners maintain that there could not have been delay in the payment of rentals as to warrant the award of moral damages, since they have paid the rents in full; their supposed liability was only for the additional rent incurred for their extended stay. Petitioners proceed to argue that if only respondents had exercised their option – allowed under the lease agreement – to forcibly evict petitioners from the premises, then they would not have incurred the damages they claim to be entitled to. As for the award of exemplary damages and attorney's fees, petitioners find no factual and legal bases for the grant thereof. Since they did not act with malice or bad faith in all matters relative to the lease, respondents should not be entitled thereto.⁸⁵

Respondents' Arguments

In their Comment,⁸⁶ respondents insist that petitioners committed several violations of the lease agreement,⁸⁷ specifically: for their failure to pay the rents on time,⁸⁸ for subleasing the property to Reyes,⁸⁹ for neglecting to maintain the warehouses which resulted in their damaged condition after the lease,⁹⁰ for refusing to vacate the premises upon the expiration of the lease,⁹¹ and for their neglect and refusal to pay the required fishpond license and permit fees imposed

⁸⁴ *Rollo*, pp. 32-33.

⁸⁵ *Id.* at 33-37.

⁸⁶ *Id.* at 106-121.

⁸⁷ *Id.* at 107.

⁸⁸ *Id.*

⁸⁹ *Id.* at 108.

⁹⁰ *Id.* at 107-108.

⁹¹ *Id.* at 108.

by the municipality of Bulacan.⁹² Respondents add that for these violations, they incurred actual damages and suffered moral damages, which further entitles them to exemplary damages and attorney's fees as stipulated in the lease agreement.⁹³

Respondents insist that far from being excessive, the trial court's award is instead insufficient, considering the damages suffered as a result of the petitioners' neglect to maintain the premises, specifically the warehouses, as agreed.

Respondents maintain that in the event of expiration of the lease period and the lessee maintains himself within the premises, the law authorizes the collection of rentals on a month-to-month or year-to-year basis,⁹⁴ citing Articles 1670 and 1687 of the Civil Code.⁹⁵ Thus, even if the lease agreement with petitioners failed to provide for a stipulation covering lease extension, the obligation to pay rent is not extinguished by the expiration of the lease on June 30, 1999.⁹⁶

Respondents further claim that interest should be paid at 12% *per annum*, and not merely 6%, on the outstanding obligation.⁹⁷

Our Ruling

While this Court is not a trier of facts, it appears that both the trial court and the CA have misappreciated the facts and the evidence; rectification is thus in order, if justice is to be properly served.

⁹² Id.

⁹³ Id. at 112-113.

⁹⁴ Id. at 110

⁹⁵ Art. 1670. If at the end of the contract the lessee should continue enjoying the thing leased for fifteen days with the acquiescence of the lessor, and unless a notice to the contrary by either party has previously been given, it is understood that there is an implied new lease, not for the period of the original contract, but for the time established in Articles 1682 and 1687. The other terms of the original contract shall be revived.

Art. 1687. If the period for the lease has not been fixed, it is understood to be from year to year, if the rent agreed upon is annual; from month to month, if it is monthly; from week to week, if the rent is weekly; and from day to day, if the rent is to be paid daily. However, even though a monthly rent is paid, and no period for the lease has been set, the courts may fix a longer term for the lease after the lessee has occupied the premises for over one year. If the rent is weekly, the courts may likewise determine a longer period after the lessee has been in possession for over six months. In case of daily rent, the courts may also fix a longer period after the lessee has stayed in the place for over one month.

⁹⁶ *Rollo*, p. 110.

⁹⁷ Id. at 111.

But first, on the procedural issue raised, the Court cannot subscribe to petitioners' argument that they had a right to a hearing on their motion for reconsideration. The trial court may not be faulted for denying what it could have perceived was another of petitioners' delaying tactics, given how they acted throughout the proceedings. It may have been a baffling situation for the trial court to find itself suddenly confronted with petitioners' zeal in presenting their case, at such a late stage, when they have repeatedly waived such right during the trial of the case. Indeed, it possessed sufficient discretion to grant or deny the hearing sought for their motion for reconsideration; under the circumstances, the Court finds that such discretion was exercised soundly. Besides, as will be seen, the evidence is ample and clear enough to warrant judgment outside of a hearing.

Both courts erred in finding that there are outstanding rents owing to the respondents in the amount of ₱863,796.00. Attention must be called to respondents' July 22, 1999 demand letter.⁹⁸ The letter, which appears to have been handwritten and signed by Amparo Palenzuela herself, makes a demand upon petitioners to pay the total amount of ₱378,451.00 which respondents claim constitutes what is owing to them as of July 31, 1999 by way of unpaid rentals (₱111,082.00); additional rent for the whole duration of petitioners' stay on the premises beyond the contract date, or for the whole of July 1999 (₱244,025.00); and interest from May 31, 1999 up to July 31, 1999 (₱23,344.00). This letter belies the claim that petitioners owed respondents a greater amount by way of unpaid rents. Even though it is not newly-discovered evidence, it is material; indeed, petitioners could not have presented it during trial because they were declared in default.

Of this amount – ₱378,451.00 – petitioners admit to paying nothing. Thus, for petitioners, this is their admitted liability.

The Court notes further that respondents do not even dispute petitioners'

⁹⁸ Id. at 74.

argument that the amount of ₱863,796.00 actually represented rentals being claimed for their one-month extended stay on the premises, which to them is excessive. This argument of the petitioners finds support in the direct testimony of respondents' witness, Amparo Palenzuela, thus –

Q x x x Madam Witness, you mentioned x x x that the defendants have outstanding obligation to you. Can you tell the Court how much is the outstanding obligation to you of the defendants with respect to their occupation of your fishponds?

A Up to July 31, 2000,⁹⁹ Mr. Castro's obligation is **₱863,796.00**.

Q Can you briefly explain to the Court how you came about this figure?

A Actually this is what he owes for back lease that he has not paid including interest. **This one is supposedly for overstaying of one month. We did not charge him 41 days, we are only charging him one month and that is the total.**¹⁰⁰

Q With respect to this ₱863,796.00 this is the total as of July?

A July 31.

Q 2000?¹⁰¹

A That's right.

Q And this pertains to unpaid rent and interest thereof?

A That's right.

Q The stipulated interest thereof?

A That's right.

Q And with respect to damages which you expect to incur is not yet included in this?

A Yes.

Q And the unpaid municipal fees are also not included in this?

A Not included but they have been paid.¹⁰² (Emphasis supplied)

Indeed, respondents do not deny that this amount of ₱863,796.00 is what they are actually charging petitioners for one month's extended use of their fishponds. If this is so, then it is truly excessive, considering that for the immediately preceding month – the whole of June 1999 – it costs only

⁹⁹ Should be 1999.

¹⁰⁰ Petitioners overstayed from July 1 to August 11, 1999 – a total of 41 days, but respondents waived the rent for August 1-11.

¹⁰¹ Should be 1999.

¹⁰² TSN, August 16, 2000, pp. 16-17.

₱244,025.00¹⁰³ for the petitioners to rent the same property. The trial court may have been impelled to accept respondents' own computation¹⁰⁴ of what they believed was due from petitioners on account of the fact that at that time, petitioners were declared in default and could not cross-examine the respondents' witness. But the fact remains that the July 22, 1999 demand letter¹⁰⁵ clearly sets forth in detail what appears to be the true, accurate and reasonable amount of petitioners' outstanding obligation. If this document were a forgery, respondents would have vehemently objected to its presentation at the very first opportunity. Yet they did not. Such document could thus be considered and given weight. "[T]he omission x x x 'to rebut that which would have naturally invited an immediate, pervasive and stiff opposition x x x create[s] an adverse inference that either the controverting [evidence] x x x presented x x x will only prejudice its case, or that the uncontroverted evidence indeed speaks of the truth' ".¹⁰⁶

As for petitioners' submission that respondents were not authorized to charge additional rent for their extended stay, this issue should be deemed settled by their very reliance on the July 22, 1999 demand letter,¹⁰⁷ where a charge for additional rent for their extended stay in the amount of ₱244,025.00 is included. By adopting the letter as their own evidence in seeking a reduction in the award of unpaid rent, petitioners are considered to have admitted liability for additional rent as stated therein, in the amount of ₱244,025.00. Petitioners may not simultaneously accept and reject the demand letter; this would go against the rules of fair play. Besides, respondents are correct in saying that when the lease expired on June 30, 1999 and petitioners continued enjoying the premises without objection from the respondents, an implied new lease was created pursuant to Article 1670 of the Civil Code, which placed upon petitioners the obligation to pay additional rent.

¹⁰³ Supra note 22.

¹⁰⁴ Exhibit "K," Records, Vol. 1, pp. 119-124.

¹⁰⁵ *Rollo*, p. 74.

¹⁰⁶ *Dayonot v. National Labor Relations Commission*, 356 Phil. 427, 433 (1998).

¹⁰⁷ *Rollo*, p. 74.

On the matter of interest, the proper rate is not 6% as petitioners argue, but 12% *per annum*, collected from the time of extrajudicial demand on July 22, 1999. Back rentals in this case are equivalent to a loan or forbearance of money.¹⁰⁸

On the issue of moral and exemplary damages, the Court finds no reason to disturb the trial and appellate courts' award in this regard. Petitioners have not been exactly above-board in dealing with respondents. They have been found guilty of several violations of the agreement, and not just one. They incurred delay in their payments, and their check payments bounced, for one; for another, they subleased the premises to Reyes, in blatant disregard of the express prohibition in the lease agreement; thirdly, they refused to honor their obligation, as stipulated under the lease agreement, to pay the fishpond license and other permit fees and; finally, they refused to vacate the premises after the expiration of the lease.

Even though respondents received payments directly from the sublessee Reyes, this could not erase the fact that petitioners are guilty of subleasing the fishponds to her. Respondents may have been compelled to accept payment from Reyes only because petitioners have been remiss in honoring their obligation to pay rent.

Bad faith "means breach of a known duty through some motive or interest or ill will."¹⁰⁹ By refusing to honor their solemn obligations under the lease, and instead unduly profiting from these violations, petitioners are guilty of bad faith. Moral damages may be awarded when the breach of contract is attended with bad faith.¹¹⁰ "Exemplary damages may [also] be awarded when a wrongful act is accompanied by bad faith or when the defendant acted in a wanton, fraudulent, reckless, oppressive, or malevolent manner x x x. [And] since the award of

¹⁰⁸ See *Liga v. Allegro Resources Corporation*, G.R. No. 175554, December 23, 2008, 575 SCRA 310, 323; *Spouses Catungal v. Hao*, 407 Phil. 309, 328-329 (2001).

¹⁰⁹ *Elcee Farms, Inc. v. National Labor Relations Commission*, 541 Phil. 576, 593 (2007).

¹¹⁰ *Frias v. San Diego-Sison*, G.R. No. 155223, April 3, 2007, 520 SCRA 244, 256; *Bankard, Inc. v. Feliciano*, 529 Phil. 53, 62-63 (2006).

exemplary damages is proper in this case, attorney's fees and costs of the suit may also be recovered,¹¹¹ as stipulated in the lease agreement.

WHEREFORE, premises considered, the Petition is **DENIED**. The January 29, 2008 Decision of the Court of Appeals in CA-G.R. CV No. 86925 which affirmed *in toto* the January 31, 2005 Decision of the Regional Trial Court of Quezon City, Branch 85 in Civil Case No. Q-00-41011 is **AFFIRMED** with the **MODIFICATION** that the actual and compensatory damages are reduced to ₱378,451.00, the same to earn legal interest at the rate of twelve percent (12%) *per annum* from July 22, 1999 until fully paid.

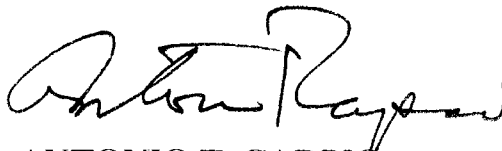
SO ORDERED.



MARIANO C. DEL CASTILLO

Associate Justice

WE CONCUR:



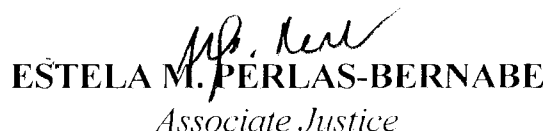
ANTONIO T. CARPIO

Associate Justice

Chairperson



JOSE PORTUGAL PEREZ
Associate Justice



ESTELA M. PERLAS-BERNABE
Associate Justice

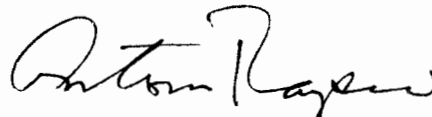


MARVIC MARIO VICTOR F. LEONEN
Associate Justice

¹¹¹ *Sunbanin v. Go*, G.R. No. 163280, February 2, 2010. 611 SCRA 320, 327-328.

ATTESTATION

I attest that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.

**ANTONIO T. CARPIO***Associate Justice**Chairperson***CERTIFICATION**

Pursuant to Section 13, Article VIII of the Constitution and the Division Chairperson's Attestation, I certify that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.

**MARIA LOURDES P. A. SERENO***Chief Justice*