

SECOND DIVISION

[G.R. No. 143513, November 14, 2001]

**POLYTECHNIC UNIVERSITY OF THE PHILIPPINES, PETITIONER,
VS. COURT OF APPEALS AND FIRESTONE CERAMICS, INC.,
RESPONDENTS.**

[G.R. NO. 143590. November 14, 2001]

**NATIONAL DEVELOPMENT CORPORATION, PETITIONER, VS.
FIRESTONE CERAMICS, INC., RESPONDENTS.**

D E C I S I O N

BELLOSILLO, J.:

A litigation is not simply a contest of litigants before the bar of public opinion; more than that, it is a pursuit of justice through legal and equitable means. To prevent the search for justice from evolving into a competition for public approval, society invests the judiciary with complete independence thereby insulating it from demands expressed through any medium, the press not excluded. Thus, if the court would merely reflect, and worse, succumb to the great pressures of the day, the end result, it is feared, would be a travesty of justice.

In the early sixties, petitioner National Development Corporation (NDC), a government owned and controlled corporation created under CA 182 as amended by CA 311 and PD No. 668, had in its disposal a ten (10)-hectare property located along Pureza St., Sta. Mesa, Manila. The estate was popularly known as the NDC compound and covered by Transfer Certificates of Title Nos. 92885, 110301 and 145470.

Sometime in May 1965 private respondent Firestone Ceramics Inc. (FIRESTONE) manifested its desire to lease a portion of the property for its ceramic manufacturing business. On 24 August 1965 NDC and FIRESTONE entered into a contract of lease denominated as Contract No. C-30-65 covering a portion of the property measured at 2.90118 hectares for use as a manufacturing plant for a term of ten (10) years, renewable for another ten (10) years under the same terms and conditions.^[1] In consequence of the agreement, FIRESTONE constructed on the leased premises several warehouses and other improvements needed for the fabrication of ceramic products.

Three and a half (3-¹/₂) years later, or on 8 January 1969, FIRESTONE entered into a second contract of lease with NDC over the latter's four (4)-unit pre-fabricated reparation steel warehouse stored in Daliao, Davao. FIRESTONE agreed to ship the warehouse to Manila for eventual assembly within the NDC compound. The second contract, denominated as Contract No. C-26-68, was for similar use as a ceramic manufacturing plant and was agreed expressly to be "co-extensive with the lease of

LESSEE with LESSOR on the 2.60 hectare-lot."^[2]

On 31 July 1974 the parties signed a similar contract concerning a six (6)-unit pre-fabricated steel warehouse which, as agreed upon by the parties, would expire on 2 December 1978.^[3] Prior to the expiration of the aforementioned contract, FIRESTONE wrote NDC requesting for an extension of their lease agreement. Consequently on 29 November 1978 the Board of Directors of NDC adopted Resolution No. 11-78-117 extending the term of the lease, subject to several conditions among which was that in the event NDC "with the approval of higher authorities, decide to dispose and sell these properties including the lot, priority should be given to the LESSEE"^[4] (*underscoring supplied*). On 22 December 1978, in pursuance of the resolution, the parties entered into a new agreement for a ten-year lease of the property, renewable for another ten (10) years, expressly granting FIRESTONE the first option to purchase the leased premises in the event that it decided "to dispose and sell these properties including the lot" ^[5]

The contracts of lease conspicuously contain an identically worded provision requiring FIRESTONE to construct buildings and other improvements within the leased premises worth several hundred thousands of pesos.^[6]

The parties' lessor-lessee relationship went smoothly until early 1988 when FIRESTONE, cognizant of the impending expiration of their lease agreement with NDC, informed the latter through several letters and telephone calls that it was renewing its lease over the property. While its letter of 17 March 1988 was answered by Antonio A. Henson, General Manager of NDC, who promised immediate action on the matter, the rest of its communications remained unacknowledged.^[7] FIRESTONE's predicament worsened when rumors of NDC's supposed plans to dispose of the subject property in favor of petitioner Polytechnic University of the Philippines (PUP) came to its knowledge. Forthwith, FIRESTONE served notice on NDC conveying its desire to purchase the property in the exercise of its contractual right of first refusal.

Apprehensive that its interest in the property would be disregarded, FIRESTONE instituted an action for specific performance to compel NDC to sell the leased property in its favor. FIRESTONE averred that it was pre-empting the impending sale of the NDC compound to petitioner PUP in violation of its leasehold rights over the 2.60-hectare^[8] property and the warehouses thereon which would expire in 1999. FIRESTONE likewise prayed for the issuance of a writ of preliminary injunction to enjoin NDC from disposing of the property pending the settlement of the controversy.^[9]

In support of its complaint, FIRESTONE adduced in evidence a letter of Antonio A. Henson dated 15 July 1988 addressed to Mr. Jake C. Lagonera, Director and Special Assistant to Executive Secretary Catalino Macaraeg, reviewing a proposed memorandum order submitted to then President Corazon C. Aquino transferring the whole NDC compound, including the leased property, in favor of petitioner PUP. Attached to the letter was a draft of the proposed memorandum order as well as a summary of existing leases on the subject property. The survey listed FIRESTONE as lessee of a portion of the property, placed at 29,000^[10] square meters, whose contract with NDC was set to expire on 31 December 1989^[11] renewable for

another ten (10) years at the option of the lessee. The report expressly recognized FIRESTONE's right of first refusal to purchase the leased property "should the lessor decide to sell the same."^[12]

Meanwhile, on 21 February 1989 PUP moved to intervene and asserted its interest in the subject property, arguing that a "purchaser *pendente lite* of property which is subject of a litigation is entitled to intervene in the proceedings."^[13] PUP referred to *Memorandum Order No. 214* issued by then President Aquino ordering the transfer of the whole NDC compound to the National Government, which in turn would convey the aforementioned property in favor of PUP at acquisition cost. The issuance was supposedly made in recognition of PUP's status as the "Poor Man's University" as well as its serious need to extend its campus in order to accommodate the growing student population. The order of conveyance of the 10.31-hectare property would automatically result in the cancellation of NDC's total obligation in favor of the National Government in the amount of P57,193,201.64.

Convinced that PUP was a necessary party to the controversy that ought to be joined as party defendant in order to avoid multiplicity of suits, the trial court granted PUP's motion to intervene. FIRESTONE moved for reconsideration but was denied. On certiorari, the Court of Appeals affirmed the order of the trial court. FIRESTONE came to us on review but in a Resolution dated 11 July 1990 we upheld PUP's inclusion as party-defendant in the present controversy.

Following the denial of its petition, FIRESTONE amended its complaint to include PUP and Executive Secretary Catalino Macaraeg, Jr., as party-defendants, and sought the annulment of *Memorandum Order No. 214*. FIRESTONE alleged that although *Memorandum Order No. 214* was issued "subject to such liens/leases existing [on the subject property]," PUP disregarded and violated its existing lease by increasing the rental rate at P200,000.00 a month while demanding that it vacated the premises immediately.^[14] FIRESTONE prayed that in the event *Memorandum Order No. 214* was not declared unconstitutional, the property should be sold in its favor at the price for which it was sold to PUP - P554.74 per square meter or for a total purchase price of P14,423,240.00.^[15]

Petitioner PUP, in its answer to the amended complaint, argued in essence that the lease contract covering the property had expired long before the institution of the complaint, and that further, the right of first refusal invoked by FIRESTONE applied solely to the six-unit pre-fabricated warehouse and not the lot upon which it stood.

After trial on the merits, judgment was rendered declaring the contracts of lease executed between FIRESTONE and NDC covering the 2.60-hectare property and the warehouses constructed thereon valid and existing until 2 June 1999. PUP was ordered and directed to sell to FIRESTONE the "2.6 hectare leased premises or as may be determined by actual verification and survey of the actual size of the leased properties where plaintiff's fire brick factory is located" at P1,500.00 per square meter considering that, as admitted by FIRESTONE, such was the prevailing market price thereof.

The trial court ruled that the contracts of lease executed between FIRESTONE and NDC were interrelated and inseparable because "each of them forms part of the integral system of plaintiff's brick manufacturing plant x x x if one of the leased

premises will be taken apart or otherwise detached from the two others, the purpose of the lease as well as plaintiff's business operations would be rendered useless and inoperative."^[16] It thus decreed that FIRESTONE could exercise its option to purchase the property until 2 June 1999 inasmuch as the 22 December 1978 contract embodied a covenant to renew the lease for another ten (10) years at the option of the lessee as well as an agreement giving the lessee the right of first refusal.

The trial court also sustained the constitutionality of *Memorandum Order No. 214* which was not *per se* hostile to FIRESTONE's property rights, but deplored as prejudicial thereto the "very manner with which defendants NDC and PUP interpreted and applied the same, ignoring in the process that plaintiff has existing contracts of lease protectable by express provisions in the Memorandum No. 214 itself."^[17] It further explained that the questioned memorandum was issued "subject to such liens/leases existing thereon"^[18] and petitioner PUP was under express instructions "to enter, occupy and take possession of the transferred property subject to such leases or liens and encumbrances that may be existing thereon"^[19] (*underscoring supplied*).

Petitioners PUP, NDC and the Executive Secretary separately filed their *Notice of Appeal*, but a few days thereafter, or on 3 September 1996, perhaps realizing the groundlessness and the futility of it all, the Executive Secretary withdrew his appeal.^[20]

Subsequently, the Court of Appeals affirmed the decision of the trial court ordering the sale of the property in favor of FIRESTONE but deleted the award of attorney's fees in the amount of Three Hundred Thousand Pesos (P300,000.00). Accordingly, FIRESTONE was given a grace period of six (6) months from finality of the court's judgment within which to purchase the property in question in the exercise of its right of first refusal. The Court of Appeals observed that as there was a sale of the subject property, NDC could not excuse itself from its obligation TO OFFER THE PROPERTY FOR SALE FIRST TO FIRESTONE BEFORE IT COULD TO OTHER PARTIES. The Court of Appeals held: "NDC cannot look to *Memorandum Order No. 214* to excuse or shield it from its contractual obligations to FIRESTONE. There is nothing therein that allows NDC to disavow or repudiate the solemn engagement that it freely and voluntarily undertook, or agreed to undertake."^[21]

PUP moved for reconsideration asserting that in ordering the sale of the property in favor of FIRESTONE the courts *a quo* unfairly created a contract to sell between the parties. It argued that the "court cannot substitute or decree its mind or consent for that of the parties in determining whether or not a contract (has been) perfected between PUP and NDC."^[22] PUP further contended that since "a real property located in Sta. Mesa can readily command a sum of P10,000.00 per square (meter)," the lower court gravely erred in ordering the sale of the property at only P1,500.00 per square meter. PUP also advanced the theory that the enactment of *Memorandum Order No. 214* amounted to a withdrawal of the option to purchase the property granted to FIRESTONE. NDC, for its part, vigorously contended that the contracts of lease executed between the parties had expired without being renewed by FIRESTONE; consequently, FIRESTONE was no longer entitled to any preferential right in the sale or disposition of the leased property.

We do not see it the way PUP and NDC did. It is elementary that a party to a contract cannot unilaterally withdraw a right of first refusal that stands upon valuable consideration. That principle was clearly upheld by the Court of Appeals when it denied on 6 June 2000 the twin motions for reconsideration filed by PUP and NDC on the ground that the appellants failed to advance new arguments substantial enough to warrant a reversal of the Decision sought to be reconsidered.^[23] On 28 June 2000 PUP filed an urgent motion for an additional period of fifteen (15) days from 29 June 2000 or until 14 July 2000 within which to file a *Petition for Review on Certiorari* of the *Decision* of the Court of Appeals.

On the last day of the extended period PUP filed its *Petition for Review on Certiorari* assailing the *Decision* of the Court of Appeals of 6 December 1999 as well as the *Resolution* of 6 June 2000 denying reconsideration thereof. PUP raised two issues: (a) whether the courts *a quo* erred when they "conjectured" that the transfer of the leased property from NDC to PUP amounted to a sale; and, (b) whether FIRESTONE can rightfully invoke its right of first refusal. Petitioner posited that if we were to place our *imprimatur* on the decisions of the courts *a quo*, "public welfare or specifically the constitutional priority accorded to education" would greatly be prejudiced.^[24]

Paradoxically, our paramount interest in education does not license us, or any party for that matter, to destroy the sanctity of binding obligations. Education may be prioritized for legislative or budgetary purposes, but we doubt if such importance can be used to confiscate private property such as FIRESTONE's right of first refusal.

On 17 July 2000 we denied PUP's motion for extension of fifteen (15) days within which to appeal inasmuch as the aforesaid pleading lacked an affidavit of service of copies thereof on the Court of Appeals and the adverse party, as well as written explanation for not filing and serving the pleading personally.^[25]

Accordingly, on 26 July 2000 we issued a *Resolution* dismissing PUP's *Petition for Review* for having been filed out of time. PUP moved for reconsideration imploring a resolution or decision on the merits of its petition. Strangely, about the same time, several articles came out in the newspapers assailing the denial of the petition. The daily papers reported that we unreasonably dismissed PUP's petition on technical grounds, affirming in the process the decision of the trial court to sell the disputed property to the prejudice of the government in the amount of P1,000,000,000.00.^[26] Counsel for petitioner PUP, alleged that the trial court and the Court of Appeals "have decided a question of substance in a way definitely not in accord with law or jurisprudence."^[27]

At the outset, let it be noted that the amount of P1,000,000,000.00 as reported in the papers was way too exaggerated, if not fantastic. We stress that NDC itself sold the whole 10.31-hectare property to PUP at only P57,193,201.64 which represents NDC's obligation to the national government that was, in exchange, written off. The price offered per square meter of the property was pegged at P554.74. FIRESTONE's leased premises would therefore be worth only P14,423,240.00. From any angle, this amount is certainly far below the ballyhooed price of P1,000,000,000.00.

On 4 October 2000 we granted PUP's *Motion for Reconsideration* to give it a chance to ventilate its right, if any it still had in the leased premises, thereby paving the