

****Title:**** Raval vs. Peralta: A Case of Lease Agreement Rescission

****Facts:****

The case involves a dispute over a lease agreement between the spouses Flaviano Arzaga, Sr. and Magdalena Agcaoili-Arzaga (Spouses Arzaga) as lessors, and Renato Ma. R. Peralta (Peralta), the lessee, concerning two parcels of residential land in Ilocos Norte. The lease, which began on February 19, 1974, was set for a term of 40 years with stipulated monthly rentals and conditions, including Peralta's obligation to construct a building and develop a water system on the leased property.

Flaviano Arzaga, Jr. (Flaviano Jr.), son and heir of the Spouses Arzaga, initially sought to annul the lease in 1988 due to alleged breaches by Peralta. This action was dismissed, a decision affirmed by the Court of Appeals and was not appealed further.

Subsequently, Flaviano Jr. assigned his rights over the property to Jose Roy B. Raval (Raval) in 1995, a move contested by Peralta. Amid repeated demands from Raval for compliance with the lease terms and payment of rentals, and Peralta's refusal on various grounds including questioning the validity of the assignment, the conflict escalated, leading Raval to file a complaint for rescission of the lease agreement. The Regional Trial Court (RTC) dismissed both Raval's complaint and Peralta's counterclaim, a decision affirmed with modifications by the Court of Appeals (CA), leading to the present petitions for review on certiorari to the Supreme Court.

****Issues:****

1. Whether the deed of assignment from Flaviano Jr. to Raval transferred valid rights over the leased property, making Raval a proper party to seek rescission.
2. Whether the lease agreement should be rescinded due to alleged violations by Peralta.
3. Whether the action for rescission filed by Raval was within the prescriptive period.
4. Whether Peralta's payments for account of Flaviano Jr. constituted compliance with his rental obligations.
5. Whether Peralta and Raval are entitled to damages and attorney's fees.

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

The Supreme Court upheld the validity of the deed of assignment, establishing Raval as the rightful successor-in-interest with standing to seek rescission. However, the Court found the issue of rescission moot due to the lease's natural expiry but addressed the principle matters intertwined with rescission, including obligations under the lease, prescriptive

periods, and compliance with payment terms:

1. The deed of assignment to Raval was valid, making him a proper party to seek legal remedies.
2. The action for rescission, focusing on compliance with lease obligations rather than the inception of the lease itself, was within the 10-year prescriptive period set for written contracts.
3. Peralta's method of depositing rentals was deemed compliant with his lease obligations, rendering the demand for unpaid rentals unfounded and resulting in the deletion of awards for unpaid rentals and moral damages granted by the CA.
4. Both parties' claims for damages and attorney's fees were denied due to the lack of bad faith in the initiation of the lawsuit and the fulfillment of lease obligations.

****Doctrine:****

The case reiterated the principles that lease agreements are governed by specific provisions in the New Civil Code, particularly Articles 1654, 1657, and 1659 regarding the obligations of lessors and lessees and the grounds for rescission. It also underscored the prohibition against collateral attacks on certificates of title and highlighted that payments made in compliance with lease agreements under disputed assignments are considered valid.

****Class Notes:****

- Lease Agreements: Legal obligations and grounds for rescission are specifically addressed in Articles 1654, 1657, and 1659 of the New Civil Code.
- Deed of Assignment: Validity transfers rights and interests, including standing to seek legal remedies.
- Prescriptive Period for Action: Rescission under lease agreements falls within 10 years from the occurrence of a breach, separate from general contract rescission principles.
- Payment Compliance: Payments made towards the obligations under a lease agreement, even if disputed, are considered valid if made in previously agreed-upon manners.
- Damages: Not recoverable merely due to breach unless accompanied by fraudulent, bad faith, wanton, or malicious conduct.

****Historical Background:****

The case reflects the evolving nature of property rights and contractual obligations within the context of Philippine civil law, especially regarding lease agreements and assignments of rights. It highlights the legal framework governing lease contracts, the interpretation and application of prescriptive periods for actions, and the importance of fulfilling contractual

obligations to avoid litigation. The decision underscores the judiciary's role in resolving disputes arising from contractual relationships, balancing the interests of both parties while adhering to established legal principles.