787 Phil. 531

FIRST DIVISION

[G.R. No. 183543, June 20, 2016]

NATIONAL HOUSING AUTHORITY, PETITIONER, VS. MANILA SEEDLING BANK FOUNDATION, INC., RESPONDENT.

DECISION

SERENO, C.J.:

This is a Petition for Review on Certiorari under Rule 45 of the Rules of Court assailing the Decision[1] and Resolution[2] of the Court of Appeals (CA) in CA-G.R. CV No. 85262. The CA affirmed the Decision[3] of the Regional Trial Court of Quezon City, Branch 104 (RTC). The RTC had ordered Manila Seedling Bank Foundation, Inc. (respondent) to turn over to the National Housing Authority (petitioner) possession of the area in excess of the seven hectares granted to respondent under Proclamation No. 1670. The trial court, however, denied petitioner's claim for rent, exemplary damages, attorney's fees and litigation expenses.

Facts

Petitioner is the owner[4] of a 120-hectare piece of government property in Diliman, Quezon City, reserved for the establishment of the National Government Center.[5] By virtue of Proclamation No. 1670[6] issued on 19 September 1977, President Ferdinand Marcos reserved a seven-hectare area thereof and granted respondent usufructuary rights over it.[7]

Respondent occupied a total of 16 hectares, thereby exceeding the seven-hectare area it was allowed to occupy.[8] It leased the excess to private tenants.[9]

On 11 November 1987, President Corazon Aquino issued Memorandum Order No. 127[10] revoking the reserved status of the remaining 50 hectares of the 120-hectare property. Petitioner was expressly authorized to commercialize the area and sell it to the public through bidding. President Fidel Ramos subsequently issued Executive Order No. 58[11] on 15 February 1993 creating an inter-agency executive committee (Executive Committee) composed of petitioner and other government agencies to oversee the comprehensive development of the remaining 50 hectares, therein referred to as the North Triangle Property.

As respondent occupied a prime portion of the North Triangle Property, the Executive Committee proposed the transfer of respondent to areas more suitable to its operations.[12]

On 12 August 1994, respondent filed before the RTC a Complaint[13] for injunction with prayer for the issuance of a writ of preliminary injunction against petitioner.

Respondent sought the protection of its occupancy and possession of the property reserved for it under Proclamation No. 1670. In its Answer with Compulsory Counterclaim,[14] petitioner prayed that respondent be ordered to vacate the seven-hectare area and the excess, and to pay rent therefor on top of exemplary damages, attorney's fees, and litigation expenses.

On 11 November 1994, the RTC issued a writ of preliminary injunction enjoining petitioner from causing the relocation of respondent.[15] The trial court eventually issued a summary judgment on 12 February 1998 granting a final injunction over the seven-hectare area in respondent's favor.[16] The court, however, reserved the determination of the counterclaim of petitioner as to the excess. Petitioner's motion for reconsideration and respondent's motion for partial reconsideration were both denied in the RTC Order dated 5 June 1998.[17]

Petitioner's certiorari petition was denied by the CA,[18] which remanded the case to the RTC for further proceedings on the matter of petitioner's counterclaim.[19] Petitioner no longer questioned the CA ruling.[20] In the meantime, it recovered possession of the excess on 1 March 1999.[21]

Ruling of the RTC

In a Decision dated 21 January 2005,[22] the RTC validated the turnover of the excess to petitioner, but disallowed the recovery of rent, exemplary damages, attorney's fees and litigation expenses.

The trial court found that respondent had leased the excess to various establishments upon authority given by Minister of Natural Resources Ernesto Maceda.[23] As he had administrative control over respondent at the time, he gave it that authority to enable it to earn income to finance its operations, considering that it no longer received any donation from the national government since 1986.[24]

The RTC also found that respondent had protected the excess by developing it and keeping squatter syndicates from taking possession.[25] For that reason, the expenses it incurred for the development of the excess were more than sufficient to compensate petitioner in terms of rent.[26]

Aggrieved, petitioner filed an appeal before the CA.[27]

Ruling of the CA

In the assailed Decision dated 8 April 2008,[28] the CA affirmed the RTC ruling.

The appellate court held that respondent cannot be considered an officious manager under the principle of *negotiorum gestio*, as the latter had not established that the excess was either abandoned or neglected by petitioner.[29]

As respondent possessed the excess by tolerance of petitioner, a demand to vacate was necessary to establish the reckoning point for the filing of an unlawful detainer

action, as well as for the recovery of rent and damages.[30] In that case, the CA found that the Executive Committee's proposal for the transfer of respondent was not a demand in contemplation of the law.[31] According to the appellate court, considering that the excess was eventually surrendered by respondent to petitioner without any demand, there was no basis for the award of rent and damages in the absence of bad faith.[32]

Petitioner's motion for reconsideration was denied in the challenged Resolution dated 30 June 2008.[33]

Issue

Petitioner now comes before us raising the sole issue of whether it is entitled to recover rent, exemplary damages, attorney's fees, and litigation expenses from respondent

Our Ruling

In *National Housing Authority v. CA*,[34] this Court upheld the usufructuary right of respondent over the seven-hectare area granted under Proclamation No. 1670. However, the Court also emphasized that the rights of respondent were circumscribed within the limits of the seven-hectare area allotted to it:

> A usufruct gives a right to enjoy the property of another with the obligation of preserving its form and substance, unless the title constituting it or the law otherwise provides. This controversy would not have arisen had [respondent] respected the limit of the beneficial use given to it. [Respondent's] encroachment of its benefactor's property gave birth to the confusion that attended this case. To put this matter entirely to rest, it is not enough to remind [petitioner] to respect [respondent's] choice of the location of its seven-hectare area. **[Respondent], for its part, must vacate the area that is not part of its usufruct. [Respondent's] rights begin and end within the seven-hectare portion of its usufruct. This Court agrees with the trial court that [respondent] has abused the privilege given it under Proclamation No. 1670.** The direct corollary of enforcing [respondent's] rights within the seven-hectare area is the negation of any of [respondent's] acts beyond it.[35] (Emphasis supplied)

Since respondent had no right to act beyond the confines of the seven-hectare area granted to it, and since it was fully aware of this fact, its encroachment of nine additional hectares of petitioner's property rendered it a possessor in bad faith as to the excess.[36]

While respondent may have been allowed by then Minister of Natural Resources Ernesto Maceda to lease the excess to various establishments, such authority did not come from petitioner, who is the owner. At any rate, even if petitioner tolerated the encroachment by respondent, that fact does not change the latter's status as a possessor in bad faith. We have ruled that a person whose occupation of realty is by sheer tolerance of the owner is not a possessor in good faith.[37]

Under Article 549 in relation to Articles 546 and 443 of the Civil Code, a possessor in bad faith has a specific obligation to reimburse the legitimate possessor for everything that the former received, and that the latter could have received had its possession not been interrupted.[38] The provisions state:

> Article 549. **The possessor in bad faith shall reimburse the fruits received and those which the legitimate possessor could have received, and shall have a right only to the expenses mentioned in paragraph 1 of article 546 and in article 443.** The expenses incurred in improvements for pure luxury or mere pleasure shall not be refunded to the possessor in bad faith; but he may remove the objects for which such expenses have been incurred, provided that the thing suffers no injury thereby, and that the lawful possessor does not prefer to retain them by paying the value they may have at the time he enters into possession.
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> Article 546. **Necessary expenses shall be refunded to every possessor;** but only the possessor in good faith may retain the thing until he has been reimbursed therefor.
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> Useful expenses shall be refunded only to the possessor in good faith with the same right of retention, the person who has defeated him in the possession having the option of refunding the amount of the expenses or of paying the increase in value which the thing may have acquired by reason thereof.
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> Article 443. He who receives the fruits has the obligation to pay the expenses made by a third person in their production, gathering, and preservation. (Emphases supplied)

As provided in the law, respondent shall be made to account for the fruits it received from the time it took possession until the time it surrendered the excess to petitioner. Respondent has admitted that it leased out the excess to various establishments and earned profits therefrom.[39] Having done so, it is bound to pay the corresponding amounts to petitioner.

Respondent, however, shall be entitled to a refund of the necessary expenses it incurred. Necessary expenses are those made for the preservation of the land occupied,[40] or those without which the land would deteriorate or be lost.[41] These may also include expenditures that augment the income of the land or those that are incurred for its cultivation, production, and upkeep.[42]

Both the CA[43] and the RTC[44] found that respondent had exerted efforts and expended money to develop the excess and protect it from squatter syndicates. These expenses would naturally fall under those defined as necessary expenses for which respondent, even as a possessor in bad faith, is entitled to be reimbursed.

These necessary expenses have not been itemized by respondent. On the other hand, We are not inclined to adopt the allegation of petitioner as to the amount of rental it could have received from the lease of the excess based on a professional appraisal.[45] There is a need to remand the case to the RTC for the conduct of trial