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SECOND DIVISION

[G.R. No. 169903, February 29, 2012]

LAND BANK OF THE PHILIPPINES, PETITIONER, VS. HONEYCOMB FARMS CORPORATION, RESPONDENT.

D E C I S I O N

BRION, J.:

The petition for review before us assails the decision[1] dated March 31, 2005 of the Court of Appeals (*CA*) in CA-G.R. CV No. 66023, which affirmed with modification the judgment dated July 6, 1999 rendered by the Regional Trial Court (*RTC*) of Masbate, Masbate, Branch 48, acting as a Special Agrarian Court (*SAC*) in Special Civil Case No. 4323 for Determination and Payment of Just Compensation. The petition also prays for the reversal of the resolution of the CA,[2] dated October 4, 2005, denying reconsideration.

FACTUAL ANTECEDENTS

Honeycomb Farms Corporation (*Honeycomb Farms*) was the registered owner of two parcels of agricultural land in Cataingan, Masbate. The first parcel of land was covered by Transfer Certificate of Title (*TCT*) No. T-2872 and has an area of 240.8874 hectares. The second parcel of land was covered by TCT No. T-2549 and has an area of 254.25 hectares.[3] On February 5, 1988, Honeycomb Farms voluntarily offered these parcels of land, with a total area of 495.1374 hectares, to the Department of Agrarian Reform (*DAR*) for coverage under Republic Act No. (RA) 6657, the Comprehensive Agrarian Reform Law (*CARL*), for P10,480,000.00,[4] or P21,165.00 per hectare.[5] From the entire area offered, the government chose to acquire only 486.0907 hectares.

The Land Bank of the Philippines (*LBP*), as the agency vested with the responsibility of determining the land valuation and compensation for parcels of land acquired pursuant to the CARL,[6] and using the guidelines set forth in DAR Administrative Order (*AO*) No. 17, series of 1989, as amended by DAR AO No. 3, series of 1991, fixed the value of these parcels of land, as follows:

Acquired property	Area in hectares	Value
TCT No. T-2872	231.8406	P 910,262.62[7]
TCT No. T-2549	254.25	P1,023,520.56[8]

When Honeycomb Farms rejected this valuation for being too low, the Voluntary Offer to Sell was referred to the DAR Adjudication Board, Region V, Legaspi City, for a summary determination of the market value of the properties.[9] After these administrative proceedings, the Regional Adjudicator fixed the value of the

landholdings at P5,324,549.00, broken down as follows:

I. TCT No. T-2872

Land use	Value per hectare	Area	Total (Pesos)
Cornland	P12,000.00	69.158	829,896.00
Upland (cassava)	12,000.00	1.3888	16,665.60
Cocoland	15,000.00	13.65	204,750.00
Grass land	10,000.00	147.6438	1,476,438.00
TOTAL		**231.8408**	**2,527,749.60**

II. TCT No. T-2549

Land use	Value per hectare	Area	Total (Pesos)
Coconut land	P15,000.00	4.6	69,000.00
Cornland	12,000.00	101	212,000.00
Riceland (upland)	14,000.00	5	70,000.00
Cassava	12,000.00	4.65	55,800.00
Cogon	10,000.00	139	1,390,000.00
TOTAL		**254.25**	**2,796,800.00**[10]

Still, Honeycomb Farms rejected this valuation.

On July 4, 1994, Honeycomb Farms filed a case with the RTC, acting as a SAC, against the DAR Secretary and the LBP, praying that it be compensated for its landholdings in the amount of P12,440,000.00, with damages and attorney's fees.

The RTC constituted a Board of Commissioners to aid the court in determining the just compensation for the subject properties. The Board of Commissioners, however, failed to agree on a common valuation for the properties.

Honeycomb Farms, thereafter, filed an amended complaint, where it increased the valuation of the properties to P20,000,000.00.[11] The LBP, on the other hand, filed an amended answer where it admitted the preliminary valuation it made on the properties, but alleged that it had revalued the land registered under TCT No. T-2872 at P1,373,244.78, while the land registered under TCT No. T-2549 was revalued at P1,513,097.57.[12]

THE RTC DECISION

On July 6, 1999, the RTC issued a judgment whose dispositive portion reads:

WHEREFORE, judgment is hereby rendered by:

1.) Fixing the just compensation of the two parcels of land owned by the

> Honeycomb Farm[s] Corp. under TCT No. T-2872 and TCT No. T-2549 with a total area of 486.0907 hectares which is considered a[s] Carpable in the sum of P25,232,000 subject to the lien for the docket fee the amount in excess of P20,000,000 as pleaded for in the amended complaint.
>
> 2.) Ordering the defendants to jointly and severally pay Attorney's fee[s] equivalent to 10% of the total just compensation; without pronouncement as to cost.
>
> SO ORDERED.[13]

Since the Board of Commissioners could not reach a common valuation for the properties, the RTC made its own valuation. First, the RTC took judicial notice of the fact that a portion of the land, measuring approximately 10 hectares, is commercial land, since it is located a few kilometers away from Sitio Curvada, Pitago, Cataingan, Masbate, which is a commercial district. The lower court thus priced the 10 hectares at P100,000.00 per hectare and the remaining 476 hectares at P32,000.00 per hectare.

Both parties appealed to the CA.

Honeycomb Farms alleged that the government failed to pay just compensation for its land when the LBP opened a trust account in its behalf, in violation of the Court's ruling in *Landbank of the Phils. v. CA*.[14] Since it was never paid just compensation, the taking of its land is illegal. Consequently, the just compensation should thus be determined based on factors existing at the time of the fixing of just compensation, and not at the time the properties were actually taken.

The LBP, on the other hand, argued that the RTC committed a serious error when it disregarded the formula for fixing just compensation embodied in DAR AO No. 6, series of 1992, as amended by DAR AO No. 11, series of 1994. The LBP also argued that the RTC erred in taking judicial notice that 10 hectares of the land in question is commercial land. Lastly, the LBP assailed the award of attorney's fees for having no legal or factual basis.[15]

THE CA DECISION

The CA, in its March 31, 2005 decision, affirmed with modification the assailed RTC judgment. The dispositive portion of the decision reads:

> WHEREFORE, the foregoing considered, the assailed decision is MODIFIED only with respect to the computation of the amount fixed by the trial court which is hereby corrected and fixed in the total amount of P16,232,000.00, and the award of attorney's fees is deleted. The rest of the decision is AFFIRMED.[16]

The CA held that the lower courts are not bound by the factors enumerated in Section 17 of RA 6657 which are mere statutory guideposts in determining just

compensation. Moreover, while the LBP valued the land based on the formula provided for in DAR AO No. 11, series of 1994, this valuation was too low and, therefore, confiscatory.

The CA thus affirmed the RTC's valuation of the 10 hectares of commercial land at P100,000.00 per hectare, and the remaining 476 hectares at P32,000.00 per hectare.

THE PETITION

The LBP argues that the CA committed a serious error of law when it failed to apply the mandatory formula for determining just compensation fixed in DAR AO No. 11, series of 1994. In fixing the just compensation for the subject landholdings at P16,232,000.00, the CA adopted the values fixed by the SAC, despite the fact that the valuation was not based on law. According to the LBP, land taken pursuant to the State's agrarian reform program involves both the exercise of the State's power of eminent domain and the police power of the State. Consequently, the just compensation for land taken for agrarian reform should be less than the just compensation given in the ordinary exercise of eminent domain.

In contrast, Honeycomb Farms maintains that the DAR AOs were issued merely to serve as guidelines for the DAR and the LBP in administratively fixing the valuation to be offered by the DAR to the landowner for acceptance or rejection. However, it is not mandatory for courts to use the DAR AOs to fix just compensation as this would amount to an administrative imposition on an otherwise purely judicial function and prerogative of determination of just compensation for expropriated lands specifically reserved by the Constitution to the courts.

THE COURT'S RULING

We GRANT the LBP's petition.

Agrarian reform and the guarantee of just compensation

We begin by debunking the premise on which the LBP's main argument rests – since the taking done by the government for purposes of agrarian reform is not a traditional exercise of the power of eminent domain but one which is done in pursuance of social justice and which involves the State's police power, the just compensation to be paid to the landowners for these parcels of agricultural land should be less than the market value of the property.

When the State exercises its inherent power of eminent domain, the Constitution imposes the corresponding obligation to compensate the landowner for the expropriated property. This principle is embodied in Section 9, Article III of the Constitution, which provides: "*Private property shall not be taken for public use without just compensation.*"

When the State exercises the power of eminent domain in the implementation of its agrarian reform program, the constitutional provision which governs is Section 4, Article XIII of the Constitution, which provides:

> Section 4. The State shall, by law, undertake an agrarian reform program founded on the right of farmers and regular farmworkers who are landless, to own directly or collectively the lands they till or, in the case of other farmworkers, to receive a just share of the fruits thereof. To this end, the State shall encourage and undertake the just distribution of all agricultural lands, subject to such priorities and reasonable retention limits as the Congress may prescribe, taking into account ecological, developmental, or equity considerations, and **subject to the payment of just compensation.** [emphasis ours]

Notably, this provision also imposes upon the State the obligation of paying the landowner compensation for the land taken, even if it is for the government's agrarian reform purposes. Specifically, the provision makes use of the phrase "just compensation," the same phrase used in Section 9, Article III of the Constitution. That the compensation mentioned here pertains to the fair and full price of the taken property is evident from the following exchange between the members of the Constitutional Commission during the discussion on the government's agrarian reform program:

> FR. BERNAS. We discussed earlier the idea of a progressive system of compensation and I must admit, that it was before I discussed it with Commissioner Monsod. I think what is confusing the matter is the fact that when we speak of progressive taxation, the bigger the tax base, the higher the rate of tax. Here, what we are saying is that the bigger the land is, the lower the value per square meter. So, it is really regressive, not progressive.
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> MR. MONSOD. Yes, Madam President, it is true. It is progressive with respect to the beneficiary and regressive with respect to the landowner.
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> FR. BERNAS. **But is it the intention of the Committee that the owner should receive less than the market value?**
>
> MR. MONSOD. **It is not the intention of the Committee that the owner should receive less than the just compensation**. [17] (emphases ours)

Even more to the point is the following statement made by Commissioner Jose F.S. Bengzon Jr., taken from the same discussion quoted above:

> MR. BENGZON. Madam President, as we stated earlier, the term "just compensation" is as it is defined by the Supreme Court in so many cases and which we have accepted. So, there is no difference between "just compensation" as stated here in Section 5 and "just compensation" as stated elsewhere. There are no two different interpretations.[18]

Consistent with these discussions, the Court, in the definitive case of *Ass'n of Small Landowners in the Phils., Inc. v. Hon. Secretary of Agrarian Reform*,[19] defined