

## THIRD DIVISION

**[ G.R. No. 186976, December 07, 2016 ]**

**PRYCE PROPERTIES CORPORATION, PETITIONER, V. SPOUSES SOTERO OCTOBRE, JR. AND HENRISSA A. OCTOBRE, AND CHINA BANKING CORPORATION, RESPONDENTS.**

### DECISION

**JARDELEZA, J.:**

The primary question is whether a breach of contract automatically triggers the award of actual or compensatory damages.

#### I

On July 22, 1997, respondent Spouses Sotero Octubre, Jr. and Henrissa A. Octubre (Spouses Octubre) signed a Reservation Agreement with petitioner Pryce Properties Corporation (Pryce) for the purchase of two lots with a total of 742 square meters located in Puerto Heights Village, Puerto Heights, Cagayan de Oro City.<sup>[1]</sup> The parties subsequently executed a Contract to Sell over the lot for the price of P2,897,510.00 on January 7, 1998.<sup>[2]</sup>

On February 4, 2004, Pryce issued a certification that Spouses Octubre had fully paid the purchase price and amortization interests, as well as the transfer fees and other charges in relation to the property, amounting to a total of P4,292,297.92.<sup>[3]</sup> But Pryce had yet to deliver the certificates of title, which prompted Spouses Octubre to formally demand its delivery. Despite repeated demands, Pryce failed to comply.<sup>[4]</sup> Thus, on May 18, 2004, Spouses Octubre filed a complaint before the Housing and Land Use Regulatory Board (HLURB), Regional Office No. 10 for specific performance, revocation of certificate of registration, refund of payments, damages and attorney's fees.<sup>[5]</sup>

It appears that the reason why Pryce was unable to deliver the titles to Spouses Octubre is because it had previously transferred custody of the titles, along with others pertaining to the same development project, to China Banking Corporation (China Bank) as part of the Deed of Assignment<sup>[6]</sup> executed on June 27, 1996.<sup>[7]</sup> Under this deed, Pryce agreed to assign and transfer its accounts receivables, in the form of contracts to sell, in the Puerto Heights development project to China Bank as security for the P200 Million credit facility extended by the latter. Pryce obligated itself to deliver to China Bank the "contracts to sell and the corresponding owner's duplicate copies of the transfer certificates of title, tax declaration, real estate tax receipts and all other documents and papers"<sup>[8]</sup> relating to the assigned receivables until such receivables are paid or repurchased by Pryce. The titles to the lots purchased by Spouses Octubre were among those held in custody by China Bank.<sup>[9]</sup> When Pryce defaulted in its loan obligations to China Bank sometime in May 2002,

China Bank refused to return the titles to Pryce.<sup>[10]</sup> For this reason, China Bank was also impleaded in the HLURB complaint.

The HLURB Arbiter rendered a Decision<sup>[11]</sup> dated March 31, 2005 finding that Spouses Octobre had no cause of action against China Bank and rescinding the contract between Pryce and Spouses Octobre. It ordered Pryce to refund the payments made by the spouses with legal interest and to pay the latter compensatory damages amounting to P30,000.00, attorney's fees and costs of suit.<sup>[12]</sup>

On appeal, the HLURB Board of Commissioners modified the Decision by ordering Pryce to pay the redemption value to China Bank so that the latter may release the titles covering the lots purchased by Spouses Octobre. In default thereof, Pryce shall refund the payments with legal interest. The HLURB Board upheld the grant of compensatory damages, attorney's fees and costs to Spouses Octobre.<sup>[13]</sup> Pryce moved for reconsideration and to stay the proceedings on account of Pryce's ongoing corporate rehabilitation.<sup>[14]</sup> The HLURB Board, however, denied Pryce's motion considering that the stay order of the rehabilitation court had already been reversed by the Court of Appeals.<sup>[15]</sup>

Thereafter, Pryce appealed the case to the Office of the President, which affirmed<sup>[16]</sup> in full the HLURB Board's Decision. Undeterred, Pryce elevated the case to the Court of Appeals which denied the petition for review and affirmed the Office of the President's Decision. The Court of Appeals found that Pryce acted in bad faith because it "did not disclose [that the titles were in the custody of China Bank] to respondents Spouses Octobre until the latter demanded delivery of the titles."<sup>[17]</sup> The Court of Appeals held that Pryce's contractual breach justified the award of compensatory damages as well as the payment of attorney's fees and costs of suit.<sup>[18]</sup>

Pryce is now before this Court primarily arguing that the Court of Appeals erred in upholding the award of compensatory damages because Spouses Octobre failed to present competent proof of the actual amount of loss.<sup>[19]</sup> It also questions the award of attorney's fees and litigation costs because there was allegedly no finding of bad faith.<sup>[20]</sup> Additionally, as side issues, Pryce questions the Court of Appeals' finding that the stay order had been reversed and its decision to uphold the finding by the HLURB Board and Office of the President that the subject properties were mortgaged to China Bank.<sup>[21]</sup>

In response, Spouses Octobre maintain that the award of compensatory damages, attorney's fees and costs were proper because they were forced to litigate to enforce their contractual right as a result of Pryce's breach.<sup>[22]</sup> With respect to the stay order, Spouses Octobre cite this Court's February 4, 2008 Decision in G.R. No. 172302<sup>[23]</sup> which affirmed the appellate court's reversal of the stay order. Finally, Spouses Octobre note that the characterization of the Deed of Assignment as a mortgage came from Pryce's own appeal memorandum filed with the HLURB Board, and that, in any event, whether it is an assignment or mortgage, the decisive fact is that the titles were delivered by Pryce to China Bank.<sup>[24]</sup>

In its comment, China Bank insists that Pryce only has itself to blame for failing to comply with its obligation to remit the payments received from the various contracts

to sell, including its obligation to Spouses Octobre. Under the Deed of Assignment, China Bank is entitled to hold custody of the titles surrendered by Pryce until the assigned receivables are paid or repurchased by Pryce, which to date the latter has failed to do.<sup>[25]</sup>

## II

Article 2199 of the Civil Code defines actual or compensatory damages:<sup>[26]</sup>

Art. 2199. Except as provided by law or by stipulation, one is entitled to an adequate compensation only for such pecuniary loss suffered by him **as he has duly proved**. Such compensation is referred to as actual or compensatory damages. (Emphasis supplied.)

To be entitled to compensatory damages, the amount of loss must therefore be capable of proof and must be actually proven with a reasonable degree of certainty, premised upon competent proof or the best evidence obtainable. The burden of proof of the damage suffered is imposed on the party claiming the same, who should adduce the best evidence available in support thereof.<sup>[27]</sup> Its award must be based on the evidence presented, not on the personal knowledge of the court; and certainly not on flimsy, remote, speculative and non-substantial proof.<sup>[28]</sup>

It is clear that the amount paid by Spouses Octobre to Pryce as purchase price for the lots has been adequately proved. There is no dispute that Spouses Octobre are entitled to such amount with legal interest. The issue being raised by Pryce is only with respect to the P30,000.00 awarded as compensatory damages.<sup>[29]</sup>

The records of this case are bereft of any evidentiary basis for the award of P30,000.00 as compensatory damages. When the HLURB Arbiter initially awarded the amount, it merely mentioned that "[Spouses Octobre] are entitled to compensatory damages, which is just and equitable in the circumstances, even against an obligor in good faith since said damages are the natural and probable consequences of the contractual breach committed."<sup>[30]</sup> On the other hand, the Court of Appeals justified the award of compensatory damages by stating that "it is undisputed that petitioner Pryce committed breach of contract in failing to deliver the titles to respondents [Spouses] Octobre which necessitated the award of compensatory damages."<sup>[31]</sup> In their comment, Spouses Octobre emphasized that they were "forced to litigate and seek the intervention of the courts because of Pryce's failure to comply with its contractual and legal obligation"<sup>[32]</sup> without so much as mentioning any proof that would tend to prove any pecuniary loss they suffered.

In the absence of adequate proof, compensatory damages should not have been awarded. Nonetheless, we find that nominal damages, in lieu of compensatory damages, are proper in this case. Under Article 2221, nominal damages may be awarded in order that the plaintiff's right, 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. Nominal damages are "recoverable where a legal right is technically violated and must be vindicated against an invasion that has produced no actual present loss of any kind or where there has been a breach of contract and no substantial injury or actual damages whatsoever have been or can be shown."<sup>[33]</sup> So long as there is a violation of the right of the plaintiff

—whether based on law, contract, or other sources of obligations<sup>[34]</sup>—an award of nominal damages is proper.<sup>[35]</sup> Proof of bad faith is not required.<sup>[36]</sup> The HLURB Arbiter and the Court of Appeals appear to have confused nominal damages with compensatory damages, since their justifications more closely fit the former.

It is undisputed that Pryce failed to deliver the titles to the lots subject of the Contract to Sell even as Spouses Octubre had already fully settled the purchase price. Its inability to deliver the titles despite repeated demands undoubtedly constitutes a violation of Spouses Octubre's right under their contract. That Pryce had transferred custody of the titles to China Bank pursuant to a Deed of Assignment is irrelevant, considering that Spouses Octubre were not privy to such agreement.

In fine, contractual breach is sufficient to justify an award for nominal damages but not compensatory damages.

### III

Pryce questions the award of attorney's fees and costs of suit because no exemplary damages were awarded. This contention, however, is clearly unmeritorious because under Article 2208,<sup>[37]</sup> the award of exemplary damages is just one of 11 instances where attorney's fees and expenses of litigation are recoverable.

Article 2208(2) allows the award of attorney's fees when the defendant's act or omission has compelled the plaintiff to litigate with third persons or to incur expenses to protect his interest. The Court has interpreted that this provision requires a showing of bad faith and not mere erroneous conviction of the righteousness of a defendant's cause.<sup>[38]</sup> In this case, the Court of Appeals found that Pryce acted in bad faith when it did not disclose to Spouses Octubre the fact that the certificates of title to the properties purchased were in the custody of China Bank until Spouses Octubre had fully paid the price and had demanded delivery of the titles. We agree with this finding and therefore sustain the award of attorney's fees and costs of suit in favor of Spouses Octubre.

### IV

The other side issues raised by Pryce shall be disposed of swiftly since they have no substantial bearing on the merits of this case. As admitted by Pryce itself, "it is not the entire Decision that is being assailed"<sup>[39]</sup> but only the portion regarding the award of compensatory damages, attorney's fees and costs of suit.

### A

When the stay order being invoked by Pryce was reversed and set aside at the first instance by the Court of Appeals in CA-G.R. SP No. 88479, that stay order was automatically deemed vacated.<sup>[40]</sup> By reversing the stay order of the rehabilitation court, the Court of Appeals effectively enjoined the execution of such order as allowed by the 2000 Interim Rules of Procedure on Corporate Rehabilitation<sup>[41]</sup> (which was then in effect when Pryce filed its petition for rehabilitation in 2004). We affirmed the Court of Appeals' decision to set aside the stay order in the Decision dated February 4, 2008<sup>[42]</sup> and Resolution dated June 16, 2008.<sup>[43]</sup> Although we later reconsidered the Decision on February 18, 2014,<sup>[44]</sup> the same does not affect the validity of the proceedings already conducted before the HLURB, Office of the