Republic of the Philippines
Supreme Court
Manila

THIRD DIVISION

PHILIPPINE-JAPAN ACTIVE CARBON CORPORATION, Petitioner,	**G.R. No. 197022** Present:
- versus -	LEONEN, *J.*, *Chairperson*, GESMUNDO, CARANDANG, ZALAMEDA, and GAERLAN, *JJ.*
HABIB BORGAILY, Respondent.	Promulgated: January 15, 2020

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DECISION

CARANDANG, *J.*:

Before Us is a Petition for Review on *Certiorari*[1] filed by petitioner Philippine-Japan Active Carbon Corporation assailing, the Decision[2] dated February 25, 2011 of the Court of Appeals (CA) in CA-G.R. SP No. 01315 dismissing the complaint of petitioner for lack of jurisdiction.

Antecedents

On July 17, 2002, Philippine-Japan Active Carbon Corporation (petitioner) leased two apartment units from Habib Borgaily (respondent) for ₱15,000.00 each unit. The two lease contracts[3] have a lease period from August 1, 2002 to August 1, 2003. To secure faithful compliance of the obligations of petitioner under the lease contracts, a security deposit was required, to wit:

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1 *Rollo*, pp. 10-25.
2 Penned by Associate Justice Edgardo T. Lloren, with Associate Justices Romulo V. Borja and Ramon Paul L. Hernando (now a Member of his Court), concurring; id. at 30-37.
3 Id. at 70-78.

> 19. Upon signing hereof, the LESSEE shall pay a deposit of FORTY FIVE THOUSAND PESOS (P45,000.00) as a security for the faithful performance by the LESSEE of his obligations herein provide[d], as well as to answer for any liability or obligation that the LESSEE may incur to third parties arising from or regarding the use of the subject premises. Accordingly, said deposit may not be applied to any rental due under this contract and shall be refunded to the LESSEE only upon termination hereof after ascertaining that the latter has no further obligations under this contract or to any person or entity from or regarding the use of the premises.[4]

Petitioner deposited the amount of ₱90,000.00 as security deposit for the two apartment units.

The lease contract was not renewed after the expiration of the lease on August 1, 2003. However, petitioner still occupied the premises until October 31, 2003.

After vacating the premises, petitioner asked respondent to return the amount of ₱90,000.00. Petitioner alleged that it has no outstanding obligation to any person or entity relative to the use of the apartment units to which the security deposit may be held accountable.

As counterclaim in his Answer,[5] respondent claimed that petitioner failed to comply with its obligations in the lease contracts, such as keeping the apartment units "neat[-]looking" and keeping the lawns and hedges watered and trimmed.[6] Petitioner was also obliged to keep the leased premises in good and tenantable condition.[7] Further, upon termination of the lease, the lessee should surrender the leased premises to the lessor in a good and tenantable condition with the exception of ordinary fair wear and tear.[8]

Respondent alleged that when petitioner vacated the leased premises, the same was destroyed and rendered inhabitable. As such, respondent had to make the necessary repairs amounting to ₱79,534.00 to the units. Respondent furnished petitioner with the receipts of the expenses incurred from the labor and materials for the repair of the units. Hence, respondent had the right to withhold the release of the deposits due to the violation of the terms and conditions of the lease agreements.

Respondent claimed that when petitioner leased the two apartment units, the latter made respondent believe that the apartment units were going to be occupied by petitioner's executives and their families while assigned in Davao City. Instead, petitioner used the apartment units as staff houses. The use and occupancy of the apartment units became hazardous because petitioner's occupants, recklessly and with impunity, disregarded all norms of decent living in apartments and destroyed the units. Thus, as

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4 Id. at 77.
5 Id. at 78-86.
6 Id. at 70-71. Paragraph 3 of the Lease Agreement.
7 Id. at 71. Paragraph 6 of the Lease Agreement.
8 Id. at 72. Paragraph 16 of the Lease Agreement.

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counterclaim, respondent claimed that he had the right to withhold the refund of the security deposit amounting to ₱90,000.00 and apply the same to the cost of the repairs amounting to ₱79,534.00.[9]

Since respondent refused to return the security deposit, petitioner filed an action for collection of sum of money equivalent to the amount of the security deposit against the respondent.

MTCC ruling

In a Decision[10] dated May 20, 2005, the Municipal Trial Court Cities (MTCC) of Davao City, 11th Judicial Region, Branch 1, found that respondent had the obligation to return the security deposit. Under the lease agreement, it is provided that the security deposit shall be returned after the expiration of the lease. The lease agreement does not authorize the outright withholding of the security deposit by the lessor if it appears to him that the terms and conditions of the lease are violated. The lessor should first bring it to the proper forum to determine whether the lease contracts were violated, thus:

> WHEREFORE, judgment is hereby rendered in favor of the plaintiff and against the defendant:
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> a.) Ordering the defendant to refund plaintiff its security deposit in the amount of Ninety Thousand Pesos (₱90,000.00) with interest at twelve percent (12%) per annum, until refunded in full;
> b.) Ordering the defendant to pay plaintiff the amount of Ten Thousand Pesos (₱10,000.00) as attorney's fees plus cost of suit.
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> SO ORDERED.[11]

RTC ruling

In a Decision[12] dated August 16, 2006, the Regional Trial Court (RTC) of Davao City, 11th Judicial Region, Branch 13, reversed the ruling of the MTCC. The RTC held that, according to Paragraph 19 of the lease agreements, the security deposit is for the faithful performance by the lessee of its obligations under the lease agreement.[13] Respondent had the right to withhold the deposit until his claim for damages to the units which were not caused by ordinary wear and tear have been reimbursed.[14] The pictures showing the damage to the leased premises presented by the respondent during the hearing showed that when petitioner vacated the premises, the same were in need of major repairs.[15] Furthermore, the RTC found that the major repairs were all covered by receipts, which convinced the court that

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9 Id. at 83-85.
10 Penned by Judge Jose Emmanuel M. Castillo; id. at 58-62.
11 Id. at 61.
12 Penned by Judge Isaac G. Robillo, Jr.; id. at 53-57.
13 Id. at 53.
14 Id. at 53-54.
15 Id. at 56.

respondent spent ₱79,534.00 for the repairs for the two apartment units, thus:

> WHEREFORE, the decision of the court a quo is hereby reversed and set aside.
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> The court finds that the claim of plaintiff for refund of the amount of ₱90,000.00 which it paid defendant as security deposit for the two apartment units which plaintiff leased, had already been offset by amount of ₱79,534.00 which defendant spent for the repairs of the leased premises and the nominal damage in the amount of ₱11,464.00 which the court hereby awards to defendant. Plaintiff and defendant have therefore no more claims against each other.
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> SO ORDERED.[16]

CA ruling

Upon Petition for Review under Rule 42 to the CA, petitioner ascribed to the RTC grave abuse of discretion when it ruled that the claim for the refund of the security deposit has already been offset by the amount respondent spent for the repairs, and when the RTC ruled that defendant is entitled to nominal damages.

However, the CA in its Decision[17] dated February 25, 2011, resolved the case completely different from the raised errors by petitioner. The CA held that the pivotal issue was whether the MTCC has jurisdiction over the complaint.[18] The CA ruled that the allegations in petitioner's complaint make out a case for breach of contract and, therefore, an action for specific performance is an available remedy.[19] As such, the same is an action incapable of pecuniary estimation. Therefore, the MTCC has no jurisdiction over the case. The action for sum of money representing the security deposit is merely incidental to the main action for specific performance.[20] Thus, the CA dismissed the case for lack of jurisdiction, to wit:

> **WHEREFORE**, the instant petition is DENIED. The Decision dated August 16, 2006 and the Order dated September 19, 2006 of the RTC are SET ASIDE. The Decision dated May 20, 2005 of the MTCC is also SET ASIDE. The Complaint is DISMISSED for lack of jurisdiction.
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> **SO ORDERED**.[21]

Aggrieved by the CA Decision, petitioner filed a Petition for Review on *Certiorari*[22] before this Court, alleging that the nature of its complaint is one for collection of sum of money and attorney's fees, and not one for

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16 Id. at 57.
17 Supra note 2.
18 *Rollo*, p. 37.
19 Id. at 35.
20 Id. at 36.
21 Id. at 37.
22 Supra note 1.

breach of contract.[23] Petitioner claimed that the lease contracts were already terminated at the time of respondent's refusal to return the security deposit.[24] Since an action of breach of contract presupposes the existence of a contract, and that breach must be committed during the effectivity of the same, petitioner's action for the return of the security deposit cannot be considered as an action for breach of contract.[25]

Respondent, in his Comment,[26] claimed that the ruling of the CA that the action is one for breach of contract is correct. However, respondent has a legal and justifiable reason to withhold the refund of the security deposits, because petitioner vandalized the leased units and destroyed the same when the latter left the premises.[27]

Issues

The issues for Our resolution are: (1) whether the MTCC has jurisdiction over the case; and (2) whether the RTC was correct when it offset the amount of the security deposit with the amount of the repairs made by the respondent, plus the amount of nominal damages awarded to respondent.

Ruling of the Court

In order to determine whether the subject matter of an action is one which is capable of pecuniary estimation, the nature of the principal action or remedy sought must be considered. If it is primarily for recovery of a sum of money, then the claim is considered as capable of pecuniary estimation, and the jurisdiction lies with the municipal trial courts if the amount of the claim does not exceed ₱300,000.00 outside Metro Manila, and does not exceed ₱400,000.00 within Metro Manila. However, where the basic issue of the case is something other than the right to recover a sum of money, where the money claim is merely incidental to the principal relief sought, then the subject matter of the action is not capable of pecuniary estimation, and is within the jurisdiction of the RTC.[28]

The CA held that the allegations of the complaint filed by petitioner make out a case for breach of contract where an action for specific performance is an available remedy. Since the same is incapable of pecuniary estimation, the same is cognizable by the RTC. The refund of the ₱90,000.00 security deposit was merely incidental to the main action for specific performance.[29]

The CA was mistaken in appreciating the facts of the case. Contrary to its ruling, a perusal of the complaint filed by petitioner makes out a case for collection of sum of money and not for breach of contract. It is to be

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23 *Rollo*, pp. 17-21.
24 Id. at 18.
25 Id.
26 *Rollo*, pp. 97-109.
27 Id. at 103-107.
28 *Pajares v. Remarkable Laundry and Dry Cleaning*, 818 SCRA 144, 149 (2017).
29 *Rollo*, p. 35.

noted that the lease agreement had already expired when petitioner filed an action for the return of the security deposit. Since the lease had already expired, there is no more contract to breach.[30] The demand for the return of the security deposit was merely a collection suit. What the petitioner prayed for before the MTCC was the return of the amount of ₱90,000.00, and not to compel respondent to comply with his obligation under the lease agreement. As such, the CA erred when it held that the MTCC has no jurisdiction over the case and dismissed the same for lack of jurisdiction.

Respondent pleaded as counterclaim in his answer the cost of the repairs amounting to ₱79,534.00, which he incurred in fixing the two units leased by the petitioner. Petitioner rendered the two apartment units hazardous because petitioner recklessly and with impunity disregarded all norms of decent living. Petitioner destroyed the two apartment units and rendered it inhabitable and in need of major repairs. Thus, while respondent must return the security deposit to petitioner, respondent had the right to withhold the same and to apply it to the damages incurred by the apartment units occupied by petitioner. The RTC found that respondent spent a total of ₱79,534.00 for the repairs on the leased premises. Petitioner, when it occupied the apartment units, acknowledged that the leased premises were in good and tenantable condition. Petitioner shouldered all expenses for repairs of the apartment units, regardless of its nature, and that upon termination of the lease, petitioner must surrender the premises, also in the same good and tenantable condition when taken, with the exception of ordinary wear and tear. However, photographs of the extent of the damage on the leased premises presented during trial showed that when petitioner vacated the apartment units, they were in need of major repairs. The repairs undertaken by respondent were all covered by receipts, which the latter furnished to petitioner. The failure of petitioner to inspect the repairs undertaken by respondent, despite notice of the same, bars petitioner to question the propriety of the repairs on the apartment units. Therefore, the RTC was correct when it ordered the offsetting of the ₱90,000.00 security deposit to the expenses of the repairs amounting to ₱79,534.00.

However, the award of nominal damages has no basis. It has been settled that nominal damages cannot co-exist with actual damages.[31] Nominal damages are adjudicated in order that a right of the plaintiff, which has been violated or invaded by the defendant, may be vindicated or recognized, and not for the purpose of indemnifying the plaintiff for any loss suffered by him. Since respondent has already been indemnified for the damages made on the leased premises, there is no more reason to further grant nominal damages.

Since respondent must return the security deposit of ₱90,000.00 less than the cost of repairs amounting to ₱79,534.00, the remaining amount of ₱10,466.00, should still be returned by respondent to petitioner.

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30 *Ballesteros v. Abion*, 517 Phil. 253, 264 (2006).

31 *Metroheights Subdivision Homeowners Association Inc. v. CMS Construction and Development Corporation, et al.*, G.R. No. 209359, October 17, 2018.

WHEREFORE, the Decision dated February 25, 2011 of the Court of Appeals in CA-G.R. SP No. 01315 dismissing the complaint and holding that the case is one for specific performance incapable of pecuniary estimation and, therefore, within the original jurisdiction of the Regional Trial Court is hereby **REVERSED** and **SET ASIDE**. Accordingly, the Decision dated August 16, 2006 of the Regional Trial Court of Davao City, Branch 13 in Civil Case No. 31, 103-2005 is **AFFIRMED with MODIFICATION**. The security deposit in the amount of ₱90,000.00 has already been offset by the amount of ₱79,534.00 as expenses for the repairs of the apartment units. Nevertheless, respondent Habib Borgaily is **ORDERED** to return the amount of ₱10,466.00, the remaining amount of the security deposit, to petitioner Philippine-Japan Active Carbon Corporation.

SO ORDERED.

ROSMARI D. CARANDANG
Associate Justice

WE CONCUR:

MARVIC MARIO VICTOR F. LEONEN
Associate Justice

ALEXANDER G. GESMUNDO
Associate Justice

RODIL V. ZALAMEDA
Associate Justice

SAMUEL H. GAERLAN
Associate Justice

ATTESTATION

I attest that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.

MARVIC MARIO VICTOR F. LEONEN
Associate Justice
Chairperson, Third Division

CERTIFICATION

Pursuant to Section 13, Article VIII of the Constitution, I certify that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.

DIOSDADO M. PERALTA
Chief Justice