



Republic of the Philippines  
Supreme Court  
Manila

THIRD DIVISION

CITY OF BACOLOD CITY, CITY ENGINEER and the  
SANGGUNIANG PANLUNGSOD OF BACOLOD CITY,  
*Petitioners,*

- versus -

SUGARLAND HOTEL,  
INCORPORATED,  
*Respondent.*

X-----X

DEPARTMENT OF G.R. No. 182670  
TRANSPORTATION AND  
COMMUNICATIONS (DOTC) AND  
AIR TRANSPORTATION OFFICE  
(ATO),  
*Petitioners,*

- versus -

SUGARLAND HOTEL, INC., herein  
represented by ATTY. REYNALDO  
L. BAGATSING as Attorney-in-Fact,  
*Respondent.*

X-----X

PROVINCE OF NEGROS G.R. No. 182698  
OCCIDENTAL,  
*Petitioner,*

- versus -

Present:

**SUGARLAND  
INCORPORATED,**

**HOTEL,**  
*Respondent.*

LEONEN, Chairperson  
CARANDANG,  
ZALAMEDA,  
ROSARIO, and  
MARQUEZ, JJ.

Promulgated:

December 6, 2021

*MisDCLDatt*

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## DECISION

**ZALAMEDA, J.:**

Before this Court are consolidated petitions<sup>1</sup> for review on *certiorari* under Rule 45 of the Rules of Court seeking to reverse and set aside the Decision<sup>2</sup> dated 15 November 2007 and Resolution<sup>3</sup> dated 25 March 2008 of the Court of Appeals (CA) in CA-G.R. CEB-CV. No. 01555. The CA affirmed with modification the Decision<sup>4</sup> dated 28 December 2005 of Branch 49, Regional Trial Court (RTC) of Bacolod City.

### Antecedents

This case stems from a Complaint for Recission with Damages or Specific Performance with Damages, with Application for Writ of Preliminary Injunction and/or Temporary Restraining Order (Complaint) filed on 21 November 1994 by respondent Sugarland Hotel, Inc. (Sugarland Hotel), against petitioners City of Bacolod, City Engineer and *Sangguniang Panlungsod* of Bacolod City (City of Bacolod, et al.), Department of Transportation and Communications (DOTC), Air Transportation Office (ATO), and the Province of Negros Occidental (Province) (collectively,

<sup>1</sup> *Rollo* (G.R. No. 182630), pp. 447-448.

<sup>2</sup> *Id.* at 80-112; penned by Associate Justice Pampio A. Abarintos and concurred in by Associate Justices Francisco P. Acosta and Amy Lazaro-Javier (now a Member of this Court) of the Nineteenth Division, Court of Appeals, Cebu City.

<sup>3</sup> *Id.* at 127-128; penned by Associate Justice Pampio A. Abarintos and concurred in by Associate Justices Francisco P. Acosta and Amy Lazaro-Javier (now a Member of this Court) of the Nineteenth Division, Court of Appeals, Cebu City.

<sup>4</sup> *Id.* at 271-291.

petitioners) before the Bacolod City RTC.<sup>5</sup>

Sugarland Hotel alleged that it has been engaged in the hotel business for 22 years at the time of the filing of the complaint. It was named Sampaguita Hotel by its previous owner, Jose Pijuan (Pijuan), and acquired by its present owner, Felix Yusay (Yusay), in a public auction by the Development Bank of the Philippines in 1973. At that time, its hotel building, located adjacent to the Bacolod City Domestic Airport, had four (4) floors. Sometime in 1982, Sugarland Hotel, through Arch. Silverio Z. Ureta, applied for a Height Clearance Permit for the proposed Fourth Floor Annex, but it was denied in a Letter dated 01 June 1982 of Jesus Z. Singson, then Director of ATO.<sup>6</sup>

On 13 May 1994, Captain Panfilo Villaruel, Jr. (Villaruel), in his capacity as then ATO Chief and Assistant Secretary of DOTC, ordered the closure of Bacolod City Domestic Airport. One of the reasons he gave for the order was the presence of the third and fourth floors of Sugarland Hotel and the informal settlers around the vicinity of the airport, all of which were deemed obstructions to aerial navigation. The resulting public outcry led to discussions on the re-opening the Bacolod City Domestic Airport.<sup>7</sup>

A conference was held on 20 May 1994 at the L'Fisher Hotel, Bacolod City, where a Memorandum of Understanding (MOU) was executed by and among: (1) ATO, represented by Villaruel; (2) City of Bacolod, represented by City Mayor Alfredo C. Montelibano, Jr.; (3) the Province, represented by Vice-Governor Romeo J. Gamboa, Jr.; and (4) Sugarland Hotel, represented by its owner Yusay, in the presence of Presidential Adviser Daniel L. Lacson, Jr., and Negros Occidental 2nd District Representative Manuel H. Puey, as instrumental witnesses.<sup>8</sup>

The pertinent provisions of the said MOU state:

1. That a re-survey of the height of the Sugarland Hotel be immediately done by the [ATO], with the [Department of Public Works and Highways], Provincial Engineer's Office, the City Engineer's Office and representative of Mr. Felix Yusay;

2. That if the re-survey would reveal that only the fourth [floor] or portion thereof will have to be demolished, Mr. Yusay is willing to have it done within five (5) to seven (7) days from today, May 20, 1994; Provided that the City and the Provincial Government will pay subsequently for the value of the demolished portion subject to the following conditions:

A. The value of the demolished portion shall be reviewed by independent appraisers such as the Architects Guild of Negros Occidental,

<sup>5</sup> *Id.* at 82, 273.

<sup>6</sup> *Id.* at 82-85, 275.

<sup>7</sup> *Id.* at 83, 275.

<sup>8</sup> *Id.*

United Architects of the Philippines and the City of Bacolod and the Province of Negros Occidental;

B. In the event of indemnification[,] the same shall be subject to the approval of the respective Sanggunian of the City of Bacolod and the Province of Negros Occidental and the conformity and approval of the Commission on Audit (COA);

C. In view of this understanding[,] ATO will re-open the Bacolod City Airport soonest under certain conditions that the safety of flight will not be prejudiced;

3. In the event that the 3[rd] floor will be included in the demolition[,] the same reviewing appraisal committee will decide on the fair value thereof, and it will also require the same approval from the respective Sanggunian and the Commission on Audit. No demolition shall be made on Sugarland Hotel unless all other structures that will be found violating the Safety Standards of the International Civil Aviation Organization (ICAO) will be demolished at the same time.<sup>9</sup>

Consequently, surveys were conducted by the ATO, witnessed by representatives of the Provincial and City Engineers' Offices. Sugarland Hotel complained that contrary to the MOU, it was excluded and not invited to these surveys. In a Letter dated 24 May 1994, ATO Acting Officer-in-Charge Reynaldo D. Fernando informed Yusay, the Bacolod City Mayor, and the Negros Occidental Vice-Governor that Sugarland Hotel was in the way of the required final approach of Airport Runway 22, thus posing a hazard to aircraft operations, and recommended the lowering/removal of the obstacle by 6.38 meters.<sup>10</sup>

On 25 May 1994, Yusay consented to and caused the demolition of the fourth floor of Sugarland Hotel. On the very same day, Bacolod City Domestic Airport resumed operations.<sup>11</sup>

A few months after, or on 27 October 1994, the *Sangguniang Panlungsod* of Bacolod City passed and approved Appropriation Ordinance No. 35 appropriating the amount of Php4,000,000.00, to be taken from the underestimated income in the general fund for calendar year 1994, as indemnification for the demolished fourth floor of Sugarland Hotel subject to the conditions set forth in the MOU. The said *Sanggunian* also passed Appropriation Ordinance No. 3, Series of 1994 appropriating Php5,000,000.00 to pay Sugarland Hotel. In the subsequent Resolution No. 598, Series of 1994 and Ordinance No. 48, Series of 1994, said amount was reduced to Php3,600,000.00.<sup>12</sup>

<sup>9</sup> *Id.* at 83-84.

<sup>10</sup> *Id.* at 84, 275.

<sup>11</sup> *Id.* at 84-85.

<sup>12</sup> *Id.* at 84-85, 276.

However, when the demolition work reached 95% completion, the *Sangguniang Panlungsod* of Bacolod City issued Resolution Nos. 930 and 931 dated 03 November 1994 declaring the remaining undemolished parapet, shells of five rooms and water pressure tank as public nuisance, which should be summarily abated. The *Sangguniang Panlungsod* then authorized the City Mayor to exert all legal and even "extra-legal" measures for the removal of the alleged nuisance.

Moreover, the City of Bacolod and the Province refused to remit the Php4,000,000.00 and Php3,600,000.00 due to Sugarland Hotel, which their respective *Sanggunians* have already appropriated pursuant to the MOU. It appears that the City of Bacolod and the Province had suddenly adopted Villaruel's position that Sugarland Hotel is an obstruction to aerial navigation on the basis of International Civil Aviation Organization (ICAO) Annex "14" Rules, Series of 1967 (ICAO Rules). Sugarland Hotel disputed this contending that said rules only applies to international airports and that the applicable law is Administrative Order No. 5, Series of 1967, which governs domestic airports.<sup>13</sup>

On 07 November 1994, Sugarland Hotel gave the Chairperson of the Bacolod Airport Task Force,<sup>14</sup> Arch. Ramiro Garcia (Arch. Garcia), the authority to demolish the remaining portion of the fourth floor of its hotel, subject to certain conditions and with reservations to institute legal actions against ATO. The demolition of the fourth floor proceeded, with markings made to delineate the extent of the demolition based on the ATO's Obstruction Plan dated 26 August 1994.<sup>15</sup>

On 13 November 1994, Villaruel visited Sugarland Hotel and went up to the fourth floor to look at the extent of the demolition conducted by the Bacolod Airport Task Force. He then ordered the inclusion of the parapet, which was allegedly beyond the 1.70 meters excess height in the Obstruction Plan. In the afternoon of 15 November 1994, the City Engineer went to Sugarland Hotel and served a copy of a Demolition Order dated 15 November 1994 signed by Villaruel. Although the order served was merely a copy, it was received by Mr. Rodolfo Garcia (Garcia), the Sugarland Hotel's Building Administrator. The City Engineer, together with five (5) policemen and his demolition crew, proceeded to the fourth floor and took over the demolition then being supervised by the Bacolod Airport Task Force. Garcia had this incident reported in the Police Blotter.<sup>16</sup>

Two days later, and even though the Demolition Order was not yet

<sup>13</sup> *Id.* at 85, 276-277.

<sup>14</sup> The "Bacolod Airport Task Force" is an independent body whose main role was to supervise the demolition and discharge functions consistent with the MOU. It is composed of representatives from the different sectors of community; *id.* at 98.

<sup>15</sup> *Id.* at 85-86, 277.

<sup>16</sup> *Id.* at 86, 277.

final and executory, the City Engineer, accompanied by the officials of the City of Bacolod, the Philippine National Police – Special Weapons and Tactics, and armed bodyguards forcibly entered Sugarland Hotel through a fire truck ladder connected to the hotel's fire exit ladder. Despite the absence of any court order, the group proceeded to demolish the remaining portions of the fourth floor lasting until the following day, 18 November 1994.<sup>17</sup>

As a result of the demolition, the third, second, and first floor of the hotel also sustained damage. The lights were shattered as concrete debris fell on the lower floors. Even the satellite, elevator machinery, air conditioning compressor situated on top of the hotel, and the water tank were destroyed. The whole hotel was severely affected. Sugarland Hotel deteriorated with the removal of the parapet at the western portion of the third floor rendering the hotel building vulnerable to natural elements such as uncontrollable flow and seepage of rainwater, which even found its way to the second and first floors of the hotel. Thus, it was forced to close and suspend operations on 1 August 1994. It took three years of major renovation and repairs before Sugarland Hotel was able to resume business.<sup>18</sup>

Later, Sugarland Hotel discovered that the height of its building did not pose a threat to the safety of aerial navigation because it did not exceed the allowable height clearance of 2.5% gradient required by Administrative Order No. 5, Series of 1967 for domestic airports. The 1.6% gradient height clearance that Villaruel demanded from Sugarland Hotel applies only to international air navigation.<sup>19</sup> As a result, on 21 November 1994, Sugarland Hotel filed a Complaint for Rescission with Damages or Specific Performance with Damages, with Application for Writ of Preliminary Injunction and/or Temporary Restraining Order against petitioners.<sup>20</sup>

In their defense, DOTC and ATO maintained that Sugarland Hotel violated the allowable height clearance imposed by ICAO Rules, Administrative Order No. 5, Series of 1967, and the National Building Code. They claimed that Sugarland Hotel's Building Permit was only for three (3) floors, and that it cannot show any permit from ATO or the latter's predecessor allowing it to add more. Moreover, the fourth floor of the building is a public nuisance and they acted well within their authority and in good faith in response to the need to protect the public interest and secure public welfare in the lawful exercise of the State's police power.<sup>21</sup>

For their part, the City of Bacolod, City Engineer, and *Sangguniang Panlungsod* of Bacolod City, presented evidence to show that Sugarland Hotel had no permit for its fourth floor, and thus can be rightfully classified

<sup>17</sup> *Id.*

<sup>18</sup> *Id.* at 86–87, 277–278.

<sup>19</sup> *Id.* at 87, 278.

<sup>20</sup> *Id.* at 87, 277.

<sup>21</sup> *Id.* at 87, 278.

as nuisance. They claimed that the original Building Permit provided for a height limit of only 9.85 meters. By adding a fourth floor, Sugarland Hotel exceeded the allowable height clearance, which made it an obstruction to aircraft. Moreover, by not completely demolishing the fourth floor, Sugarland Hotel violated the MOU and it cannot claim compensation from them. The Province asserted defenses identical to that raised by City of Bacolod.<sup>22</sup>

### Ruling of the RTC

The RTC, in its Decision dated 28 December 2005, ruled in favor of Sugarland Hotel. It found petitioners guilty of breach and bad faith in the performance of what were incumbent upon them under the MOU.<sup>23</sup> It held that the MOU is valid and binding between the parties and the petitioners cannot evade their respective obligations therein. Moreover, the RTC found that the fourth floor of Sugarland Hotel should not have been considered an obstruction to aerial navigation, thus, there was no impelling need for its demolition.<sup>24</sup>

Thus, the RTC ruled as follows:

1. Ordering [City of Bacolod] and [the Province] to pay [Sugarland Hotel] the sum of P[hp]4,000,000.00 and P[hp]3,600,000.00 [...] plus interest of 12% per annum computed from May 25, 1994, respectively, the total amount of which represents value of [Sugarland Hotel's] demolished fourth floor as appraised by the United Architects Guild of the Philippines, Bacolod City Chapter[;]
2. Ordering [Petitioners], jointly and severally, to pay [Sugarland Hotel] the amount of [PhP12,000,000.00], as and by way of unearned profits for the period that it stopped operations due to the demolition;
3. Ordering [Petitioners], jointly and severally, to pay [Sugarland Hotel] the amount of [PhP1,000,000.00], as moral damages;
4. Ordering [Petitioners], jointly and severally, to pay [Sugarland Hotel] the amount of [PhP1,000,000.00] as exemplary damages;
5. Ordering [Petitioners], jointly and severally, to [pay] [Sugarland Hotel] the amount of [PhP600,000.00] as attorney's fees;
6. Ordering [Petitioners], jointly and severally, to pay the cost of suit.

On the [cross-claim], [DOTC and ATO] are hereby ordered to reimburse [City of Bacolod] and [the Province] the amounts of

<sup>22</sup> *Id.* at 87, 278-279.

<sup>23</sup> *Id.* at 282-283.

<sup>24</sup> *Id.* at 279-282.

P[hP]4,000,000.00 and P[hP]3,600,000.00, respectively.

The respective [counterclaims] of the [Petitioners] are dismissed for lack of merit.<sup>25</sup>

The City of Bacolod and City Engineer of Bacolod City moved for reconsideration, which was denied for lack of merit.<sup>26</sup> Aggrieved, Petitioners filed an appeal before the CA.

### **Ruling of the CA**

The CA denied the petitioners' appeal and affirmed the RTC Decision dated 28 December 2005 with the following modification:

a) [Deleting] the award of PhP12,000,000.00 by way of unearned profits; and instead, [granting] in favor of [Sugarland Hotel] temperate damages in the amount of PhP6,000,000.00 to be paid jointly and severally by [Petitioners];

b) [Reducing] the rate of interest from 12% per annum to 6% per annum computed from May 25, 1994, imposed upon the liabilities of [City of Bacolod and the Province] under the Memorandum of Understanding in the respective amounts of PhP4,000,000.00 and PhP3,600,000.00 as affirmed hereunder; and

c) [Deleting] the right of reimbursement of [the City of Bacolod and the Province] insofar as the above-mentioned awards in the amounts of PhP4,000,000.00 and PhP3,600,000.00 are concerned, as against [...] DOTC and ATO.

The following awards declared in the same Decision [...] in favor of [...] Sugarland Hotel [...] are [affirmed], and thus remain:

a) PhP4,000,000.00 to be paid by [...] City of Bacolod and PhP3,600,000.00 to be paid by [...] [the Province], the aggregate amount of which represents the value of the demolished fourth floor as appraised by the United Architects Guild of the Philippines, Bacolod City Chapter, plus 6% interest per annum (as modified) computed from May 25, 1994;

b) PhP1,000,000.00 by way of moral damages, to be jointly and severally paid by [Petitioners];

c) PhP1,000,000.00 by way of exemplary damages, to be jointly and severally paid by [Petitioners];

d) PhP600,000.00 by way of attorney's fees, to be jointly and severally paid by [Petitioners]; and

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<sup>25</sup> *Id.* at 291.

<sup>26</sup> *Id.* at 292-312.

e) Costs of suit to be jointly and severally paid by [Petitioners].

The respective counterclaims of [Petitioners] against [Sugarland Hotel] are [dismissed] for lack of merit.<sup>27</sup>

According to the CA, the RTC is correct in ruling that the MOU is valid and binding because all the elements of Article 1318 of the New Civil Code are present. The CA found that “none of the parties were intimidated and forced against their will to enter into the MOU. Contracts are perfected by mere consent and from that moment[,] parties are bound not only to the fulfillment of what has been expressly stipulated but also to all consequences which, according to their nature may be in keeping with good faith, usage and law.”<sup>28</sup>

The appellate court further explained that “upon due execution of the MOU on May 20, 1994, the parties thereto were deemed to have freely given their consent. At that point, the contract was sealed as between [Sugarland Hotel] and [Petitioners], there being already a meeting of the minds with respect to the object (the demolition of [the hotel’s] fourth floor which was perceived as an obstruction to aerial navigation) and the cause (the payment of the value of what may be demolished to be assessed by an independent body) which constitute the contract. In fact, the MOU even was entered into by the parties for the common good and general welfare. It was thus not contrary to ‘law, morals, good customs, public order or public policy.’”<sup>29</sup>

Further, the CA also adopted the RTC’s finding that Sugarland Hotel’s fourth floor was not illegally constructed. It added, that even if Sugarland Hotel’s fourth floor had been constructed without the requisite height clearance and building permit, it is too late in the day for petitioners to belabor such a circumstance. Prior to 1994, neither the City Engineer of Bacolod City nor the ATO subjected Sugarland Hotel, or predecessor Pijuan, to any reprimand for illegal construction, renovation, and/or repair. Its occupancy permit was also never revoked on these grounds, notwithstanding the fact that Sugarland Hotel is a conspicuous structure situated right beside Bacolod Domestic Airport.<sup>30</sup>

The CA also agreed that Sugarland Hotel is not a nuisance. It found that the applicable regulation is Administrative Order No. 5, Series of 1967, not the ICAO Rules. Under said administrative order, Sugarland Hotel’s fourth floor is not a nuisance nor an obstruction to aerial navigation. The CA pointed out that it is of public knowledge that the Bacolod Domestic Airport is a domestic airport with a short runway suitable for DC3, Fokker planes, and other small aircrafts before the advent of domestic jet planes. Thus, the

<sup>27</sup> *Id.* at 111–112.

<sup>28</sup> *Id.* at 90–91.

<sup>29</sup> *Id.* at 91.

<sup>30</sup> *Id.* at 94.

1.6% gradient used by Villaruel in declaring Sugarland Hotel's fourth floor as an aviation hazard is not mandatory upon the Bacolod Domestic Airport. Even assuming for the sake of argument that the fourth floor is an obstruction, this was brought about by the improvements and extensions introduced on the airport that consumed the airspace above Sugarland Hotel's property, and not by the latter's actions.<sup>31</sup>

However, the CA modified the RTC ruling insofar as the award of Php12,000,000.00 for unrealized profits is concerned and instead awarded temperate damages of Php6,000,000.00. It found that Sugarland Hotel was unable to show the basis for computation of unearned profits and did not present receipts, income tax returns, or any other document to prove earnings for any specified period. However, considering the substantial loss and prejudice suffered by Sugarland Hotel due to the acts of petitioners, temperate damages were awarded to the former.<sup>32</sup>

As to the reduction of rate of the amount of interest imposed from 12% to 6% starting 25 May 1994 or when the demolition started, the CA held that since the obligation here is neither a loan nor a forbearance of credit, the proper imposable interest rate is 6% and not 12%,<sup>33</sup> pursuant to *Eastern Shipping Lines, Inc. v. Court of Appeals*.<sup>34</sup>

Further, the CA said the RTC committed reversible error when it required DOTC and ATO to reimburse the City of Bacolod and the Province because the latter exclusively shouldered pecuniary liability without expecting reimbursement from the former, pursuant to the MOU.<sup>35</sup>

Aggrieved, petitioners filed their respective petitions for review before this Court.

### **Resolution of the Court dated 14 January 2009**

On 14 January 2009, this Court issued a Resolution in G.R. No. 182630 (*City of Bacolod, et al. v. Sugarland Hotel, Inc.*) denying the petition filed by City of Bacolod et al., for failure to sufficiently show that the CA committed any reversible error in the challenged decision and resolution as to warrant the exercise of this Court's discretionary appellate jurisdiction.<sup>36</sup> On 20 March 2009, the City of Bacolod, et al., filed a motion for reconsideration, which was granted by the Court in a Resolution dated 08

<sup>31</sup> *Id.* at 93-96.

<sup>32</sup> *Id.* at 104-109.

<sup>33</sup> *Id.* at 102-103.

<sup>34</sup> 304 Phil. 236 (1994) [Per J. Vitug].

<sup>35</sup> *Rollo* (G.R. No. 182630), pp. 101-102.

<sup>36</sup> *Id.* at 363.

July 2009.<sup>37</sup> Thus, the petition by City of Bacolod, et al., was reinstated.

Upon motion, the respective petitions filed by petitioners were consolidated pursuant to the Court's Resolution dated 28 April 2010.<sup>38</sup> On 09 September 2013, the Court issued a Resolution giving due course to the petitions and requiring all parties to submit their respective memoranda.<sup>39</sup> All parties, except for the Province, filed their memoranda,<sup>40</sup> which were noted by the Court in its Resolution dated 30 June 2014.<sup>41</sup>

### Issue

The issues for Our resolution are whether or not the CA erred in dismissing petitioners' appeal and ruling that (1) the fourth floor of the Sugarland Hotel is not illegally constructed and not a nuisance; (2) the MOU is valid and binding, and petitioners breached it and acted in bad faith; and (3) Sugarland Hotel is therefore entitled to damages.

### Ruling of the Court

The petitions lack merit. We find no basis to reverse the CA's dismissal of petitioners' appeal.

At the outset, We emphasize that the CA adopted the factual findings of the RTC. It is established that "[f]actual findings of the lower court, more so when supported by the evidence [...] command not only respect but even finality and are binding on the Court."<sup>42</sup> Moreover, as a rule, factual findings of the trial court, especially when affirmed by the appellate court, are accorded the highest degree of respect and considered conclusive between the parties.<sup>43</sup>

While jurisprudence has provided several exceptions to these rules, such exceptions must be alleged, substantiated, and proved by the parties so this Court may evaluate and review the facts of the case. In any event, this Court retains full discretion on whether to review the factual findings of the CA.<sup>44</sup>

In the present case, We find that the factual findings of the trial court, as affirmed by the CA, are supported by the evidence and thus binding on

<sup>37</sup> *Id.* at 423.

<sup>38</sup> *Id.* at 447-448.

<sup>39</sup> *Id.* at 488.

<sup>40</sup> *Id.* at 510-607; 616-653; 656-709.

<sup>41</sup> *Id.* at 710-711.

<sup>42</sup> *See Saclolo v. Marquito*, G.R. No. 229243, 26 June 2019 [Per J. Caguioa].

<sup>43</sup> *Federal Builders, Inc. v. Foundation Specialists, Inc.*, 742 Phil. 433 (2014) [Per J. Peralta].

<sup>44</sup> Rules of Court, Rule 45, Section 6; *Pascual v. Burgos*, 776 Phil. 167 (2016) [Per J. Leonen].

this Court. Petitioners have not alleged, substantiated, and proved any of the exceptions for this Court to evaluate the facts. Neither have they shown that the CA gravely abused its discretion in its appreciation of the evidence presented by the parties as to warrant a factual review by this Court.<sup>45</sup> Significantly, Section 5, Rule 45 of the Rules of Court provides that the failure of the petitioner to comply with the requirements on the contents of the petition, which include the mandate to only raise questions of law, shall be sufficient ground for the dismissal thereof.<sup>46</sup>

Nonetheless, this Court has reviewed the assailed decision of the CA and still finds the assertions of the petitioners to be unfounded. The CA has addressed all the factual contentions of the petitioners and chose not to give credence to its version. As noted above, the findings of the CA are consistent with, and sufficiently supported by, the records of this case. Thus, We rely on the RTC's and the CA's common findings of fact in reaching our conclusion.

*First*, petitioners claimed that Sugarland Hotel's fourth floor was illegally constructed and constituted public nuisance to justify summarily removing said fourth floor, and then not compensating the latter.<sup>47</sup>

The authority to decide when a nuisance exists is an authority to find facts, to estimate their force, and to apply rules of law to the case thus made. This Court is no such authority. It is not a trier of facts. It cannot simply take the allegations in the petitions and accept these as facts, more so in this case where these allegations are already disproved by the RTC and the CA, whose common findings are binding on this Court.<sup>48</sup>

We agree that Sugarland Hotel's fourth floor was not a nuisance that called for summary abatement.

Bacolod Domestic Airport is not covered by ICAO Rules, but by Administrative Order No. 5, Series of 1967, which governs domestic airports. Thus, the 1.6% gradient used by Villaruel in declaring Sugarland Hotel's fourth floor as an aviation hazard is not mandatory upon the Bacolod Domestic Airport. Thus, Sugarland Hotel's fourth floor did not constitute an obstruction to aerial navigation and there was no impelling need for its demolition.<sup>49</sup>

Notably, the CA found that prior to 1994, Sugarland Hotel never received any notice from authorities that it had a violation of this nature.

<sup>45</sup> *Pascual v. Burgos*, *supra* at note 42.

<sup>46</sup> See RULES OF COURT, Rule 45, Sec. 1; *Heirs of Racaza v. Spouses Abay-Abay*, 687 Phil. 584 (2012) [Per J. Reyes].

<sup>47</sup> See *Rollo* (G.R. No. 182630), pp. 632–635, 640–643, 671–680.

<sup>48</sup> See *Knights of Rizal v. DMCI Homes, Inc.*, 809 Phil. 453 (2017) [Per J. Carpio].

<sup>49</sup> *Rollo* (G.R. No. 182630), pp. 279–282.

*Second*, the MOU is valid. The Civil Code expressly defines the different kinds of void and inexistent contracts:

ART. 1409. The following contracts are inexistent and void from the beginning:

- (1) Those whose cause, object or purpose is contrary to law, morals, good customs, public order or public policy;
- (2) Those which are absolutely simulated or fictitious;
- (3) Those whose cause or object did not exist at the time of the transaction;
- (4) Those whose object is outside the commerce of men;
- (5) Those which contemplate an impossible service;
- (6) Those where the intention of the parties relative to the principal object of the contract cannot be ascertained;
- (7) Those expressly prohibited or declared void by law.

These contracts cannot be ratified. Neither can the right to set up the defense of illegality be waived.

The freedom of contract is both a constitutional and statutory right and to uphold this right, courts should move with all the necessary caution and prudence in holding contracts void. Furthermore, a duly executed contract carries with it the presumption of validity.<sup>50</sup>

There is no evidence or allegation that any of the parties in this case were intimidated and forced against their will to enter into the MOU.<sup>51</sup> Upon due execution of the MOU on 20 May 1994, the parties thereto were deemed to have freely given their consent. At that point, the contract was perfected as between Sugarland Hotel and petitioners, there being already a meeting of the minds with respect to the object (the demolition of fourth floor which was perceived as an obstruction to aerial navigation) and the cause (the payment of the value of what may be demolished to be assessed by an independent body) which constitute the contract.

Further, contrary to the petitioners' allegation, the compensation for the demolition of the fourth floor will not be tantamount to condoning illegality because as discussed above, the fourth floor of the Sugarland Hotel was neither found to be illegal nor does it constitute a public nuisance. In any case, the abatement of a nuisance does not preclude the right of any person injured to recover damages for its past existence.<sup>52</sup>

<sup>50</sup> See *Government Service Insurance System v. Province of Tarlac*, 462 Phil. 470 (2003) [Per J. Ynares-Santiago].

<sup>51</sup> *Rollo*, pp. 90-91.

<sup>52</sup> CIVIL CODE, Art. 697; *Ramcar, Inc. v. Millar*, 116 Phil. 825 (1962) [Per J. J.B.L. Reyes].

The contract has the force of law between the parties, and they are expected to abide in good faith by their respective contractual commitments. Just as nobody can be forced to enter a contract, in the same manner, once a contract is entered into, no party can renounce it unilaterally or without the consent of the other. It is a general principle of law that no one may be permitted to change his mind or disavow and go back upon his own acts, or to proceed contrary, thereto, to the prejudice of the other party.<sup>53</sup>

Thus, We affirm the CA's ruling that pursuant to the MOU, Sugarland Hotel should be paid Php4,000,000.00 by the City of Bacolod and Php3,600,000.00 by the Province, the aggregate amount of which represents the value of the demolished fourth floor as appraised by the United Architect Guild of the Philippines.

In addition, the monetary award shall earn legal interest at 6% interest *per annum* which shall begin to run from the time the claim is made extrajudicially or judicially until full payment.<sup>54</sup> In this case, the RTC and the CA did not establish in its factual findings when the extrajudicial demand was made. Thus, this Court will reckon the interest from the filing of the Complaint on 21 November 1994 and not 25 May 1994 when the demolition started.

Likewise, Sugarland Hotel voluntarily demolished 95% of its fourth floor in compliance with the MOU. It has substantially complied in good faith with its obligation. Hence, it may recover as though there had been a strict and complete fulfillment.<sup>55</sup> Moreover, petitioners had benefitted from the demolition because on the very same date when the fourth floor was demolished, the Bacolod Domestic Airport resumed operations. Thus, it was incumbent on the City of Bacolod and the Province to comply with its obligation to pay Sugarland Hotel. However, We agree with the CA that it was reversible error on the part of the RTC to require DOTC and ATO to reimburse the City of Bacolod and the Province for these amounts because the MOA does not provide for such stipulation. It was the latter who voluntarily undertook to compensate Sugarland Hotel for the demolition.<sup>56</sup>

In addition, both the RTC and CA found that the petitioners were guilty of breach of the MOU and they were in bad faith in the performance of what were incumbent upon them. Among other things, after Sugarland Hotel accomplished the demolition work, and despite having already appropriated the funds for payment, the City of Bacolod and the Province

<sup>53</sup> See *Government Service Insurance System v. Province of Tarlac*, 462 Phil. 470 (2003) [Per J. Ynares-Santiago].

<sup>54</sup> See CIVIL CODE, Art. 1229.

<sup>55</sup> *Rollo*, pp. 99; CIVIL CODE, Art. 1234. If the obligation has been substantially performed in good faith, the obligor may recover as though there had been a strict and complete fulfillment, less damages suffered by the obligee; See *Diesel Construction Co., Inc. v. UPSI Property Holdings, Inc.*, 572 Phil. 494-513 (2008) [Per J. Velasco].

<sup>56</sup> *Rollo*, pp. 101-102.

suddenly refused and failed to pay Sugarland Hotel. Instead, the *Sangguniang Panlungsod* of Bacolod passed a resolution declaring the hotel a nuisance and authorizing employment even of "extra-legal" measures to finish the demolition job. On the other hand, the Province offered the lame excuse of lack of compliance of Commission on Audit's auditing requirements to justify its failure and refusal to pay Sugarland Hotel the amount it had already set aside for that purpose.<sup>57</sup> Moreover, despite the fact that the MOU called for a joint survey by all the parties, ATO unilaterally conducted a survey in July 1994 and ordered the immediate demolition of the remaining portion of its fourth floor and the parapet.<sup>58</sup>

Given the foregoing, We affirm the award of damages by the CA in favor of Sugarland Hotel.<sup>59</sup>

As to the award of compensatory damages for unrealized profits of PhP12,000,000.00, We agree with the CA in modifying it and awarding instead temperate damages in the amount of PhP6,000,000.00. Sugarland Hotel failed to present receipts, income tax returns, or any other document to prove earnings for any specific period.<sup>60</sup> Nevertheless, even if the amount of the unrealized profits for the specific period were not proven, evidence shows that pecuniary loss had been inflicted upon Sugarland Hotel, for which the petitioners should be solidarily liable. In lieu of actual damages, temperate damages, which are more than nominal but less than compensatory damages, may be awarded where the court finds that some pecuniary loss had been suffered by the claimant but its amount cannot be proved with certainty.<sup>61</sup>

As to moral damages, We affirm the RTC's and CA's award of PhP1,000,000.00. As a rule, a corporation is not entitled to moral damages. However, an exception is when the corporation has a good reputation that is debased, resulting in its humiliation in the business realm. Based on the common findings of fact by the RTC and the CA, the goodwill and business reputation of Sugarland Hotel have been maligned after it was erroneously classified as an obstruction to aerial navigation.<sup>62</sup>

The awards of exemplary damages and attorney's fees are also proper. Exemplary damages are imposed by way of example or correction for the public good, when the party to a contract acts in a wanton, fraudulent, oppressive or malevolent manner, while attorney's fees are allowed when

<sup>57</sup> *Id.* at 103-104, 285-286.

<sup>58</sup> *Id.* at 287.

<sup>59</sup> See CIVIL CODE, Art. 1170; See also CIVIL CODE, Art. 2194; *Coca-Cola Bottlers Phil., Inc. v. Court of Appeals*, 298 Phil. 52 (1993) [Per J. Davide].

<sup>60</sup> CIVIL CODE, Art. 2200; *Integrated Packaging Corp. v. Court of Appeals*, 388 Phil. 835 (2000), [Per J. Quisumbing]; *BA Finance Corp. v. Court of Appeals*, 244 Phil. 625 (1988) [Per J. Gutierrez, Jr.].

<sup>61</sup> *Spouses Villafuerte v. Court of Appeals*, 498 Phil. 105 (2005) [Per J. Chico-Nazario].

<sup>62</sup> See *Coastal Pacific Trading, Inc. v. Southern Rolling Mills Co., Inc.*, 529 Phil. 10 (2006) [Per CJ Panganiban].

exemplary damages are awarded, when the party to a suit is compelled to incur expenses to protect his interest, or when the other parties acted in gross and evident bad faith.

Finally, We modify the CA's award by imposing legal interest of 6% *per annum* on the award of temperate, exemplary, moral damages and attorney's fees from the finality of this Decision until its satisfaction, this interim period being deemed to be by then an equivalent to a forbearance of credit.<sup>63</sup>

**WHEREFORE**, the foregoing premises considered, the petitions for review are hereby **DENIED**. Accordingly, the Court **AFFIRMS WITH MODIFICATION** the Decision dated 15 November 2007 and Resolution dated 25 March 2008 of the Court of Appeals in CA-G.R. CEB-CV. No. 01555 in that the following should be paid to Sugarland Hotel, Inc.:

a) Php4,000,000.00 to be paid by the City of Bacolod and Php3,600,000.00 to be paid by the Province of Negros Occidental, the aggregate amount of which represents the value of the demolished fourth floor as appraised by the United Architects Guild of the Philippines, Bacolod City Chapter, plus 6% interest per annum computed from 21 November 1994 until fully paid;

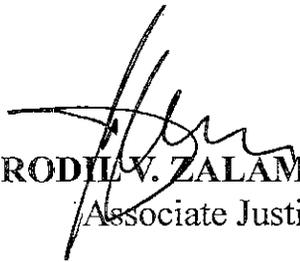
b) Php1,000,000.00 as moral damages plus 6% interest per annum from the finality of this Decision until fully paid, to be jointly and severally paid by the Petitioners;

c) Php1,000,000.00 as exemplary damages plus 6% interest per annum from the finality of this Decision until fully paid, to be jointly and severally paid by the Petitioners;

d) Php600,000.00 by way of attorney's fees plus 6% interest per annum from the finality of this Decision until fully paid, to be jointly and severally paid by the Petitioners; and

e) Costs of suit to be jointly and severally paid by the Petitioners.

**SO ORDERED.**

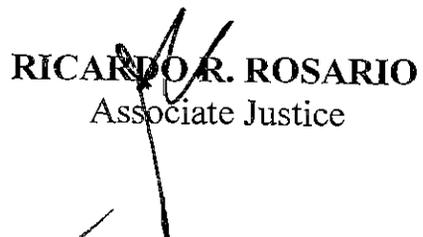
  
**RODIL V. ZALAMEDA**  
Associate Justice

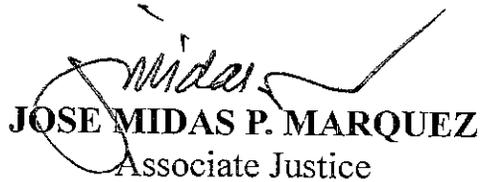
<sup>63</sup> *Nacar v. Gallery Frames*, 716 Phil. 267 (2013) [Per J. Peralta].

**WE CONCUR:**

  
**MARVIC M.V.F. LEONEN**  
Associate Justice  
Chairperson

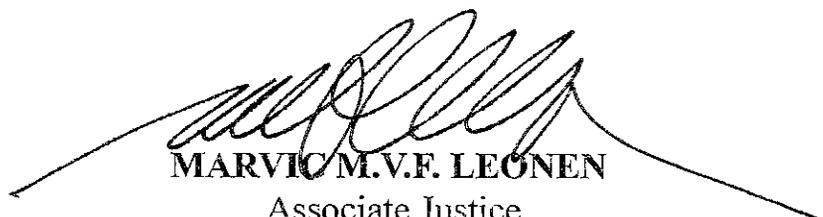
  
**ROSMARIE D. CARANDANG**  
Associate Justice

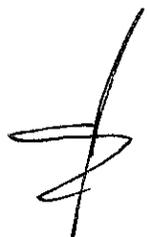
  
**RICARDO R. ROSARIO**  
Associate Justice

  
**JOSE MIDAS P. MARQUEZ**  
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 M.V.F. LEONEN**  
Associate Justice  
Chairperson



### CERTIFICATION

Pursuant to the Section 13, Article VIII of the Constitution, and the Division Chairperson's Attestation, 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.

  
ALEXANDER G. GESMUNDO  
Chief Justice