

SECOND DIVISION

[G.R. No. 129796, September 20, 2004]

**ASTROLAND DEVELOPERS, INC., PETITIONER, VS. GOVERNMENT
SERVICE INSURANCE SYSTEM AND COURT OF APPEALS,
RESPONDENTS.**

D E C I S I O N

CALLEJO, SR., J.:

Queen's Row Subdivision, Inc. (QRSI) is the owner of a parcel of land located in Barangay Molino, Bacoor, Cavite. To finance the development of a portion of the property into a housing project, QRSI secured a loan from the Government Service Insurance System (GSIS) on May 13, 1971 in the amount of ₱10,000,000. QRSI was to construct 4,493 housing units on a portion of the property, consisting of 100 hectares, and, thereafter, sell the same to qualified members of the GSIS. It secured an additional loan of ₱4,000,000 from the GSIS on February 28, 1972. However, by 1980, only 1,250 housing units had been constructed.^[1] In the interim, the National Housing Authority (NHA) issued a cease-and-desist order against the QRSI on April 11, 1979. QRSI and the GSIS were also sued by the contractors/suppliers for nonpayment of construction materials and services rendered in the amount of ₱7,639,768.^[2] By September 1980, QRSI had an outstanding obligation on its loan availment with the GSIS in the amount of ₱28,088,661.89. QRSI requested an additional loan from the GSIS in the amount of ₱8,000,000 to which the latter agreed, on the condition that a new project manager be designated by QRSI to continue with the development of the property, free from any interference by the QRSI. The latter agreed to this condition, and designated the Astroland Developers, Inc. (ASTRO) as project manager for the unfinished project.

On September 30, 1980, QRSI, ASTRO, as the new project manager of the unfinished project, and the GSIS executed a Project Management Agreement (PMA) in which ASTRO agreed to continue the development of 630,000 square meters of the property and to construct 1,741 housing units thereon. ASTRO was tasked therein as follows:

(hh) To take charge of the general operation, administration, disposition of the UNFINISHED PROJECT and to supervise and control all aspects of land development and maintenance of housing units thereon;

(ii) To market and sell, any and all completed housing units and/or lots within the UNFINISHED PROJECT, upon such terms and conditions as it may deem proper. For this purpose, QUEEN'S ROW shall execute and convey unto the PROJECT MANAGER special power(s) of attorney and all other necessary documents;

(jj) To request, demand, collect and receive from time to time any and all amounts accruing upon the contracts hereafter made for the sale of the housing units and/or lots aforesaid. All moneys paid to or collected by the PROJECT MANAGER, either upon contract or, otherwise, shall be distributed as follows:

(a) To the GSIS, the payment of any and all loans, including interests and other charges, previously or hereafter granted to QUEEN'S ROW and/or the PROJECT MANAGER;

(b) To the PROJECT MANAGER the amount of the commission or compensation then due to it;

(c) Taxes and assessments against the property embraced within the UNFINISHED PROJECT when and as the same may be due; and

(d) Pro-rated payments to other creditors of QUEEN'S ROW as warranted by the cash flow projection and provided said payments do not adversely affect the working capital for the Project.^[3]

The parties also agreed that the ASTRO would be paid by QRSI for its services, including a management fee. They, likewise, agreed that the PMA may be terminated or rescinded by the GSIS for valid cause without need of judicial action by giving sixty (60) days notice to that effect to both parties, which act shall be final and binding.

The parties executed an agreement in which the ASTRO bound itself to finish the construction of sixty (60) housing units a month on the average and to sell the completed units within the same period.^[4]

ASTRO received the loan of ₱8,000,000 granted by the GSIS for the continuation and completion of the development of the project.

On September 30, 1980, the GSIS, QRSI, and ASTRO executed a Supplemental Contract to Project Management Agreement (SCPMA) in which they agreed to appoint Isabel V. Arrieta, the president of QRSI, as exclusive general sales agent to undertake the marketing and sales of the completed housing units and to amend Articles X and XI of the PMA.^[5] Arrieta, as agent, and ASTRO, as principal, executed a Sales Agency Agreement. In the meantime, the NHA lifted its cease-and-desist order.

In a Letter dated February 22, 1982, Arrieta informed ASTRO of the balance of her commissions on the sales of the housing units amounting to ₱135,000 and requested for the remittance thereof.^[6] On March 1, 1982, ASTRO wrote Arrieta that, because of her failure to comply with the provisions of their Sales Agency Agreement, she was not entitled to any commission.^[7] When the Board of Trustees of the GSIS received reports of alleged activities of the contractors and/or ASTRO, including some GSIS officers, it approved Resolution No. 455 on May 28, 1982, authorizing the management of the GSIS to verify and investigate the report, to act

thereon and hold in abeyance the processing of all claims for payment under the PMA pending full verification.^[8]

On June 9, 1982, Arrieta wrote Atty. Manuel Lazaro, then Senior Vice-President of the GSIS, urging the immediate rescission and termination of the PMA and SCPMA on the allegation that ASTRO unscrupulously violated the terms and conditions thereof.^[9] In its letter to Lazaro, ASTRO denied Arrieta's claims. It requested for an investigation to determine the truth of such allegations as soon as possible, and warned that it would institute an action for damages should the PMA and the SCPMA be rescinded.^[10] Arrieta reiterated her request for the rescission of the said contract in a Letter dated June 28, 1982 which the GSIS received on July 5, 1982.^[11] In the said letter, she suggested to the president and general manager of the GSIS that ASTRO be replaced by the CV Management Corporation.

In the meantime, Arrieta's June 9, 1982 Letter was referred to Atty. Lazaro, who was then Government Corporate Counsel, for legal study and recommendation. On June 28, 1982, Atty. Marius Corpuz, an attorney in the Office of the Government Corporate Counsel (OGCC), issued a memorandum to the GSIS Board of Trustees recommending the termination of the PMA and the SCPMA as follows:

For all the foregoing reasons, and because of the strained relations between QRSI and ASTRO, the undersigned respectfully recommends the following for the protection of the GSIS:

(a) That the GSIS, in order to preserve the viability of the Queen's Row Subdivision Project, terminate the Project Management Agreement and the Supplemental Contract To Project Management Agreement, both dated September 30, 1980, between QRSI and ASTRO pursuant to Article 10.02, *supra*, by giving sixty-day written notice to both parties. Such termination is without prejudice to the right of ASTRO to the fees to which it is legally entitled as of date of termination;

(b) That all contracts with third parties engaged by ASTRO, which are, likewise, cancelled and revoked as a consequence, be paid on the basis of *quantum meruit*, i.e., for whatever work actually accomplished per plans and specifications.^[12]

On July 8, 1982, the Board of Trustees of the GSIS issued Resolution No. 587 approving the recommendations of the OGCC and appointing the CV Management Corporation as project manager, in lieu of ASTRO, to take effect upon the expiration of the sixty-day written notice thereof.^[13] ASTRO did not file any request for the reconsideration of the resolution nor any judicial action to assail the same.

As of September 20, 1982, ASTRO had completed 626 house-lot units or an average of 37 housing units per month and had paid ₱15,500,000 for the account of QRSI to the GSIS.^[14] It had yet to finish constructing 1,115 housing units. During the period of September 30, 1982 to December 31, 1982, ASTRO conducted the winding-up of its operations and turned over the unfinished project to QRSI and the GSIS.^[15]

On December 27, 1982, QRSI wrote the GSIS requesting that ASTRO be directed to

reimburse ₱10,000,000 for “over application of funds” for the period of January 1, 1981 to October 31, 1982.^[16] In a Letter dated January 15, 1983, ASTRO informed the GSIS that the claim of QRSI was unfounded, and stated its counterclaim for management fees against the QRSI and the GSIS in the amount of ₱12,993,419 as of December 31, 1982, to wit:

For management fees failed to realize on the balance of 1,741 units contracted, computed at five (5%) percent of sales value of 1,106 housing units; for accruing interests on accounts payable to Contractors up to December 31, 1982 at the prevailing rate of two (2%) percent a month; for accrued interest on management fees due at prevailing rate of two (2%) percent a month up to December 31, 1982; for administrative and operational expenses incurred during “winding-up” period from September 30, 1982 to December 31, 1982; for damages suffered resulting from the unilateral cancellation of the Project Management Agreement and non-payment of legitimate obligations due and payable to Astroland and Contractors, and violations of the Project Management and related agreements; for attorney’s fees and expenses of collection,

₱12,993,419.00
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(Itemized breakdown and supporting evidence of the above will be submitted in due course.)^[17]

However, QRSI and the GSIS refused to pay the claim of ASTRO. On April 22, 1984 and October 15, 1984, ASTRO again wrote the GSIS, reiterating its demand for the payment of management fees in the total amount of ₱21,187,069, inclusive of interest and charges from January 1, 1983 to October 15, 1984.^[18] On February 22, 1985, the GSIS Board of Trustees approved Resolution No. 216 denying the claim of ASTRO based on the following recommendation of the Technical Assistant II and Officer-In-Charge of the Housing Project Administrative Department:

1. The claim of Astro Land Developers, Inc. should be addressed to QRSI and not to the GSIS, considering that all orders of payment covering sales proceeds of completed housing units under Astro Land Management have been fully paid.
2. Contractors were hired by Astro Land Developers, Inc., Project Manager of QRSI, and not GSIS; hence, GSIS has no dealings with them. However, GSIS, in fact, accommodated them by granting loan to pay their pending claims at the time of termination of their management contract under quantum meruit basis, such loan, in effect, being additional loan granted to QRSI.
3. At the time of termination of the project management contract, the amount representing partial accomplishment on land development works and house construction of Astro Land were jointly evaluated and agreed upon between QRSI and its Project Manager, which was coordinated by the Board Committee on Housing, then audited by

COA and the team of Mr. Carlos Velayo, SGV, and Internal Audit representatives.

Therefore, the works accomplished by Astroland Developers, Inc. at the time of termination of the contract were duly paid for based on amount which all the parties have agreed upon. There was no pending claim of Astro Land that remained outstanding as of said date covering management fees and unpaid work accomplished.^[19]

On March 26, 1986, ASTRO filed a complaint solely against the GSIS in the Regional Trial Court of Manila for damages and attorney's fees, alleging, *inter alia*, the following:

(11) That the provisions of the Tri-Party Agreement, Annex "B," obliged QRSI to surrender and cede all its rights and prerogatives to the Project Manager in accordance with the designation of GSIS. (CF:2nd Whereas Clause, p. 2).

(12) That sometime in July 1981, Plaintiff ASTROLAND, as Project Manager, assumed actual land development and construction of the House-Lot Units comprised in the Unfinished Project as per designation of GSIS.

(13) That from the period 1 June 1982 to 31 August 1982, Plaintiff ASTROLAND completed the development and construction of 597 House-Lot Units duly accepted by GSIS and 38 House-Lot Units under various stages of construction or the total of 635 House-Lot Units.

(14) That on 8 July 1982, GSIS, without valid cause, unilaterally terminated and cancelled the Project Management Agreement and Supplemental Contract, Annexes "A" and "A-1," and the corresponding designation of Plaintiff as Project Manager, unduly depriving Plaintiff ASTROLAND of the Management Fees which it could have earned in the development and construction of the remaining 1,106 House-Lot Units pursuant to the aforesaid Agreements in the amount of at least Five Million Pesos (P5,000,000.00), Philippine Currency, or such amount as will be proved during the trial.

(15) That due to the unilateral termination and cancellation of the Project Management Agreement and Supplemental Contract, Annexes "A" and "A-1," and the corresponding designation of Plaintiff as Project Manager by GSIS, Plaintiff ASTROLAND suffered besmirched business reputation, the amount of which will be proven in due time.

(16) That in order to deter others similarly situated not to take their contractual obligations lightly and to serve as example to the public good, Defendant GSIS should be ordered to pay exemplary damages in such amount as may be proven in due time.

(17) That despite repeated demands, GSIS has failed and refused to pay the aforesaid claim of Plaintiff ASTROLAND for unearned Management Fees plus damages corresponding to the uncompleted 1,106