

## SECOND DIVISION

[ G.R. No. 184698, January 21, 2013 ]

**SPOUSES ALBERTO AND SUSAN CASTRO, PETITIONERS, VS.  
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.**

### D E C I S I O N

#### **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*<sup>[1]</sup> assails the January 29, 2008 Decision<sup>[2]</sup> of the Court of Appeals (CA) which dismissed the appeal in CA-G.R. CV No. 86925, and its September 15, 2008 Resolution<sup>[3]</sup> denying petitioners' Motion for Reconsideration.

#### ***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.<sup>[4]</sup> 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.<sup>[5]</sup> The Contract of Lease<sup>[6]</sup> 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 P14,126,600.00,<sup>[7]</sup> via postdated checks<sup>[8]</sup> and according to the following schedule:

- a. Upon signing of the lease agreement, petitioners shall pay P842,300.00 for the lease period March 1, 1994 to June 30, 1994;<sup>[9]</sup>
- b. On or before June 1, 1994, petitioners shall pay P2,520,000.00 for the one-year lease period July 1, 1994 to June 30, 1995;<sup>[10]</sup>

- c. On or before June 1, 1995, petitioners shall pay P2,520,000.00 for the one-year lease period July 1, 1995 to June 30, 1996;<sup>[11]</sup>
  - d. On or before June 1, 1996, petitioners shall pay P2,520,000.00 for the one-year lease period July 1, 1996 to June 30, 1997;<sup>[12]</sup>
  - e. On or before June 1, 1997, petitioners shall pay P2,796,000.00 for the one-year lease period July 1, 1997 to June 30, 1998;<sup>[13]</sup> and
  - f. On or before June 1, 1998, petitioners shall pay P2,928,300.00 for the one-year lease period July 1, 1998 to June 30, 1999.<sup>[14]</sup>
2. Petitioners committed to pay respondents the amount of P500,000.00 in five yearly installments from June 1, 1994. The amount represents arrears of the previous lessee, which petitioners agreed to assume;<sup>[15]</sup>
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;<sup>[16]</sup>
4. Necessary repairs,<sup>[17]</sup> licenses, permits, and other fees<sup>[18]</sup> necessary and incidental to the operation of the fishpond shall be for petitioners' account;
5. Petitioners shall not sublease the premises to third parties;<sup>[19]</sup> 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 P1,000,000.00, 25% as attorney's fees, and costs of the suit.<sup>[20]</sup>

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.

Previously, or on July 22, 1999, respondents sent a letter<sup>[21]</sup> 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 P378,451.00, broken down as follows:

Unpaid balance as of May 31, 1999 for the fifth year of the lease	P111,082.00
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>244,025.00</u> <sup>[22]</sup>
Total owed to the Lessors	P378,451.00

Petitioners are in actual receipt of this letter.<sup>[23]</sup>

On June 8, 2000,<sup>[24]</sup> 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 P570,101.00<sup>[25]</sup> for unpaid rent, P275,430.00<sup>[26]</sup> for unpaid additional rent for petitioners' one-month extended stay beyond the contract date, and P2,000,000.00<sup>[27]</sup> 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.<sup>[28]</sup>

For failure to file their Answer, petitioners were declared in default,<sup>[29]</sup> 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 P863,796.00, interest included.<sup>[30]</sup>

During said proceedings, respondents presented in evidence a statement of account<sup>[31]</sup> detailing petitioners' outstanding obligations as of July 31, 1999.

In a subsequent Order,<sup>[32]</sup> 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.<sup>[33]</sup> However, on petitioners' motion,<sup>[34]</sup> the trial court again reconsidered, and scheduled the presentation of their evidence on October 5, 2001.<sup>[35]</sup>

However, petitioners moved to reset the October 5, 2001 hearing.<sup>[36]</sup> After several postponements, the trial was reset to April 11, 2002.<sup>[37]</sup> On said date, the testimony of the first witness for the defense, petitioner Alberto Castro, was taken and completed. Cross-examination was scheduled on May 30, 2002,<sup>[38]</sup> but was rescheduled to be taken on August 21, 2002.<sup>[39]</sup>

On August 21, 2002, petitioners once more failed to appear; the trial court, in an Order<sup>[40]</sup> 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;<sup>[41]</sup> respondents opposed,<sup>[42]</sup> 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.<sup>[43]</sup>

Petitioners took issue in the CA via Petition for *Certiorari*,<sup>[44]</sup> but the appellate court, in a February 18, 2004 Decision,<sup>[45]</sup> 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 Inhibit<sup>[46]</sup> claiming that they could not obtain justice and a fair trial from the presiding judge. In her April 21, 2003 Order,<sup>[47]</sup> 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 required the parties to submit memoranda.<sup>[48]</sup> While respondents submitted theirs, petitioners did not.

### ***Ruling of the Regional Trial Court***

On January 31, 2005, the trial court issued its Decision,<sup>[49]</sup> 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 (P863,796.00), by way of actual or compensatory damages;
2. Fifty Thousand Pesos (P50,000.00), by way of moral damages;
3. Fifty Thousand Pesos (P50,000.00), 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.<sup>[50]</sup>

The trial court held that petitioners violated the terms of the lease:<sup>[51]</sup> petitioners failed to pay rent on time,<sup>[52]</sup> the warehouses were shown to be in damaged condition,<sup>[53]</sup> and they overstayed beyond the contract period.<sup>[54]</sup> 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.<sup>[55]</sup> 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 damages, as well as attorneys fees as stipulated at 25% of the total amount recoverable.<sup>[56]</sup>

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,<sup>[57]</sup> 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 P2,000,000.00 as compensation for the restoration of the damaged warehouses.<sup>[58]</sup>

Petitioners, in their Verified Motion for Reconsideration,<sup>[59]</sup> 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,<sup>[60]</sup> 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 P378,451.00; thus, the judgment award of P863,796.00 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,<sup>[61]</sup> the trial court declined to 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,<sup>[62]</sup> 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,<sup>[63]</sup> and their unauthorized extended stay from July 1 until August 11, 1999.<sup>[64]</sup> 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.<sup>[65]</sup>

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,<sup>[66]</sup> citing Section 16 of the lease agreement which