

****Title:****

****Paterno et al. v. Jao Yan****

****Facts:****

1. ***Lease Agreement:*** On June 3, 1948, via a notarized contract, Maria Paterno and Martina Paterno (represented by their attorney-in-fact, Martina Paterno) leased a parcel of land located at the corner of Escolta Street and Plaza Moraga, Manila, to Jao Yan. The lease, commencing on July 15, 1948, was set for seven years. The lessee, Jao Yan, agreed to construct a building of strong wooden materials on the premises, which would become property of the lessors upon lease termination. The agreed monthly rental was P5,500.00, alongside all relevant taxes, charges, and assessments.
2. ***Alleged Oral Modifications:*** Jao Yan claimed that the original written contract was orally modified to extend the lease term from seven to ten years as consideration for constructing a semi-concrete building (instead of a wooden one) at an increased cost of P13,000.00.
3. ***Complaint Filed:*** On May 20, 1955, later amended on September 20, 1955, the lessors filed an action to recover P23,250.00 worth of rentals due from March to June 1955 and the first days of July 1955, P7,680.00 for real estate taxes (1953-1955), P2,500.00 for attorney's fees, and possession of the building erected by Jao Yan.
4. ***Defendant's Answer:*** Jao Yan asserted in his answer that the seven-year lease was orally extended to ten years, in consideration for the construction of a more expensive semi-concrete building. The defendant also retained the rentals due to the plaintiffs' refusal to acknowledge the modified agreement, and alleged malicious garnishment of rents from sublessees, seeking judicial recognition of the oral contract and damages.
5. ***Trial Developments:*** During the trial, Jao Yan presented testimonial evidence of the oral modification and documents submitted to the City Engineer's office regarding the building. However, the trial court excluded this evidence based on the Statute of Frauds.
6. ***Trial Court's Decision:*** The trial court ruled in favor of the lessors, granting their claims in the amended complaint. Jao Yan appealed the decision to the Supreme Court on the ground of improper evidence exclusion.

****Issues:****

1. ***Admissibility of Oral Evidence:*** Whether the trial court erred in excluding oral evidence of the modified lease agreement due to the Statute of Frauds.
2. ***Partial Performance Doctrine:*** Whether the partial performance by Jao Yan in constructing a semi-concrete building removed the lease agreement from the scope of the Statute of Frauds.
3. ***Judicial Discretion and Appellate Review:*** Whether the appellate court has the discretion to consider issues not formally assigned as error but are closely interlinked with assigned errors.

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

1. ***Admissibility of Oral Evidence:*** The Supreme Court held that the trial court committed reversible error in excluding the oral evidence. The Court emphasized that partial performance of an oral contract can render the Statute of Frauds inapplicable, citing established doctrines and similar judicial precedents.
2. ***Partial Performance Doctrine:*** The Court recognized that Jao Yan's construction of a semi-concrete building, which was a more substantial improvement than initially agreed, indicated partial performance based on the oral modification. The Court deemed it equitable to admit oral evidence, accessory documents, and encouraged proving the extended lease orally due to the substantial investment and improvement made by the lessee.
3. ***Judicial Discretion and Appellate Review:*** The Supreme Court noted that the appellate court possesses the discretion to consider unassigned errors that are intrinsically related to assigned errors. Therefore, the appellate consideration of the non-admission of oral testimony was valid.

****Doctrine:****

Partial performance of an oral contract concerning real property takes such contract out of the scope of the Statute of Frauds. In scenarios where the lessee makes significant improvements to the leased property based on an oral agreement, exclusion of such evidence under the Statute of Frauds constitutes reversible error.

****Class Notes:****

1. ****Statute of Frauds:**** A legal principle requiring certain agreements to be in writing to

be enforceable, particularly those involving interests in real property.

- **Philippine Reference:* Article 1403, par. 2, New Civil Code.

2. ***Partial Performance Doctrine:*** Actions taken by a party that are consistent with an oral agreement can remove the agreement from the scope of the Statute of Frauds as exclusion under such circumstances would promote fraud.

- **Key Case References:* Hernandez vs. Andal, Almirol and Cariño vs. Monserrat.

3. ***Judicial Discretion:*** Appellate courts have the discretion to consider errors not formally assigned if they are closely linked to assigned errors, ensuring comprehensive justice.

- **Philippine Legal Standard:* Hernandez vs. Andal, and the broader appellate court's discretion principle.

Historical Background:

The post-World War II era in the Philippines marked significant economic and reconstruction activities. Real estate transactions and lease agreements in prime locations like Escolta Street, a prominent commercial district in Manila, were crucial for economic revival. Amidst such developments, disputes over real property leases and agreements became prevalent, with the judiciary playing a pivotal role in clarifying and enforcing property laws to balance fair investment returns and contractual obligations. This case epitomizes the complexities of evolving urban commercial infrastructures and the legal landscape governing them.