

THIRD DIVISION

[G.R. No. 218732, November 12, 2018]

**REPUBLIC OF THE PHILIPPINES, REPRESENTED BY THE
SECRETARY OF THE DEPARTMENT OF PUBLIC WORKS AND
HIGHWAYS (DPWH), PETITIONER, VS. JOSE GAMIR-CONSUELO
DIAZ HEIRS ASSOCIATION, INC., RESPONDENT.**

DECISION

J. REYES, JR., J.:

Before the Court is a petition for review on *certiorari* under Rule 45 of the Rules of Court seeking to set aside the December 12, 2013 Decision^[1] and the June 9, 2015 Resolution^[2] of the Court of Appeals (CA) in CA-G.R. CV No. 02251-MIN, which reversed the March 4, 2010 Decision^[3] of the Regional Trial Court, Branch 15, Davao City (RTC).

Factual background

Jose Gamir-Consuelo Diaz Heirs Association, Inc. (respondent) is a duly incorporated corporation composed of the heirs of Jose Gamir and Consuelo Diaz. It was the registered owner of a parcel of land with an area of 1,836 square meters covered under Transfer Certificate of Title (TCT) No. T-7550.^[4]

On August 9, 2005, after a series of negotiations, respondent and the Republic of the Philippines (petitioner), through the Department of Public Works and Highways (DPWH), executed a Deed of Absolute Sale^[5] where it was agreed that respondent would sell the above-mentioned property to petitioner in consideration of P275,099.24. The property was eventually registered in petitioner's name under TCT No. T-390639^[6] after respondent's receipt of the full consideration. The said parcel of land forms part of Sta. Ana Avenue, a national road.^[7]

On November 15, 2006, respondent filed a Complaint^[8] before the RTC. It alleged that the subject parcel of land was taken by the DPWH sometime in 1957; the value of P275,099.24 as just compensation stated in the Deed of Absolute Sale, was based on the value of the property in 1957; it made verbal and written demands to petitioner for the payment of interest from 1957; and it had a right to receive interest because the DPWH had not paid just compensation when it occupied the property in 1957.

In its March 4, 2010 Decision, the RTC dismissed respondent's complaint for lack of merit. Aggrieved, it appealed before the CA.

CA Decision

In its December 12, 2013 Decision, the CA granted respondent's appeal and reversed the RTC decision. The appellate court noted that petitioner had been occupying respondent's property since 1957 and it was only in 2005 when the parties entered into a contract of sale for the said lot. It explained that the Deed of Absolute Sale was not equivalent to the constitutionally mandated just compensation because it refers not only to the correct amount to be paid but also the payment within a reasonable time from the taking. The CA expounded that without prompt payment, compensation cannot be considered just if the property is taken immediately because the property owner suffers the immediate deprivation of both the land and the fruits and income thereto. Relying on the pronouncements in *Apo Fruits Corporation v. Land Bank of the Philippines (Apo)*,^[9] the appellate court posited that legal interest accrued from the time of the actual taking of the property until actual payment to place the landowner in a position as good as the position he was before the taking occurred.

The CA elucidated that the Deed of Absolute Sale cannot be taken as a waiver of the payment of interest because the determination of just compensation in eminent domain cases is a judicial function and the taking of the property was done in the exercise of the state's inherent power of eminent domain. The appellate court added that the obligation to pay interest arises from law, independent of the contract of sale between the parties. Thus, it disposed:

WHEREFORE, premises considered, the instant appeal is GRANTED. The Decision dated 04 March 2010 in Civil Case No. 31,644-2006 is hereby REVERSED and SET ASIDE, and a new one is entered, granting the prayer for the payment of interest on the agreed price of the land at the rate of 12% per annum to be computed from 1957 until full payment is made. No Cost.

SO ORDERED.^[10]

Petitioner moved for reconsideration, but it was denied by the CA in its June 9, 2015 Resolution.

Hence, this present petition raising:

Issue

WHETHER RESPONDENT IS ENTITLED TO RECEIVE PAYMENT OF INTEREST NOTWITHSTANDING THE ABSENCE OF ANY STIPULATION IN THE DEED OF ABSOLUTE SALE WITH PETITIONER.

Petitioner argued that after the execution of the Deed of Absolute Sale, respondent cannot claim that it is still entitled to interest without violating the Parole Evidence Rule. It pointed out that the correspondences respondent relied on were made prior to the execution of the contract. Petitioner assailed that the Deed of Absolute Sale was voluntarily executed and contained all the stipulations relating to the conveyance of the property. It posited that the lack of stipulation concerning the payment of interest in the contract amounted to an abandonment thereof considering that respondent had raised the same during the negotiation of the contract. Petitioner believed that respondent should have asserted the payment of interest before the execution of the Deed of Absolute Sale and the latter's execution

of the contract sans any provision for the payment of interest amounted to a waiver of the payment of interest.

In addition, petitioner claimed that the ruling in *Apo* is inapplicable because unlike in the said case, the value of just compensation was not an issue as it was agreed upon by the parties and the only controversy here is the payment of interest. It also noted that in *Apo*, the landowner offered to sell the property to the government as opposed to the present case where the Deed of Absolute Sale was executed after negotiations between the parties. Finally, petitioner surmised that the provisions of the Civil Code with regards to contract should apply because the transfer of property was made through negotiated sale.

In its Comment^[11] dated November 7, 2015, respondent lamented that the arguments raised in petitioner's petition for review on certiorari had been addressed by the CA.

In its Reply^[12] dated June 24, 2016, petitioner reiterated that the Deed of Absolute Sale unconditionally transferred ownership of the subject property without objection on respondent's part as to the acquisition cost and the lack of a stipulation concerning payment of interest. It explained that the consensual contract between the parties is the law between them and that its provisions are obligatory. Petitioner highlighted that respondent never raised as an issue the alleged failure of the deed to reflect the parties' true intent or that respondent reserved the right to claim legal interest.

The Court's Ruling

The petition is meritorious.

Eminent domain is the inherent power of a nation or a sovereign state to take, or sanction the taking of, private property for a public use without the owner's consent, conditioned upon payment of just compensation.^[13] In other words, eminent domain is a coercive measure on the part of the state whereby private interests are impaired for the general welfare.

While eminent domain is an inherent power, it is not absolute such that it is subject to limitations imposed under the 1987 Constitution. Section 1, Article III provides that no person shall be deprived of property without due process of law, while Section 9 thereof states that private property shall not be taken for public use without just compensation. These constitutionally enshrined restrictions ensure that private individuals are not unduly prejudiced by the capricious or oppressive exercise of the State's powers. Thus, in order for the State to exercise its power of eminent domain, the following requirements must be present: (a) that it is for a particular purpose; and (b) that just compensation is paid to the property owner.^[14]

Just compensation is the full and fair equivalent of the property taken from its owner by the expropriator, the true measure of which is not the taker's gain but the owner's loss.^[15] Further, it does not only refer to the payment of the correct amount but also to the payment within a reasonable time from its taking because without prompt payment, the compensation cannot be considered just.^[16] In other words, just compensation in the context of eminent domain or expropriation

proceedings pertains to the timely or prompt payment of an adequate value sufficient to recoup the loss suffered by the property owner.

Respondent agrees with the valuation of its properties. As such, it does not contest in its complaint the consideration stipulated in the Deed of Absolute Sale it entered into with petitioner. Rather, it assails that it was entitled to interest from 1957, but petitioner refused to pay the same. On this score, the CA concurred with respondent noting that the legal interest emanated from law and not merely from a contract, which means that it is not subject to the will of the parties. The appellate court ratiocinated that respondent had no choice but to sign the Deed of Absolute Sale in spite of the absence of a stipulation regarding the payment of interest because the property was already in possession of the government since 1957.

Essentially, expropriation is an involuntary sale where the landowner is practically an unwilling seller.^[17] Provided all the requisites for its exercise are present, a private individual cannot resist the state's exercise of its inherent power of eminent domain. Nevertheless, there is nothing that precludes the government from entering into a negotiated sale with a private landowner to acquire a property to be devoted for a public purpose. In fact, expropriation proceedings or court intervention would be unnecessary should a deed of sale be executed where the parties come to an agreement as to the price of the property to be sold.^[18]

In *Republic v. Roque, Jr.*,^[19] the Court recognized that the State may acquire property through expropriation or voluntary sale, each having a different consequence or implication, to wit:

On a final note, we point out that the parties entered into a negotiated sale transaction; thus, the Republic did not acquire the property through expropriation.

In expropriation, the Republic's acquisition of the expropriated property is subject to the condition that the Republic will return the property should the public purpose for which the expropriation was done did not materialize. On the other hand, a sale contract between the Republic and private persons is not subject to this same condition unless the parties stipulate it.

The respondents in this case failed to prove that the sale was attended by a similar condition. Hence, the parties are bound by their sale contract transferring the property without the condition applicable in expropriation cases.

The CA surmised that the execution of deed of sale did not amount to a waiver on the part of respondent for the payment of interest. The rationale for the payment of interest in expropriation cases is to compensate landowners for the income they would have made had they been properly compensated for their properties at the time of taking.^[20]

Nonetheless, the required payment of interest is related to the computation of just compensation, which is judicially determined in expropriation proceedings. Interest payment should be viewed in a different light when there is a voluntary sale between the landowner and the government. As above-mentioned, expropriation

and voluntary sale have different legal effects, especially considering that in the latter, the parties could freely negotiate the terms and conditions of the contract, *i.e.*, they could include a stipulation concerning the payment of interest. In addition, in entering into a voluntary purchase or sale, the state does not exercise its power of eminent domain.^[21]

In a long line of cases where the Court awarded legal interest, there was either an absence of concurrence between the landowner and the government with regards to the value of the property taken or the state had commenced expropriation proceedings.

In the cases of *Reyes v. National Housing Authority*,^[22] *Republic v. Court of Appeals*,^[23] and *Philippine Ports Authority v. Rosales-Bondoc*,^[24] the government, through different bodies and agencies, instituted expropriation proceedings to acquire private property for public use. Meanwhile, in *Land Bank of the Philippines v. Imperial*,^[25] the landowner filed a complaint for determination and payment of just compensation after the Department of Agrarian Reform (DAR) distributed its properties to farmer-beneficiaries. On the other hand, in *Land Bank of the Philippines v. Wycoco*,^[26] the landowner initially offered to sell its property to DAR but the matter was referred to the DAR Adjudication Board after the former disagreed with the valuation of its property.

Common in the above-cited cases is the fact that either there was never any negotiation between the government and the private landowner, or the parties did not reach any agreement as to the consideration for the property taken. Unlike in the present case, petitioner and respondent voluntarily and freely executed and entered into a deed of sale covering the latter's property. The said document purports to represent the will of the parties concerning the transaction after a series of negotiations. It must be remembered that the contract is the law between the parties and they are bound by its stipulations.^[27] The CA erred in relying on the pronouncements in *Apo* because in the said case, there was no consensual contract between the parties as the landowner disagreed with the valuation done by the DAR on its property.

In sum, the award of legal interest in cases where the government acquires private property through voluntary sale is not a matter of law. Unlike in cases where the state exercises its power of eminent domain or a party initiates expropriation proceedings and other similar actions, in negotiated sale, there is an existing contract that governs the relations of the parties and determines their respective rights and obligations. In turn, these contractual stipulations should be complied with in good faith, unless they are contrary to law, morals, good customs, public order or public policies.^[28] Hence, the laws relating to contracts should govern in case of controversy in their application.

In its complaint, respondent admits that upon negotiation, it agreed to sell its property to petitioner for the amount stated in the Deed of Absolute Sale. However, it notes that prior to the execution of the said deed, it had demanded for the payment of interest to be computed from 1957, but petitioner rejected it. It is worth highlighting that the Deed of Absolute Sale between petitioner and respondent does not contain any provision or stipulation for the payment of interest. Neither did