

****Title:**** Lao Chit vs. Security Bank & Trust Co. and Consolidated Investment, Inc.

****Facts:****

In May 1949, Consolidated Investments, Inc. (lessor) leased part of its building's ground-floor lobby to Domingo T. Dikit for the proposed Bank of Manila. The lease mandated that Dikit, at his expense, make necessary improvements, which would become the lessor's property upon termination or rescission of the contract.

Dikit contracted Lao Chit to furnish materials and labor for the improvements at P59,365, payable upon the bank's operation commencement—contingent upon a Central Bank permit, which was never granted. Failing to open the bank and pay rent from October 1949, Dikit faced an unlawful detainer suit (Civil Case No. 9708) by the lessor. Dikit's subsequent appeal and writ of certiorari (Case No. 11214 and G.R. No. L-3621) were dismissed after he relinquished his rights over the premises and improvements.

Meanwhile, Lao Chit filed a recovery suit (Civil Case No. 10178) against Dikit and Silva for the improvements made, resulting in a favorable June 1953 judgment for Lao Chit. A writ of execution was issued but returned unsatisfied as Dikit and Silva lacked registerable assets.

Lao Chit then sued the Security Bank and Trust Co. (Bank), which had leased the premises since July 1951, demanding P1,000 monthly rental for the improvements. Amended to include the lessor, Lao Chit's suit was answered with a claim that the improvements were at the former lessees' initiative and expense and hence the lessor's property, requesting P50,000 in damages for wrongful suit.

In December 1955, the lower Court of First Instance of Manila ruled in Lao Chit's favor, ordering the lessor to pay him for the improvements and joint monthly rentals from the lessor and the Bank since 1951. Defendants' motions for reconsideration and new trial were denied, leading to the current Supreme Court appeal.

****Issues:****

1. Whether the Security Bank and Trust Co. is liable to pay Lao Chit for the improvements made to the leased premises.
2. Whether the lessor, Consolidated Investments, Inc., is bound to compensate Lao Chit for the improvements following the principle of unjust enrichment or builder in good faith.
3. The applicability of Articles 361 and 364 of the Civil Code of Spain to this case.
4. Whether the lower court's interpretation of Lao Chit's rights over the improvements based on previous court decisions is correct.

****Court's Decision:****

The Supreme Court reversed the lower court's decision. It held that:

1. The Bank is not liable since it occupies the premises under a lawful lease and paid the agreed rentals.
2. The improvements by Lao Chit are the lessor's property due to their permanent nature and the explicit lease contract terms.
3. Lao Chit is not a builder in good faith under Article 361 of the Civil Code of Spain, as he knew he was not building on his own property.
4. The principle of unjust enrichment does not apply since Lao Chit contracted with Dikit knowing the leased property belonged to the lessor. There was no undue enrichment as the lessor suffered a loss from unpaid rentals by Dikit.
5. The previous court decision in Case No. 10718 cannot bind the lessor as it was not a party to that case.

****Doctrine:****

1. A builder in good faith refers to one who builds on land they believe to be their own—this does not apply if the builder knew the land belonged to another party.
2. The principle of unjust enrichment mandates enrichment to be “undue” or “unjust,” which is not met if the supposed enrichment is due to contractual obligations.
3. The rulings in a case are binding only to the parties involved and their successors, not to third parties who were not involved in the litigation.

****Class Notes:****

- Unjust Enrichment: Requires enrichment to be undue for compensation to be mandated.
- Accession: Permanent improvements on property generally become part of the property and belong to the owner, not the improver.
- Builder in Good Faith: Applies to cases where a person builds on land believing it to be theirs—Article 361 of the Civil Code of Spain.
- Nonparties to a Case: Are not bound by rulings and decisions which involve parties to whom they have no legal or contractual relation.

“Lao Chit knew arising from Dikit's obligations and not outside of his lease contract, thus the enrichment, if any, was not undue.”

****Historical Background:****

Post-World War II Philippines was in a period of reconstruction and economic development, which saw an increase in construction and formation of new enterprises, such as banks. This

case arises in the context of the burgeoning financial industry and touches upon real estate laws, leasing arrangements, and the intersections of civil liability, during a time when the country was trying to establish a stable economic environment.