

Title: Espina vs. Diaz: A Reflection on Novation and Unlawful Detainer

Facts:

Mario S. Espina, the petitioner, owned a condominium unit in Victoria Valley Condominium, Antipolo, Rizal. On November 29, 1991, a Provisional Deed of Sale was executed between Espina (seller) and Rene G. Diaz (buyer) for the condominium unit, with payment terms outlined in postdated checks. In January 1992, Diaz informed Espina that he would replace the issued checks due to the closure of his PCI Bank account. Partial payments were made, but Diaz eventually failed to complete the payments as agreed. This resulted in Espina sending a "Notice of Cancellation" for the Provisional Deed of Sale in July 1992, to which Diaz continued to occupy the unit and made a subsequent payment in October 1992 that Espina received without specific application towards the balance or the arrears.

The matter escalated to legal action when Espina filed a complaint for unlawful detainer against Diaz in the Municipal Trial Court of Antipolo, Rizal, on February 24, 1993, after Diaz failed to vacate the property upon demand. The trial court ruled in favor of Espina, ordering Diaz to vacate and settle the arrears. Diaz appealed to the Regional Trial Court, which affirmed the lower court's decision. Unyielding, Diaz filed a petition for review with the Court of Appeals, which reversed the lower courts' decisions, prompting Espina to seek recourse from the Supreme Court.

Issues:

1. Whether the Court of Appeals erred in ruling that the provisional deed of sale novated the existing contract of lease between Espina and Diaz.
2. Whether Espina had a cause of action for ejectment against Diaz.

Court's Decision:

The Supreme Court granted Espina's petition, reversing the decision of the Court of Appeals. The Court upheld that the provisional deed of sale did not novate the original lease contract since novation must be explicitly stated, which was not the case. The Court also determined that Espina's acceptance of a subsequent payment from Diaz did not withdraw the cancellation of the provisional sale but applied to the more onerous obligation, which were the unpaid rentals, thus preserving Espina's cause of action for ejectment.

Doctrine:

The ruling reiterates the doctrine that novation must be explicitly intended and declared by the parties involved or implied through irreconcilable incompatibility of the old and new

obligations. Novation cannot be presumed. Furthermore, in the absence of an express indication of the application of payment, it shall be applied to the most onerous obligation to the debtor.

Class Notes:

- **Novation in Contractual Relations**: Requires clear and unequivocal proof of intent by the parties, either through express stipulation or by implication from the incompatibility of the old and new obligations.
- **Unlawful Detainer and Cause of Action for Ejectment**: The failure to vacate the premises and pay the back rentals upon demand substantiates the cause of action for unlawful detainer, thereby justifying ejectment.
- **Application of Payments (Civil Code, Art. 1254)**: In the absence of an express indication, payment will be applied to the most onerous obligation.

Historical Background:

The case exemplifies the complexities surrounding real estate transactions that end in legal disputes, highlighting issues of contract novation and the rights to occupancy amidst failed payments. It underscores the judiciary's role in defining contractual obligations and the enforcement of property rights, reflecting on the broader socio-economic context of property ownership disputes common in the Philippines during the 1990s.