

SECOND DIVISION

[G.R. No. 154427, May 08, 2009]

**ZACARIAS DELOS SANTOS, PETITIONER, VS. CONSUELO B. PAPA
AND MARIA C. MATEO, RESPONDENTS.**

DECISION

BRION, J.:

In this petition for review on *certiorari* under Rule 45 of the Rules of Court, the petitioner Zacarias Delos Santos (*petitioner*) seeks the reversal of the January 16, 2002 Decision^[1] of the Court of Appeals (CA) and its subsequent Resolution of July 22, 2002^[2] denying the petitioner's motion for reconsideration.

BACKGROUND FACTS

The facts of this case are undisputed.^[3] The petitioner was leasing respondent Consuelo Papa's (*Papa*) property (*subject property*). On May 2, 1994, Papa verbally offered to sell the subject property to the petitioner. However, the petitioner turned down the offer because he did not have the means to purchase the property. Thereafter, Papa found another buyer in the person of Maria C. Mateo (*Mateo*), the other respondent in this case. The subject property's ownership was duly transferred to Mateo's name through the issuance of Transfer Certificate of Title (TCT) No. 216221 by the Registry of Deeds of Manila.

Meanwhile, the petitioner failed to pay his rent from May to August 1994, prompting Mateo, as the subject property's new owner, to institute ejectment proceedings against him before the Metropolitan Trial Court (*MeTC*) of Manila; the complaint was docketed as Civil Case No. 146030. The MeTC ruled in favor of Mateo and ordered the petitioner's ejectment. The CA, on appeal, upheld the MeTC's order.

On October 17, 1994, *while the ejectment case was pending*, the petitioner filed the present case for "Annulment of Deed of Sale and Cancellation of Title with Injunction and/or Issuance of Temporary Restraining Order," docketed as Civil Case No. 94-71936, with the Regional Trial Court (*RTC*), Branch 38, Manila. On November 25, 1994, the respondents filed a counterclaim for attorney's fees, costs of suit, moral and exemplary damages.

During the trial that ensued, the petitioner presented two witnesses - his son, William Delos Santos (who had been his representative in the suit) and Mrs. Geronima Angeles (*Angeles*), District Manager of the National Housing Authority. At the scheduled hearing for the completion of Angeles' testimony, neither the petitioner nor his counsel appeared. The RTC ordered Angeles' incomplete testimony stricken off the record, and declared that the lone testimony of the petitioner's son was insufficient to sustain a judgment against the respondents. Thus, the RTC dismissed the complaint.

The RTC continued to hear and receive evidence on the respondents' counterclaim, consisting of the testimonies of respondents Papa and Mateo. On March 8, 2000, the RTC rendered a Decision awarding respondents exemplary damages in the amount of P100,000.00 each, moral damages for P100,000.00 each and attorney's fees and litigation expenses in the amount of P50,000.00 each, with costs of suit.

On January 16, 2001, the CA affirmed the RTC decision, with the modification that the amount awarded as moral and exemplary damages to each respondent be reduced to P50,000.00. The CA reasoned that the petitioner was not a *bona fide* lessee as contemplated by Presidential Decree (P.D.) No. 1517 and P.D. No. 2016; he had failed to pay his rent from May to August 1994, the time that the subject property was offered and subsequently sold to Mateo. The CA thus concluded that he instituted the complaint in bad faith, considering that he was aware that he was in no position to exercise the right of first refusal. The CA also ruled that he violated Article 19 of the Civil Code.^[4]

The CA denied the petitioner's subsequent motion for reconsideration. Hence, this petition for review on *certiorari*, raising the following issues:

ISSUES

I.

THE HONORABLE COURT OF APPEALS GRAVELY AND SERIOUSLY ERRED IN DISREGARDING THE ISSUE REGARDING PETITIONER'S RIGHT OF FIRST REFUSAL IN VIEW OF HIS FAILURE [TO] APPEAL THE DISMISSAL IN DUE TIME[;]

II.

THE HONORABLE COURT OF APPEALS GRAVELY AND SERIOUSLY ERRED IN FAILING TO CONSIDER THAT THE AWARD OF MORAL AND EXEMPLARY DAMAGES, AS WELL AS ATTORNEY'S FEES AND LITIGATION EXPENSES WAS ABSOLUTELY WITHOUT FACTUAL LEGAL BASIS[.]

The petitioner argues that respondent Papa is mandated by law to give him a written notice of her intention to sell the subject property to Mateo and that the failure to do so renders the sale to the latter null and void. This right of first refusal or first option is provided under P.D. No. 1517 and P.D. No. 2016.

He further argues that the filing of the complaint was the idea of his previous counsel, who later abandoned his case. He cannot be said to have acted in bad faith when his lawyer was the one who advised him to file the suit. Bad faith is never presumed, and the respondents miserably failed to discharge the burden of proof required to prove that he had acted in bad faith. He also argues that the CA erred in finding him guilty of committing an act similar to malicious prosecution, which has the following elements: 1) there is a sinister design to vex and humiliate a person, and 2) the suit was deliberately initiated by the defendant knowing that his charges were false and groundless. Petitioner stresses that the mere act of submitting a case to the authorities does not make one liable for malicious prosecution.

Petitioner argues that there is no factual basis and evidentiary support for the grant of moral and exemplary damages, the only bases being: Papa's self-serving and inadequate testimony that she felt "great inconvenience"; her agreement with her lawyer regarding attorney's fees; and Mateo's unsubstantiated assertion that she suffered hypertension. The petitioner also argues that there is no basis for the lower courts' conclusion that he violated Article 19 of the Civil Code.

On his failure to appeal the RTC's dismissal of his complaint for lack of cause of action, the petitioner explains that his son, William, who was acting as his attorney-in-fact and legal representative, died in 1996; that William was the one who contacted his lawyers; and that since William's death, the petitioner lost contact with these lawyers.

The respondent, on the other hand, argues that the petitioner knew that he was disqualified from exercising the right of first refusal under P.D. No. 1517 and P.D. No. 2016. His filing of the baseless and unfounded complaint caused the petitioner to suffer mental anguish; thus, the award of moral and exemplary damages, and of attorney's fees, is justified.^[5]

OUR RULING

We find the petition meritorious.

When moral damages are recoverable

The award of moral damages is proper when the following circumstances concur: (1) there is an injury, whether physical, mental or psychological, clearly sustained by the claimant; (2) there is a culpable act or omission factually established; (3) the wrongful act or omission of the defendant is the proximate cause of the injury sustained by the claimant; and (4) the award of damages is predicated on any of the cases stated in Article 2219.^[6] This article provides:

Art. 2219. Moral damages may be recovered in the following and analogous cases:

- (1) A criminal offense resulting in physical injuries;
- (2) Quasi-delicts causing physical injuries;
- (3) Seduction, abduction, rape, or other lascivious acts;
- (4) Adultery or concubinage;
- (5) Illegal or arbitrary detention or arrest;
- (6) Illegal search;
- (7) Libel, slander or any other form of defamation;
- (8) Malicious prosecution;

(9) Acts mentioned in Article 309;

(10) Acts and actions referred to in Articles 21, 26, 27, 28, 29, 30, 32, 34, and 35.

The parents of the female seduced, abducted, raped, or abused, referred to in No. 3 of this article, may also recover moral damages.

The spouse, descendants, ascendants, and brothers and sisters may bring the action mentioned in No. 9 of this article, in the order named.

The CA sustained the lower court's grant of moral damages on the ground that the petitioner, in filing the "baseless, unfounded and groundless suit despite the fact that defendant Maria C. Mateo owns the property in question as evidenced by her Transfer Certificate of Title No. 216221 of the Registry of Deeds of Manila which she acquired by purchase from her co-defendant Consuelo B. Papa, xxx did not act with justice, did not give defendants their due and did not observe honesty and good faith in violation of the Civil Code."^[7] **However, a close scrutiny of the case reveals that the complaint was not completely groundless.**

***Petitioner's Right of First Refusal
under P.D. No. 1517***

At the outset, we note that the petitioner's failure to appeal the RTC's dismissal of his complaint rendered the dismissal final and executory. Hence, we cannot reverse the RTC's ruling that the petitioner lacked a cause of action and that the lone testimony of the petitioner's son failed to muster a preponderance of evidence in his favor. If we look at this aspect of the case at all, it is for purposes of determining whether sufficient basis exists to conclude that the filing of the complaint was an act of malicious prosecution that entitled the respondent to the awards of moral and exemplary damages, attorney's fees, and costs of suit granted by the lower courts. In other words, the dismissal of the complaint is final, but for purposes of reviewing the propriety of the awards, we examine the filing of the complaint from the prism of whether it constituted a malicious prosecution or an abuse of rights. **We rule that it was not.**

First. The complaint was based on P.D. No. 1517 or the Urban Land Reform Act (the Act) that grants preferential rights to landless tenants to acquire land within urban land reform areas.^[8] The right of first refusal is provided by Section 6 of the Act, which states:

Section 6. Land Tenancy in Urban Land Reform Areas. Within the Urban Zones legitimate tenants who have resided on the land for ten years or more who have built their homes on the land and residents who have legally occupied the lands by contract, continuously for the last ten years shall not be dispossessed of the land and shall be allowed the right of first refusal to purchase the same within a reasonable time and at reasonable prices, under terms and conditions to be determined by the Urban Zone Expropriation and Land Management Committee created by Section 8 of this Decree. [Underscoring supplied]