

Title: Selwyn F. Lao and Edgar Manansala vs. Special Plans, Inc.

Facts:

1. **Initial Lease Agreement**: Petitioners Selwyn F. Lao, Edgar Manansala, and Benjamin Jim entered into a lease agreement with Special Plans, Inc. (SPI) for a building located at 354 Quezon Avenue, Quezon City. The lease was from January 16, 1993, to January 15, 1995, for their business venture, Saporro Restaurant.
2. **Renewal Extension**: Upon expiration, the lease was extended for eight months at a monthly rental rate of P23,000.00.
3. **Demand for Payment**: On June 3, 1996, SPI sent a demand letter for unpaid arrears accumulating to P118,000.00. The petitioners did not comply with the demand.
4. **Filing of Complaint**: SPI filed a Complaint for a sum of money on July 23, 1996, with the Metropolitan Trial Court (MeTC), claiming unpaid rentals from March 16, 1996, to August 16, 1996.
5. **Answer with Counterclaims**: Petitioners countered that SPI misrepresented ownership of the property and failed to maintain it. They also raised counterclaims for repairs worth P422,920.40 incurred due to SPI's inaction.
6. **MeTC Trial and Decision**: The MeTC found unpaid rentals amounting to P95,000.00 and concluded that SPI was responsible for structural repairs costing P125,000.00, dismissing SPI's complaint but denying petitioners' counterclaims.
7. **Appeal to RTC**: SPI appealed to the Regional Trial Court (RTC), which modified the MeTC decision, ordering petitioners to pay P95,000.00 and rejecting the offsetting mechanism for repairs.
8. **Appeal to CA**: Petitioners (minus Ben Jim) appealed to the Court of Appeals (CA), which affirmed the RTC decision in full.
9. **Petition for Review in SC**: Petitioners challenged the CA's decision, particularly on the dismissal of judicial compensation for repairs.

Issues:

1. **Whether the structural repair costs claimed by petitioners should be judicially compensated against unpaid rentals.**
2. **Whether petitioners provided adequate proof of the expenses incurred for structural repairs.**

Court's Decision:

1. **Compensation Applicability**: The Court ruled that legal compensation requires both debts (unpaid rentals and repair costs) to be liquidated and demandable. Petitioners failed

to demonstrate that their claim was liquidated and therefore legal compensation was inapplicable.

2. **Evidence for Repairs**: The Court found petitioners provided inadequate proof verifying their claimed repair expenses. It emphasized the absence of receipts and credible, corroborating testimony for the P125,000.00 spent on structural repairs.

3. **Affirmation with No Relief for SPI**: Since SPI did not appeal for additional relief (interest or attorney's fees), the Court could not grant them. The previous decisions were affirmed, and no new relief could be provided in favor of SPI.

Doctrine:

- **Legal Compensation**: Legal compensation (Article 1279 of the Civil Code) requires mutually demandable and liquidated debts. Claims for unliquidated expenses cannot be set off against liquidated ones.
- **Evidence for Structural Repairs**: Proper, credible, and documented evidence is crucial to substantiate claims of expenses for structural repairs within a lease context.
- **Appeal Protocols**: A party who does not appeal a decision cannot seek modification or favorable adjustments from higher courts.

Class Notes:

- **Legal Compensation Elements (Civil Code, Art. 1279)**:
 - Mutual creditors and debtors.
 - Both debts consist of a sum of money.
 - Debts must be due.
 - Debts must be liquidated and demandable.
 - No retention or controversy over the debts.
- **Lease Contract Obligations**: Obligations within a lease contract may include maintenance and repair responsibilities specified therein, with distinctions between structural and other necessary repairs.

Historical Background:

This case reflects a common issue in lease agreements concerning maintenance obligations and the validity of claims for repair costs. The principles involved echo historical practices from Roman Law regarding compensation, emphasizing fairness and the necessity of liquidated claims to permit offsets against debts. The Court's decision underscores the evolution and application of such principles within contemporary Philippine jurisprudence, reflecting on procedural diligence and substantive proof requirements in civil litigation.