

Title: ****Spouses Manzanilla vs. Waterfields Industries Corporation: The Case of Lease Violation and Unlawful Detainer****

Facts: The case involved a dispute over a 25,000-square meter parcel of land in Barangay San Miguel, Sto. Tomas, Batangas, between the property owners, Spouses Alejandro Manzanilla and Remedios Velasco (petitioners), and their lessee, Waterfields Industries Corporation, represented by President Aliza Ma (respondent). On May 24, 1994, the petitioners leased a 6,000-square meter portion of the land to Waterfields under a 25-year lease agreement, with a monthly rental of P18,000.00. The lease agreement was amended on June 6, 1994. Subsequently, due to failed rental payments from April 1997, Aliza Ma sent a letter on July 9, 1997, proposing changes to rental payment terms, which was interpreted by the lower courts as an amendment to the lease contract.

Further, the petitioners filed an ejectment complaint against Waterfields in the Metropolitan Trial Court (MTC) of Manila after the latter accrued unpaid rentals amounting to P108,000.00 from December 1997 to May 1998. Waterfields defended its position by stating it was applying the previously paid rental deposit towards the rent, as per the original agreement before the July 9, 1997 amendment. The MTC ruled in favor of the petitioners, a decision which was affirmed by the Regional Trial Court (RTC) of Manila. However, the Court of Appeals (CA) reversed the decision, citing that upon the termination of the contract as alleged by the petitioners, the rental deposit should have been applied to unpaid utilities and other expenses, not the rentals, which led to an erroneous calculation of liabilities. The CA's decision was contested by the petitioners in the Supreme Court.

Issues:

1. Whether the July 9, 1997 letter indeed constituted an amendment to the Contract of Lease altering the use of the rental deposit.
2. Whether the failure of Waterfields to pay the monthly rentals constituted a violation of the lease agreement, giving rise to a cause of action for unlawful detainer.
3. The applicability of the principle of compensation in the calculation of debts between the petitioners and the respondent.

Court's Decision:

The Supreme Court granted the petition, reversing and setting aside the CA's decision. It ruled that Waterfields had indeed failed to pay the rent, violating the terms of the amended lease agreement. The Court found that the July 9, 1997 letter was an amendment to the lease contract which Waterfields, through its admission, could not contest. The amendment

stipulated that the rental deposit was to be used for unpaid utilities and incidental expenses only, altering the original agreement where the deposit could cover unpaid rentals. As such, Waterfields was in arrears for the months of December 1997 to May 1998, constituting a violation of the lease agreement. Consequently, the cause of action for unlawful detainer by the petitioners was valid. The principle of compensation was deemed inapplicable by the Court due to its calculation based on an erroneous premise by the CA.

Doctrine:

The decision established or reiterated principles pertaining to the enforceability of amendments to contracts, judicial admissions in pleadings, and the proper use of rental deposits in lease agreements. Specifically, it emphasized that a party's admission in pleadings binds them to such admissions, precluding them from contesting such admissions later in the proceedings. Furthermore, the case clarified the circumstances under which rental deposits may be utilized, particularly emphasizing the terms explicitly agreed upon by the contracting parties.

Class Notes:

- Judicial admissions bind the party making them and cannot be contradicted unless shown to have been made through palpable mistake.
- Amendments to contracts that are agreed upon by the parties, either in writing or by their actions, are binding.
- The principle of unjust enrichment requires a benefit received without valid basis and at the expense of another.
- In unlawful detainer cases, the failure to pay rent as per the terms of the lease agreement constitutes a violation that provides a cause for ejectment.
- The principle of compensation applies when two persons, in their own right, are creditors and debtors of each other, but its applicability depends on the nature of the debts and the presence of valid agreements on how specific deposits or payments should be utilized.

Historical Background:

This case highlights the complexities of lease agreements and the critical importance of clear, mutual understanding and documentation of any amendments to such agreements. It showcases the evolution of the judiciary's interpretation of contracts, judicial admissions, and the conditions under which the principle of compensation may be applied.