

THIRD DIVISION

[G.R. No. 163244, June 22, 2009]

**SPOUSES JOSE T. VALENZUELA AND GLORIA VALENZUELA,
PETITIONERS, VS. KALAYAAN DEVELOPMENT & INDUSTRIAL
CORPORATION, RESPONDENT.**

DECISION

PERALTA, J.:

This is a petition for review on *certiorari* assailing the Decision^[1] dated January 23, 2004 of the Court of Appeals in CA-G.R. CV No. 69814, and its Resolution^[2] dated April 20, 2004, denying petitioners' motion for reconsideration.

The factual and procedural antecedents are as follows:

Kalayaan Development and Industrial Corporation (Kalayaan) is the owner of a parcel of land covered by Transfer Certificate of Title (TCT) No. T-133026^[3] issued by the Register of Deeds of Metro Manila, District III. Later, petitioners, Spouses Jose T. Valenzuela and Gloria Valenzuela (Gloria), occupied the said property and introduced several improvements thereon.

When Kalayaan discovered that the lot was being illegally occupied by the petitioners, it demanded that they immediately vacate the premises and surrender possession thereof. Petitioners then negotiated with Kalayaan to purchase the portion of the lot they were occupying. On August 5, 1994, the parties executed a Contract to Sell^[4] wherein they stipulated that petitioners would purchase 236 square meters of the subject property for P1,416,000.00. Petitioners initially gave P500,000.00 upon signing the contract and agreed to pay the balance of P916,000.00 in twelve (12) equal monthly installments, or P76,333.75 a month until fully paid.^[5] The parties also agreed that, in case petitioners failed to pay any of the installments, they would be liable for liquidated penalty at the rate of 3% a month compounded monthly until fully paid. It was also stipulated that Kalayaan shall execute the corresponding deed of absolute sale over the subject property only upon full payment of the total purchase price.^[6]

Thereafter, petitioners made the following payments: P70,000.00 on October 20, 1994; P70,000.00 on November 23, 1994; and P68,000.00 on December 20, 1994, or a total of P208,000.00. After these payments, petitioners failed to pay the agreed monthly installments.

In a letter^[7] dated September 6, 1995, petitioners requested Kalayaan that they be issued a deed of sale for the 118 sq. m. portion of the lot where their house was standing, considering that they no longer had the resources to pay the remaining balance. They reasoned that, since they had already paid one-half of the purchase

price, or a total of P708,000.00 representing 118 sq. m. of the subject property, they should be issued a deed of sale for the said portion of the property.

In a letter^[8] dated December 15, 1995, Kalayaan reminded petitioners of their unpaid balance and asked that they settle it within the next few days. In a demand letter^[9] dated January 30, 1996, Kalayaan, through counsel, demanded that petitioners pay their outstanding obligation, including the agreed penalties, within ten (10) days from receipt of the letter, or they would be constrained to file the necessary actions against them. Again, in a letter^[10] dated March 30, 1996, Kalayaan gave petitioners another opportunity to settle their obligation within a period of ten (10) days from receipt thereof.

On June 13, 1996, petitioners wrote Atty. Atilano Huaben Lim, then counsel of Kalayaan, and requested him to intercede on their behalf and to propose to Kalayaan that Gloria's sister, Juliet Flores Giron (Juliet), was willing to assume payment of the remaining balance for the 118 sq. m. portion of the subject property at P10,000.00 a month.^[11] Petitioners stated that they had already separated the said 118 sq. m. portion and had the property surveyed by a licensed geodetic engineer to determine the unpaid portion of the property that needed to be separated from their lot.

On January 20, 1997, March 20, 1997, April 20, 1997, June 20, 1997, July 20, 1997, September 20, 1997, October 20, 1997, and December 20, 1997, Juliet made payments of P10,000.00 per month to Kalayaan, which the latter accepted for and in behalf of her sister Gloria.^[12]

Thereafter, Kalayaan's in-house counsel, Atty. Reynaldo Romero, demanded that petitioners pay their outstanding obligation. However, his demands remained unheeded. Thus, on June 19, 1998, Kalayaan filed a Complaint for Rescission of Contract and Damages^[13] against petitioners before the Regional Trial Court (RTC) of Caloocan City, Branch 126, which was later docketed as Civil Case No. C-18378.

On September 3, 1998, petitioners filed their Answer with Counterclaim^[14] praying, among other things, that the RTC dismiss the complaint and for Kalayaan to deliver the corresponding TCT to the subject property, so that the same may be cancelled and a new one issued in the name of the petitioners. Petitioners also prayed for the award of exemplary damages, moral damages, attorney's fees, and cost of suit.^[15]

After filing their respective pleadings, trial on the merits ensued. On August 2, 2000, the RTC rendered a Decision^[16] in favor of Kalayaan, rescinding the contract between the parties; ordering the petitioners to vacate the premises; and to pay the amount of P100,000.00 as attorney's fees. The decretal portion of the Decision reads:

IN VIEW OF ALL THE FOREGOING, judgment is hereby rendered rescinding the contract between the plaintiff and the defendants and ordering the defendants and all persons claiming rights under them to vacate the premises and to surrender possession thereof to the plaintiff. Moreover, defendants shall pay the amount of P100,000.00 as attorney's fees.

The counterclaim of the defendants is hereby ordered DISMISSED for lack of merit.

SO ORDERED.^[17]

Aggrieved, petitioners sought recourse before the Court of Appeals (CA) in their appeal docketed as CA-G.R. CV No. 163244. Petitioners argued that the RTC erred when:

IT RULED THAT THE PLAINTIFF-APPELLEE MADE A VALID FORMAL DEMAND UPON THE DEFENDANTS-APPELLANTS TO PAY THE LATTER'S DUE AND OUTSTANDING OBLIGATION;

IT RULED THAT THE PRINCIPLE OF NOVATION OF AN EXISTING OBLIGATION IS NOT APPLICABLE IN THE INSTANT CASE;

IT RULED THAT THE PRINCIPLE OF RESCISSION IS APPLICABLE IN THE CASE AND THAT THE PLAINTIFF-APPELLEE IS ENTITLED THERETO VIS-À-VIS THE DEFENDANTS-APPELLANTS;

IT FAILED TO RULE THAT THE PLAINTIFF-APPELLEE IS BARRED BY ESTOPPEL FROM ASKING FOR THE RESCISSION OF THE CONTRACT TO SELL.

IT RULED THAT THE DEFENDANTS-APPELLANTS DID NOT HAVE THE FINANCIAL CAPACITY TO PAY THE REMAINING BALANCE OF THE OBLIGATION AND THAT, CONSEQUENTLY, COMPLIANCE WITH THE TERMS OF THE SAID OBLIGATION HAS BECOME IMPOSSIBLE.

IT RULED THAT THE PLAINTIFF-APPELLEE IS ENTITLED TO ITS CLAIM FOR ATTORNEY'S FEES AND THE COST OF SUIT.^[18]

On January 23, 2004, the CA rendered a Decision affirming the Decision of the RTC, the dispositive portion of which reads:

WHEREFORE, premises considered, the ***assailed decision dated August 2, 2000 is hereby AFFIRMED, and the present appeal is hereby DISMISSED for lack of merit.***

SO ORDERED. (Emphasis supplied.)^[19]

Petitioners filed a Motion for Reconsideration,^[20] but it was denied for lack of merit in a Resolution^[21] dated April 20, 2004.

Hence, the present petition assigning the following errors:

- I. THE HONORABLE COURT OF APPEALS ERRED IN FAILING TO APPLY THE PROVISIONS OF THE NEW CIVIL CODE REGARDING SUBSTANTIAL PERFORMANCE IN THE JUST RESOLUTION OF THE PETITIONERS' APPEAL.

II. THE HONORABLE COURT OF APPEALS SHOULD HAVE APPLIED THE APPLICABLE PROVISIONS OF THE LAW VIS-À-VIS THE RESCISSION OF CONTRACTS TO SELL REAL PROPERTY, SPECIFICALLY THE REQUIREMENT OF A PRIOR AND VALIDLY NOTARIZED LETTER OF DEMAND.

III. THE HONORABLE COURT OF APPEALS FAILED TO APPLY TO THE INSTANT CASE THE PERTINENT PROVISIONS OF THE NEW CIVIL CODE REGARDING THE PRINCIPLE OF NOVATION AS A MODE OF EXTINGUISHING AN OBLIGATION.

IV. THE AWARD, BY THE COURT OF APPEALS, OF ATTORNEY'S FEES, WAS NOT IN ACCORD WITH THE FACTS AND THE LAW.

Petitioners maintain that they should have been entitled to get at least one-half of the subject property, because payment equivalent to its value has been made to, and received by Kalayaan. Petitioners posit that the RTC should have applied Article 1234^[22] of the Civil Code to the present case, considering that it has been factually established that they were able to pay at least one-half of the total obligation in good faith.

Petitioners contend that Kalayaan allowed Juliet to continue with the payment of the other half of the property in installments of P10,000.00 a month. They also insist that they or Juliet was not given proper demand. They maintain that the demand letters that were previously sent to them were for their previous obligation with Kalayaan and not for the new agreement between Juliet and Kalayaan to assume payment of the unpaid portion of the subject property. Petitioners aver that, for a demand of rescission to be valid, it is an absolute requirement that should be made by way of a duly notarized written notice.

Petitioners likewise claim that there was a valid novation in the present case. They aver that the CA failed to see that the original contract between the petitioners and Kalayaan was altered, changed, modified and restructured, as a consequence of the change in the person of the principal debtor and the monthly amortization to be paid for the subject property. When they agreed to a monthly amortization of P10,000.00 per month, the original contract was changed; and Kalayaan recognized Juliet's capacity to pay, as well as her designation as the new debtor. The original contract was novated and the principal obligation to pay for the remaining half of the subject property was transferred from petitioners to Juliet. When Kalayaan accepted the payments made by the new debtor, Juliet, it waived its right to rescind the previous contract. Thus, the action for rescission filed by Kalayaan against them, was unfounded, since the contract sought to be rescinded was no longer in existence.

Finally, petitioners question the RTC's award of attorney's fees. They maintain that there was no basis for the RTC to have awarded the same. They claim that Kalayaan was not forced, by their acts, to litigate, because Juliet was offering to pay the installments, but the offer was denied by Kalayaan. Moreover, since there were no awards for moral and exemplary damages, the award of attorney's fees would have no basis and should be deleted.

The petition is devoid of merit.