

SIXTEENTH DIVISION

[CA-G.R. SP NO. 126858, November 27, 2014]

MANILA BAY DEVELOPMENT CORPORATION, PETITIONER, VS. REGIONAL TRIAL COURT OF PARAÑAQUE CITY, BRANCH 274, PRESIDED BY JUDGE FORTUNITO L. MADRONA, AND UNIWIDE HOLDINGS, INC., RESPONDENTS.

[CA-G.R. SP NO. 126938]

MANILA BAY DEVELOPMENT CORPORATION, PETITIONER, VS. HON FORTUNITO L. MADRONA, IN HIS OFFICIAL CAPACITY AS THE PRESIDING JUDGE OF THE REGIONAL TRIAL COURT OF PARAÑAQUE CITY, BRANCH 274, AND UNIWIDE HOLDINGS, INC., RESPONDENTS.

[CA-G.R. CV NO. 100155]

UNIWIDE HOLDINGS, INC., PLAINTIFF-APPELLEE, VS. MANILA BAY DEVELOPMENT CORPORATION, DEFENDANT-APPELLANT.

CONSOLIDATED DECISION

ZALAMEDA, R.V., J.:

This disposes of the following cases consolidated before this Court, to wit:

1. The Petition for Certiorari (with Urgent Application for the Issuance of a Temporary Restraining Order and/or Writ of Preliminary Injunction) under Rule 65, docketed as **CA-G.R. SP No. 126858**^[1] entitled, "Manila Bay Development Corporation vs. Hon. Fortunato L. Madrona," which assails the twin Orders dated 23 April 2012 and 18 July 2012 of the public respondent, the Hon. Fortunato Madrona. The said respondent denied Manila Bay Development Corporation's Motion for Inhibition and to Suspend Proceedings and granted Uniwide's Motion to Set Case for Ex-Parte Hearing for Further Reception of Plaintiff's Evidence, and denied the motion for reconsideration filed by MBDC thereon; and
2. The Petition for Certiorari (with Urgent Application for the Issuance of a Temporary Restraining Order and/or Writ of Preliminary Injunction) under Rule 65, docketed as **CA-G.R. SP No. 126938**^[2] entitled, "Manila Bay Development Corporation vs. Hon. Fortunato L. Madrona," assailing the Order^[3] dated 13 August 2012 of the same public respondent who denied MBDC's Motion to Set Aside

Order of Default and to Admit Attached Answer.

3. The Appeal filed by Manila Bay Development Corporation^[4] from the Decision^[5] dated 19 November 2012 of Branch 274, Regional Trial Court of Parañaque City^[6] in Civil Case No. 11-0060 entitled, "*Uniwide Holdings, Inc., Plaintiff, versus Manila Bay Development Corporation, Defendant,*" for reformation of contract, and docketed as **CA-G.R. CV No. 100155**;

The facts, as borne by the records of the case, are as follows:

Manila Bay Development Corporation,^[7] a domestic corporation, is the registered owner of the land located in the Central Business Park, Reclamation Area, Parañaque City, previously known as the "Manila Coastal Road Reclamation Project."^[8]

Sometime in the early 1990s, Jimmy Gow^[9] was persuaded by MBDC, through its President, George Chua,^[10] to build a shopping mall complex on the subject property upon the assurance that a commercial and business center shall be built thereon, including the World Trade Center.^[11] Thus, on 18 August 1992, MBDC and Gow entered into a contract of lease^[12] over a twenty (20)-hectare portion of the property for the construction of the shopping mall.

Two (2) years later, a new lease contract^[13] was offered by MBDC to Gow, reducing the space to be leased from twenty (20) hectares to ten (10) hectares. The lease contract was for a period of twenty (20) years from 01 April 1994 until 31 March 2014 with the lease rate starting from fifteen (P15.00) pesos per square meter, with ten (10) percent cumulative increase per annum. It was signed by the parties on 26 January 1994^[14] on the same representation by MBDC for the property to form part of a commercial and business center in an integrated and controlled development project.^[15]

Subsequently thereafter, Gow assigned^[16] the second lease contract to Uniwide Holdings, Inc.,^[17] a member of the Uniwide Group of Companies, which continued the construction of the shopping mall, to be known as the Uniwide Coastal Mall.^[18]

In 1996, MBDC informed UHI that a major road shall be constructed on the leased property encroaching on the shopping mall being built thereon. This prompted the execution of a Supplemental Agreement^[19] amending the terms of the second lease contract, which included provisions in cases of expropriation, payment of air rights lease^[20] and extension of the lease contract for another year, or until 2015.

In its Complaint, UHI claimed that the construction of the major road, Boulevard 2000, later renamed as Macapagal Avenue, caused a drastic change in the design and engineering plans of the mall leading to the protracted delay of more than two (2) years in its construction. It triggered significant losses to UHI considering that it was forced to return some four hundred million (P400,000.000.00) pesos to its investors who withdrew their investments due to the delay and design changes.

Compounded with the Asian financial crisis in 1997, the losses incurred arising from the said delay and changes in the construction of the mall prompted UHI to commence rehabilitation proceedings before the Securities and Exchange Commission.^[21] A Stay Order was subsequently issued by the SEC suspending all claims, actions and proceedings against UHI, and a rehabilitation plan was approved.^[22]

Sometime in 2005, UHI began to default in the payment of its monthly rentals to MBDC. Gow and UHI tried to re-negotiate the terms of the second lease contract and its supplemental agreement, so that at the very least, the initial rental payment be maintained sans the incremental annual increase. However, pending negotiations, MBDC sent a demand letter to UHI for it to vacate the leased premises in July 2009.

MBDC initiated arbitration proceedings before the Philippine Dispute Resolution Center, Inc.,^[23] praying that UHI be ordered to vacate the property and to remove all its improvements thereon. By way of reply, UHI manifested that it cannot comply with the request for arbitration considering that its rehabilitation case was still pending.^[24]

On 19 March 2010, MBDC filed a Complaint^[25] for unlawful detainer and collection of unpaid rentals, among others, against UHI before the Metropolitan Trial Court of Parañaque. In its Answer, UHI maintained its position regarding the change in circumstances to justify the reformation of the lease contract.^[26]

In a Decision^[27] dated 28 September 2010, the MeTC ordered UHI to: (1) vacate the leased premises; (2) pay accrued rentals and liquidated damages from 01 April 2005 to 30 September 2010 in the total amount of seven hundred fifteen million seven hundred thirty-eight thousand five hundred (P715,738,500.00) pesos with legal interest; (3) pay reasonable rental at the rate of fifty-six pesos 88/100 (P56.88) per square meter per month or five million six hundred eighty-eight thousand (P5,688,000.00) pesos per month from 01 October 2010 up to the time the leased premises is actually vacated; and (4) pay attorney's fees in the amount of twenty thousand (P20,000.00) pesos.

On appeal, the Regional Trial Court of Parañaque City reversed the MeTC in its Decision^[28] dated 14 July 2011 and dismissed the ejectment complaint for lack of merit. The Court of Appeals later on reversed the RTC Decision via its Decision^[29] dated 02 October 2012.

In the meantime, UHI filed in February 2011 a Complaint^[30] for reformation of contract before the RTC of Parañaque City (now the subject of the Appeal), arguing that circumstances subsequent to the execution of the lease contracts, e.g., no commercial complex was built on the property contrary to the representation, the construction of a major road cutting through the shopping mall caused inordinate delays, and the rehabilitation of UHI, among others, rendered the original obligations so difficult and inequitable as to be manifestly beyond the contemplation of the parties. Thus, UHI prayed that the second lease contract and Supplemental Agreement be reformed by: (1) reducing the monthly rental by at least thirty (30) percent; (2) deleting the stipulated yearly increase in rentals; and (3) extending the

term of the lease contract for another five (5) years.^[31]

Instead of filing its Answer, MBDC filed a Motion to Dismiss^[32] on the grounds of prescription, laches and failure to state a cause of action. The same, however, was denied by the RTC in the Order^[33] dated 01 August 2011. Eleven (11) days after receipt^[34] of the RTC's order of denial or on 26 September 2011, MBDC filed its Motion for Reconsideration.^[35]

Pending resolution of MBDC's Motion for Reconsideration, UHI filed a Motion (1) To Declare Defendant in Default and (2) To Render Judgment Based Solely on the Complaint or an Ex parte Presentation of Evidence.^[36] The RTC, in an Order^[37] dated 13 December 2011, jointly resolved the parties' respective motions. It granted UHI's motion, thereby declaring MBDC in default and rendering as moot the latter's Motion for Reconsideration.

Subsequently thereafter, an *ex parte* hearing commenced on 26 January 2012 with UHI presenting three (3) witnesses, namely: Adalia Pelayo, its bookkeeper, Gow, and Atty. Joseph Sagondoy, Jr.^[38]

MBDC filed its Motion to Set Aside Default and to Admit Attached Answer^[39] dated 24 January 2012. MBDC likewise filed a Motion for Inhibition and to Suspend Proceedings^[40] dated 10 February 2012 and a Supplemental Motion for Inhibition.^[41] The RTC, however, denied the same in an Order^[42] dated 23 April 2012. The decretal portion reads:

"X x x

Accordingly, therefore, finding no merit in the Motion for Inhibition, the said Motion is denied.

With the denial, the other pending incident, which is the "Motion to Set Case for Ex-Parte Hearing for Further Reception of Plaintiff's Evidence" filed by plaintiff and which was ordered held in abeyance per Order dated March 20, 2012, is now allowed as the Court hereby grants the motion. Let then the further reception of evidence ex-parte continue.

SO ORDERED.

X x x"^[43]

The RTC denied the Motion for Reconsideration filed by MBDC in an Order^[44] dated 18 July 2012:

"X x x

As the Court finds no convincing reason to reconsider the Order dated April 12, 2012, the Motion for Reconsideration is thus accordingly denied.

Let then the ex-parte proceedings continue while the other incident, the Motion to Set Aside Order of Default is now submitted for resolution.

SO ORDERED.

X x x"^[45]

Feeling aggrieved, MBDC filed the first Petition for Certiorari, docketed as CA-G.R. SP No. 126858.^[46]

A month after the RTC rendered its Order dated 18 July 2012, it disposed of MBDC's earlier Motion to Set Aside Default and to Admit Attached Answer.^[47] The RTC ruled against MBDC in an Order^[48] dated 13 August 2012:

"X x x

WHEREFORE, for lacking merit, the Motions To Set Aside Order of Default is denied, its accompanying answer ordered to be expunged from the records of the case.

SO ORDERED.

X x x"^[49]

Stunned by the RTC's denial to set aside the order of default, MBDC directly filed before the Court of Appeals its second Petition for Certiorari, docketed as CA-G.R. SP No. 126938,^[50] claiming that the RTC's Order, through the respondent Judge, is a patent nullity.

A few months after the first and second petitions for certiorari were filed before the Court of Appeals, the RTC, on 19 November 2012, issued the assailed Decision,^[51] a judgment by default, finding that "exceptional changes in the circumstances exist" to warrant the reformation of the lease contracts, namely; MBDC's misrepresentations on a business center to be developed in the area, the unforeseen construction of the Macapagal Avenue, and the Asian Financial Crisis, were considered by the RTC as "inequitable conduct or accident" entitling UHI to equitably seek the reformation of the lease contracts.

The dispositive portion of the Decision reads:

"X x x

WHEREFORE, the foregoing duly considered, judgment is hereby rendered for the plaintiff and against the defendant as follows:

(1) Ordering the lease contract between the defendant as Lessor and the plaintiff as Lessee over the property