

Title: University Physicians' Services, Inc. v. Marian Clinics, Inc. and Dr. Lourdes Mabanta, G.R. No. ____, 644 Phil. 1

Facts:

****Initial Lease Agreement**:**

- On May 31, 1973, Marian Clinics, Inc. (MCI) leased Marian General Hospital (MGH) and four associated schools to University Physicians' Services, Inc. (UPSI) for ten years (June 1, 1973 - May 31, 1983) at a monthly rent of P70,000.
- The lease included land, buildings, facilities, fixtures, and equipment.

****Legal Actions**:**

1. ****Specific Performance Suit by UPSI**:**

- ***October 7, 1975***: UPSI filed a complaint against MCI for failing to deliver Certificates of Occupancy for certain buildings and for defective electrical installations. Filed as Civil Case No. 99934 in the Court of First Instance (CFI) of Manila, Branch 34.
- UPSI withheld rent payments due to the above issues.
- ***January 29, 1976***: CFI ordered UPSI to deposit rental payments with the court.

2. ****Unlawful Detainer Suit by MCI**:**

- ***December 18, 1975***: MCI and Dr. Lourdes Mabanta filed a Complaint for Unlawful Detainer against UPSI (Civil Case No. 006665-CV in the City Court of Manila).
- ***August 10, 1980***: City Court dismissed the case, ruling UPSI's non-payment was justified.
- Case appealed to RTC Manila, Branch 35 (Civil Case No. 135396).

****Property Transfer**:**

- ***September 1, 1980***: MCI ceded some leased buildings and assets to Development Bank of the Philippines (DBP) due to debt (dacion en pago).
- ***February 24, 1984***: While appeal was pending, UPSI bought the properties from DBP.

****Interim Appellate Court Decision**:**

- ***February 28, 1985***: IAC reversed lower courts' decisions, ordered UPSI to pay back rentals and vacate the leased properties.
- ***July 18, 1985***: IAC finalized judgment, including the order for UPSI to vacate and return leased properties.

****Execution and Appeal**:**

- *November 5, 1990*: RTC Manila ordered UPSI to replace or pay for leased equipment and facilities not returned.
- UPSI appealed, arguing this varied the IAC's ruling and violated due process.
- *October 18, 2001*: Court of Appeals affirmed the RTC order. UPSI then filed a petition with the Supreme Court.

Issues:

1. Was the RTC's execution order valid or did it change the final IAC judgment?
2. Did the RTC have jurisdiction in issuing the execution order?
3. Did the order convert the original action from unlawful detainer to recovery of personal properties or replevin?
4. Is Article 1667 of the Civil Code applicable to this case?
5. Was UPSI's obligation to replace/return/pay for fixtures extinguished by other legal transactions?

Court's Decision:

****Issue 1****:

- The Supreme Court held that the RTC's execution order did not alter the IAC's judgment but merely implemented it. UPSI was obligated to return or replace the leased properties as provided by both law (Civil Code Articles 1665 and 1667) and the lease contract.

****Issue 2****:

- The Court affirmed the RTC's jurisdiction, concluding that the order did not change the nature of the final judgment but was essential to enforcing it.

****Issue 3****:

- The claim of UPSI that the execution varied the original action was dismissed. The judgment included the return of leased properties, which inherently covers potential replacement/payments for depreciation or loss.

****Issue 4****:

- Article 1667 of the Civil Code is relevant as UPSI's obligations under the lease included maintaining return of the leased properties or compensating for deterioration/loss not due to ordinary wear and tear.

****Issue 5****:

- UPSI's defenses concerning the dacion en pago and subsequent deeds of sale were left for factual determination by the RTC on remand to discern whether and to what extent leased properties were already accounted for.

Doctrine:

Civil Code Articles Applied:

- **Article 1306**: The principle of freedom of contract, stipulating that parties' agreements are binding so long as they are not contrary to law, morals, good customs, public order, or public policy.
- **Article 1159**: Obligations arising from contracts have the force of law between the contracting parties and must be complied with in good faith.
- **Article 1665**: Lessee's duty to return the leased property in the condition received, except for normal wear and tear.
- **Article 1667**: Holds the lessee liable for deterioration or loss of the leased property unless shown otherwise.

Class Notes:

1. **Elements of Unlawful Detainer**:

- Rightful possession initially.
- Unlawful withholding after the end of the lawful possession term.
- A demand to vacate the premises.

2. **Lease Contract Obligations**:

- Maintenance and return of leased properties.
- Possible replacement or compensation for loss/deterioration beyond normal wear and tear.

3. **Jurisdiction of Execution**:

- Execution orders must not vary the substantive judgment.
- Courts have jurisdiction to ensure full compliance with judgments, including ancillary orders necessary to effectuate the judgment's intent.

Historical Background:

This case unfolded against the backdrop of the evolving judicial interpretation of lessee and lessor rights and obligations under a lease contract, emphasizing the stringent application of Civil Code provisions governing lease agreements and the execution of judgments in

property disputes. The decision marks a reinforcement of contract obligations and clarifies procedural standards for executing judgments involving complex property and contractual arrangements.