

Republic of the Philippines Supreme Court Manila

THIRD DIVISION

REPUBLIC PHILIPPINES, r	OF THE epresented by	G.R. No. 244115
the DEPARTMENT OF PUBLIC WORKS AND HIGHWAYS, Petitioner, - versus -		Present: LEONEN, J., Chairperson, HERNANDO, INTING, DELOS SANTOS, and LOPEZ, J., JJ.
FRANCISCO,	Respondents.	February 3, 2021 Mistocoatt

DECISION

DELOS SANTOS, J.:

Before the Court is a Petition for Review on *Certiorari*¹ under Rule 45 of the Rules of Court seeking to annul and set aside the Decision² dated June 13, 2018 and the Resolution³ dated January 10, 2019 of the Court of Appeals (CA) in CA-G.R. CV No. 108050. The CA partially granted the Decision⁴ dated February 22, 2016 and the Order⁵ dated September 1, 2016 of the Regional Trial Court (RTC) of Valenzuela City, Branch 172, in Civil Case No. 169-V-12. It remanded the case to the RTC for the proper determination of the just compensation and deleted the award of consequential damages and attorney's fees for lack of adequate factual and legal bases.

¹ *Rollo*, pp. 11-26.

² Id. at 29-43; penned by Associate Justice Edwin D. Sorongon, with Associate Justices Sesinando E. Villon and Maria Filomena D. Singh, concurring.

³ Id. at 45-47.

⁴ Id. at 49-61; penned by Judge Nancy Rivas-Palmones.

⁵ Id. at 62.

Essentially, the Republic of the Philippines, represented by the Department of Public Works and Highways (DPWH; petitioner), is questioning the CA's imposition of the interest rate of 12% per annum from the time of taking until June 30, 2013 considering that the subject lots were taken after the payment of the just compensation.

The Facts

On October 19, 2012, petitioner filed a complaint for expropriation against Andres Francisco and Socorro Luna (spouses Francisco) for the acquisition of the 970.50-square meter (sq. m.) portion of Lot No. 962-D-3-C-3⁶ and the 290-sq. m. portion of Lot No. 962-D-3-B,⁷ residential lots located in Barangay General T. De Leon, Valenzuela City, for the construction of the C-5 Northern Link Road Project Phase 2 (Segment 9) from North Luzon Expressway to MacArthur Highway, Valenzuela City.8

Upon their death, the spouses Francisco were substituted by their children Alejandro Francisco and Sonia Francisco Soriano (respondents).⁹

On November 23, 2012, petitioner deposited with the RTC Land Bank of the Philippines (LBP) Manager's Check No. 698188 in the amount of ₱1,559,560.62, representing the equivalent of 100% of the cost of the improvements found in the subject lots. On December 13, 2012, it also deposited with the RTC LBP Manager's Check No. 1185752 in the amount of ₱2,647,050.00, representing the equivalent of 100% of the Bureau of Internal Revenue (BIR) zonal value of the subject lots.¹⁰

On February 8, 2013, the RTC issued a Writ of Possession in favor of petitioner.¹¹

On April 17, 2013, the RTC ordered the replacement of the LBP manager's checks after they became stale while in the trial court's custody.¹² On August 29, 2013 and February 21, 2014, petitioner issued the replacement checks¹³ and deposited the same with the trial court.

On June 20, 2013, the parties agreed to execute a compromise agreement to determine the valuation of the subject properties.¹⁴

Id. at 14; A residential lot covered by TCT No. V-20112.

Id.; A residential lot covered by TCT No. V-14472.

Id. at 13-14.

Id. at 14.

¹⁰ Id. at 15.

¹¹ Id. ¹² Id. at 31.

¹³ Id. at 15; Land Bank Treasury Check Nos. 740975 and 0001251025 in the amounts of ₱2,647,050.00 and ₱1,559,560.62, respectively.

¹⁴ Id. at 31.

Decision

On February 3, 2014, respondents declared that they are no longer amenable to enter into a compromise agreement.¹⁵

On August 7, 2014, the parties manifested that they would dispense with the referral of the case to the Board of Commissioners for the determination of the just compensation and thereafter submitted their respective position papers.¹⁶

In their position paper, respondents claimed that they should be paid the just compensation computed at $\mathbb{P}7,500.00$ per sq. m. and $\mathbb{P}1,000,000.00$ as consequential damages. But petitioner countered that the just compensation should be fixed at $\mathbb{P}400.00$ per sq. m. and $\mathbb{P}2,100.00$ per sq. m. Petitioner likewise prayed that the amount of $\mathbb{P}1,559,560.62$ representing the replacement cost of the subject improvements be considered as the full settlement of the just compensation thereon.¹⁷

The Ruling of the RTC

On February 22, 2016, the RTC rendered a Decision¹⁸ with the dispositive portion as follows:

WHEREFORE, judgment is hereby rendered fixing the just compensation of the total subject of 1,260.50 square meters lot of the defendants in the amount of SEVEN THOUSAND FIVE HUNDRED PESOS (Php7,500.00) per square meter or in the total amount of NINE MILLION FOUR HUNDRED FIFTY-THREE THOUSAND SEVEN HUNDRED FIFTY PESOS (Php9,453,750.00), and authorizing the payment thereof by the plaintiff to the defendants for the property condemned, deducting the provisional deposit previously, made and subject to the payment of all unpaid property taxes and other relevant taxes, by the defendant up to the filing of the complaint, if there be any.

The plaintiff is also directed to pay defendants the amount of ONE MILLION PESOS (Php1,000,000.00) by way of consequential damages and ONE HUNDRED THOUSAND PESOS (Php100,000.00) as attorney's fees.

The plaintiff is ordered to pay interest at the rate of 12% per annum on the unpaid balance of just compensation on the lot, as well as the damages, computed from the time of the taking of the property until July 1, 2013 and thereafter the rate of 6% per annum shall apply until the same shall have been paid in full, as per BSP Circular No. 799.

SO ORDERED.¹⁹

¹⁵ Id.

¹⁹ Id. at 60-61.

¹⁶ Id.

¹⁷ Id. at 32.

¹⁸ Id. at 49-61.

The RTC pegged the amount of just compensation at P7,500.00 per sq. m. taking into account its decisions in similar expropriation cases involving residential properties in Gen. T. De Leon, Valenzuela City. In 2007 and 2008, the RTC fixed the just compensation in condemnation proceedings between P3,000.00 to P5,000.00 per sq. m. It opined that petitioner's valuation at P400.00 and P2,100.00 per sq. m. for the subject lots cannot be applied in a complaint for expropriation filed in 2012.²⁰

Petitioner filed a Motion for Reconsideration, but the same was denied in an Order²¹ dated September 1, 2016.

The Ruling of the CA

On June 13, 2018, the CA rendered a Decision, the *fallo* of which reads:

WHEREFORE, the present appeal is PARTIALLY GRANTED. The February 22, 2016 *Decision* and its subsequent September 1, 2016 *Order* in *Civil Case No. 169-V-12*, is hereby MODIFIED as follows:

a. This case is REMANDED to the Regional Trial Court (RTC) of Valenzuela City, Branch 172, for the proper determination of just compensation in conformity with this Decision. To forestall any further delay in the resolution of the case, the trial court is ordered to make the determination within six (6) months from receipt of this Decision and afterwards to report to this Court its compliance thereon.

b. From the date of taking of the property on February 8, 2013 until June 30, 2013, the unpaid balance of the just compensation to be determined by the trial court shall earn interest at 12% *per annum*. From July 1, 2013 until the finality of the decision fixing the just compensation, the legal interest shall be 6% *per annum*. The total amount due shall earn a straight 6% *per annum* interest from the finality of the decision fixing the just compensation until full payment.

c. The trial court's award of consequential damages and attorney's fees are hereby DELETED for lack of adequate factual and legal bases.

SO ORDERED.²²

The CA remanded the case to the RTC because of the absence of reliable and actual data as bases in fixing the value of the condemned properties. It declared that the RTC seemed to have overlooked that the classification and use for which the properties are suited are not the only criteria for the determination of the just compensation.

²⁰ Id. at 57-59.

²¹ Id. at 62.

²² Id. at 42.

The CA upheld the 12% interest imposed by the RTC on the unpaid balance of the just compensation clarifying that it should be reckoned from the time of taking, which is on February 8, 2013. The 12% per annum interest rate applies until June 30, 2013 and, thereafter, the interest rate shall be at 6% per annum.²³

The CA deleted the award of consequential damages for failure of respondents to present substantive evidence that the remaining unaffected properties had suffered an impairment amounting to P1,000.000.00. Further, the award of attorney's fees is deleted because of the lack of proof of malice or bad faith to justify its imposition.²⁴

Petitioner moved for the reconsideration of the June 13, 2018 CA Decision, but the same was denied in a Resolution²⁵ dated January 10, 2019.

The Arguments of the Parties

Petitioner argues that the subject lots were taken after the payment of the just compensation. Since there was no delay in the payment of the value of the condemned properties, it asserts that the CA erred in holding it liable to pay interest at the rate of 12% per annum on the unpaid balance of the just compensation computed from the time of taking until July 1, 2013, and thereafter, at the rate of 6% per annum. It invokes the Court's ruling in the case of *Republic v. Soriano*²⁶ that the payment of legal interest in expropriation cases only applies when the property was taken prior to the deposit of payment with the court and only to the extent that there is delay in payment. It further maintains that assuming, without conceding, that respondents are entitled to the payment of legal interest, the same should only be at the rate of 6% per annum in accordance with Article 2209²⁷ of the Civil Code.

Respondents, on the other hand, counter that the just compensation in expropriation cases earns interest and that petitioner is liable therefor. Citing *Evergreen Manufacturing Corp. v. Republic*,²⁸ they contend that that interest on the unpaid compensation becomes due if there is no full compensation for the expropriated property, as in this case where only the initial payment has been made.

²³ Id.

²⁴ Id. at 41–42.

²⁵ Supra note 3.

²⁶ 755 Phil. 187 (2015).

Art. 2209. If the obligation consists in the payment of a sum of money, and the debtor incurs in delay, the indemnity for damages, there being no stipulation to the contrary, shall be the payment of the interest agreed upon, and in the absence of stipulation, the legal interest, which is six per cent per annum.

²⁸ 817 Phil. 1048 (2017).

The Issue

Whether or not the award of interest on the unpaid compensation is proper.

The Court's Ruling

The petition is denied.

The power of eminent domain of the State is enshrined in Section 9, Article III of the 1987 Constitution which provides that "no private property shall be taken for public use without just compensation." While the power is inherent in nature and deeply ingrained in the exercise of sovereignty, limitations still exist to cushion the blow to an individual's right to property. Thus, no less than the Constitution requires that the purpose of taking must be for public use and that just compensation must be given to the owner of the private property.²⁹ Clearly, the exercise of the right to reassert dominion over a private property pivots on the recognition of the State's authority to expropriate or condemn said property and the determination of the amount and the payment of just compensation, the latter being the *crux* of the instant petition.

Jurisprudence defines just compensation as the full and fair equivalent of the property subject of expropriation. It is ascertained based on the owner's loss and not the taker's gain. Hence, to recoup the loss suffered by the owner of the private property, it is essential that the compensation be just such that the equivalent to be given for the property to be taken shall be real, substantial, full, and ample.³⁰ Simply put, the just compensation in condemnation proceedings envisages timely or **prompt payment in full** of the just compensation **as finally determined by the courts**.³¹ In *Republic v. Judge Mupas*,³² the Court explained that prompt payment must be made to the property owner so that he may derive income from both the condemned property and its income-generating potential. This is because the property owner suffers the immediate deprivation of both his land and its fruits or income.

As to the manner of payment of the just compensation, Section 4 of Republic Act (R.A.) No. 8974^{33} instructs:

²⁹ Apo Fruits Corporation v. Land Bank of the Philippines, 647 Phil. 251, 269 (2010).

³⁰ Id. at 271, citing Land Bank of the Philippines v. Spouses Orilla, 578 Phil. 663, 676 (2008).

³¹ Evergreen Manufacturing Corp. v. Republic, supra note 28, at 1064.

³² 769 Phil. 21 (2015).

³³ An Act to Facilitate the Acquisition of Right-of-Way, Site or Location for National Government Infrastructure Projects and for other Purposes.

SEC. 4. *Guidelines for Expropriation Proceedings.* – Whenever it is necessary to acquire real property for the right-of-way or location for any national government infrastructure project through expropriation, the appropriate implementing agency shall initiate the expropriation proceedings before the proper court under the following guidelines:

(a) Upon the filing of the complaint, and after due notice to the defendant, the implementing agency shall <u>immediately pav</u> the owner of the property the amount equivalent to the sum of (1) one hundred percent (100%) of the value of the property based on the current relevant zonal valuation of the Bureau of Internal Revenue (BIR); and (2) the value of the improvements and/or structures as determined under Section 7 hereof;

(b) In provinces, cities, municipalities and other areas where there is no zonal valuation, the BIR is hereby mandated within the period of sixty (60) days from the date of the expropriation case, to come up with a zonal valuation for said area; and

(c) In case the completion of a government infrastructure project is of utmost urgency and importance, and there is no existing valuation of the area concerned, the implementing agency shall immediately pay the owner of the property its proffered value taking into consideration the standards prescribed in Section 5 hereof.

<u>Upon compliance</u> with the guidelines [abovementioned], the <u>court shall immediately issue to the implementing agency an order to</u> <u>take possession</u> of the property and start the implementation of the project.

Before the court can issue a Writ of Possession, the implementing agency shall present to the court a certificate of availability of funds from the proper official concerned.

In the event that the owner of the property contests the implementing agency's proffered value, the court shall determine the just compensation to be paid the owner within sixty (60) days from the date of filing of the expropriation case. When the decision of the court becomes final and executory, the implementing agency shall <u>pay the owner the difference</u> between the amount already paid and the just compensation as determined by the court. (Emphases and underscoring supplied)

In Evergreen Manufacturing Corp. v. Republic,³⁴ the Court noted that the just compensation contemplated in R.A. No. 8974 contemplates the completion of two payments to the property owner, to wit: (1) the initial payment of the amount equivalent to the sum of 100% of the value of the property based on the current relevant BIR zonal valuation and the value of the improvements and/or structures thereon, which is made upon the filing of the complaint; and (2) the payment of the difference between the amount already paid and the just compensation as determined by the court, which is

³⁴ Supra note 28.

made after the trial court's decision becomes final and executory. Upon initial payment of the so-called provisional value of the condemned property, the court shall issue a writ of possession in order to provide the government the "flexibility to immediately take the property pending the court's final determination of just compensation"³⁵ and commence the implementation of the infrastructure project.

In the present case, the findings of the RTC and the CA showed that after the filing of the expropriation complaint, petitioner deposited the amounts of ₱1,559,560.62 and ₱2,647,050.00 which correspond to 100% of the cost of the improvements found on the subject lots and 100% of the value of the subject lots based on its BIR zonal valuation, respectively. Thereafter, a writ of possession was issued in favor of petitioner. At this juncture, the full and fair equivalent of the properties have yet to be determined with finality by the court. On February 22, 2016, the RTC pegged the amount of just compensation at ₱7,500.00 per sq. m. or in the total amount of $\mathbb{P}9,453,750.00$, exclusive of the amount of $\mathbb{P}1,000,000.00$ as consequential damages which petitioner was directed to pay. Obviously, the amount of petitioner's initial deposit is much less than that adjudged by the RTC. Hence, petitioner must pay the difference between the final amount as fixed by the RTC and the initial payment made by petitioner coupled with legal interest as a forbearance of money, in line with Evergreen Manufacturing.

Incidentally, the CA did not agree with the amounts fixed by the RTC as just compensation and ordered that the case be remanded for the proper determination of just compensation *vis-à-vis* all the standards for the assessment of the value of properties as provided in Section 5^{36} of R.A. No. 8974. Even so, petitioner must still pay the legal interest on the difference between the initial payment and the final amount of just compensation, to be adjudged by the RTC anew. The reason is not hard to discern. The variance between the final amount as fixed by the court and the initial payment is part and parcel of the just compensation that the property owner is entitled from the date of taking of the properties.

³⁵ Republic v. Judge Mupas, supra note 32, at 197.

⁶ Sec. 5. Standards for the Assessment of the Value of the Land Subject of Expropriation Proceedings or Negotiated Sale. – In order to facilitate the determination of just compensation, the court may consider, among other well-established factors, the following relevant standards:

⁽a) The classification and use for which the property is suited;

⁽b) The developmental costs for improving the land;

⁽c) The value declared by the owners;

⁽d) The current selling price of similar lands in the vicinity;

⁽e) The reasonable disturbance compensation for the removal and/or demolition of certain improvement on the land and for the value of improvements thereon;

⁽f) This size, shape or location, tax declaration and zonal valuation of the land;

⁽g) The price of the land as manifested in the ocular findings, oral as well as documentary evidence presented; and

⁽h) Such facts and events as to enable the affected property owners to have sufficient funds to acquire similarly-situated lands of approximate areas as those required from them by the government, and thereby rehabilitate themselves as early as possible.

The Court enunciated in *Republic v. Judge Mupas*:³⁷

Ideally, just compensation should be immediately made available to the property owner so that he may derive income from this compensation, in the same manner that he would have derived income from his expropriated property.

However, if full compensation is not paid for the property taken, then the State must pay for the shortfall in the earning potential immediately lost due to the taking, and the absence of replacement property from which income can be derived. Interest on the unpaid compensation becomes due as compliance with the constitutional mandate on eminent domain and as a basic measure of fairness.

Thus, interest in eminent domain cases "runs as a matter of law and follows as a matter of course from the right of the landowner to be placed in as good a position as money can accomplish, as of the date of taking." (Emphasis supplied)

We echoed the above pronouncement in *Apo Fruits Corporation v.* Land Bank of the Philippines,³⁸ where we expounded on the raison d'etre for the imposition of legal interest in the payment of just compensation:

The award of interest is intended to compensate the property owner for the income it would have made had it been properly compensated for its property at the time of the taking. "The need for prompt payment and the necessity of the payment of interest is to compensate for any <u>delay</u> in the payment of compensation <u>for</u> <u>property already taken</u>." "The award of interest is imposed in the nature of damages for delay in payment which, in effect, makes the obligation on the part of the government one of forbearance to ensure prompt payment of the value of the land and limit the opportunity loss of the owner." (Emphases and underscoring supplied)

To excuse itself from the payment of interest, petitioner insists that there was no delay in the payment of the value of the expropriated properties because of its initial deposit with the RTC. We do not agree.

It cannot be overemphasized that the initial payment made by petitioner only represents the provisional value of the subject properties which "serves the double-purpose of (a) pre-payment if the property is fully expropriated, and (b) indemnity for damages if the proceedings are dismissed.³⁹ It does not, in anyway, constitute the full and fair equivalent of the expropriated properties for it is the court which can judicially determine the same. Here, it is crystal clear that when the RTC adjudged the amount of

³⁷ Supra note 32, at 194-195.

³⁸ 828 Phil. 652, 667-668 (2018).

³⁹ Felisa Agricultural Corporation v. National Transmission Corporation, 834 Phil. 861, 874 (2018).

just compensation, petitioner has already taken the condemned properties and respondents have already been deprived of the income that their properties would have made. There was already a delay in fully satisfying the payment of the just compensation. "Without prompt payment, compensation cannot be considered 'just' inasmuch as the property owner is made to suffer the consequences of being immediately deprived of his land while being made to wait for a decade or more before actually receiving the amount necessary to cope with his loss."⁴⁰ Accordingly, the difference between the final amount to be adjudged by the RTC and the initial payment made by petitioner should earn interest.

Petitioner anchors its argument on the case of *Republic v. Soriano*⁴¹ where the Court deleted the RTC's imposition of interest at 12% per annum for being unjustified. A plain reading of *Soriano* will readily show that it is not on all fours with the present dispute. The Court explicitly stated therein that the Republic "did not delay in its payment of just compensation as it had deposited the pertinent amount in full due to respondent on January 24, 2011 or four months before the taking thereof x x x." The Republic deposited the amount of $\mathbb{P}420,000.00$ as initial payment and took possession of the property. Subsequently, the RTC pegged the just compensation at $\mathbb{P}2,100.00$ per sq. m. or in the total amount of $\mathbb{P}420,000.00$ for the 200-sq. m. expropriated property. There being no unpaid balance of the just compensation, the Court ruled that the RTC's award of legal interest at 12% per annum is unwarranted. Undoubtedly, petitioner's reliance on *Soriano* is misplaced.

In ascertaining the proper legal interest to be imposed, we are guided by the Court's declaration in *Republic v. Spouses Silvestre*:⁴²

[T]he delay in the payment of just compensation is a forbearance of money and, as such, is necessarily entitled to earn interest. Thus, the difference in the amount between the final amount as adjudged by the Court, which in this case is P15,225,000.00, and the initial payment made by the government, in the amount of P3,654,000.00 — which is part and parcel of the just compensation due to the property owner — should earn legal interest as a forbearance of money. Moreover, with respect to the amount of interest on this difference between the initial payment and the final amount of just compensation, as adjudged by the Court, we have upheld, in recent pronouncements, the imposition of 12% interest rate from the time of taking, when the property owner was deprived of the property, until July 1, 2013, when the legal interest on loans and forbearance of money was reduced from 12% to 6% per annum by Bangko Sentral ng Pilipinas Circular No. 799. Accordingly, from July 1, 2013 onwards, the legal interest on the difference between the final amount and initial payment is 6% per annum. (Underscoring supplied)

⁴⁰ Land Bank of the Philippines v. Spouses Avanceña, 785 Phil. 755, 764 (2016).

⁴¹ Supra note 26.

⁴² G.R. No. 237324, February 6, 2019.

Petitioner instituted the complaint for expropriation on October 19, 2012 and was issued the writ of possession on February 8, 2013. The just compensation shall be appraised as of October 19, 2012 as it preceded the actual taking of the properties. The legal interest at 12% per annum on the difference between the final amount to be adjudged by the RTC and the initial payment made shall accrue from February 8, 2013 until June 30, 2013. From July 1, 2013 until the finality of the RTC Decision, the difference between the initial payment and the final amount to be adjudged by the RTC between the initial payment and the final amount to be adjudged by the RTC between the initial payment and the final amount to be adjudged by the RTC shall earn interest at the rate of 6% per annum. Thereafter, the total amount of just compensation shall earn legal interest of 6% per annum from the finality of this Decision until full payment thereof.⁴³

WHEREFORE, in view of the foregoing reasons, the Court **DISMISSES** the Petition for Review on *Certiorari* of the Republic of the Philippines, represented by the Department of Public Works and Highways (DPWH) and **AFFIRMS** the Decision dated June 13, 2018 and the Resolution dated January 10, 2019 of the Court of Appeals in CA-GR. CV No. 108050. From the date of taking of the property on February 8, 2013 until June 30, 2013, the unpaid balance of the just compensation to be determined by the trial court shall earn interest at 12 % *per annum*. From July 1, 2013 until the finality of the Decision fixing the just compensation, the legal interest shall be 6% *per annum*. The total amount due shall earn a straight 6% *per annum* interest from the finality of the Decision fixing the just compensation until full payment.

SO ORDERED.

EDGARDO L. DELOS SANTOS Associate Justice

WE CONCUR:

MARVIC MARIO VICTOR F. LEONEN

Associate Justice Chairperson

RAMQN PAUL L. HERNANDO

Associate Justice

HENRI JEAN PALL B. INTING

Associate Justice

OPEZ JHOSEP 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, 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.

DIOSDADO M. PERALTA Chief Justice