

**SIGNET DISTRIBUTORS, INC., REPRESENTED BY ITS PRESIDENT,
JOSE M. BARRETTO, PETITIONER, VVS. REPUBLIC OF THE
PHILIPPINES, REPRESENTED BY THE OFFICER-IN-CHARGE OF THE
DIRECTOR OF ...**

Ponente: BARZA, J.

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BARZA, J.:

Petitioner Signet Distributors, Inc. (Signet), represented by its President Jose M. Barretto, filed this petition for review seeking the reversal of the Decision[1] dated April 1, 2013, which affirmed with modification the Decision[2] dated January 31, 2012, of the Metropolitan Trial Court (MTC) Branch 80, Muntinlupa City, and the subsequent Order[3] dated May 22, 2013, rendered by the Regional Trial Court, Branch 204, Muntinlupa City.

The established facts as found by the MTC and the RTC are, as follows:

Respondent Republic of the Philippines (respondent), represented by the Officer-in-Charge of the Director of the Lands Management Bureau, is the owner of a parcel of land covered by Transfer Certificate of Title No. 48958, with an area of 15,869 square meters, known as Lot No. 1-a-1 (LRC) Psd-1845, situated at Sucat, Muntinlupa City.

On February 18, 1969, respondent, through the then Bureau of Building and Real Property Management, entered into a Contract of Lease with Ford Philippines, Inc. (Ford), for a period of 20 years reckoned from the approval of the lease contract on July 14, 1969. On December 12, 1985, Ford executed an Assignment and Assumption of Contract of Lease in favor of petitioner Signet, whereby it ceded, transferred and conveyed to Signet all the rights, interests, credits, titles and obligations in and/or arising out of Ford's lease contract with the Republic.

In 1989, respondent and Signet entered into a Renewal of Contract of Lease, originally entered into by and between the Republic and Ford, for another 20 years from July 16, 1989 until July 16, 2009. The said contract contains a Sublease, Assignment and Encumbrance provision under paragraph 3 therein whereby petitioner is prohibited from sub-leasing the property without the prior written consent of respondent. On September 11, 1991, Signet wrote respondent requesting authority to allow its sister corporation to temporarily use a 3,500-square meter portion of the leased area consisting of two buildings and a small office space to be used as warehouses and for minor operations. Respondent granted the said request in a letter dated September 16, 1991,[4] with the condition, among others, that the prohibition on non-subleasing is not violated and the sub-lease would be temporary.

Sometime in 2000, Atty. Ricky Arzadon of the Department of Environment and Natural Resources (DENR) made an ocular inspection of the leased area and he discovered that the whole area was idle except for two (2) buildings being used by Kaka & Sons Touchwood Incorporated/Highland Furniture and Exal Industries. Atty. Arzadon was also informed that Signet leased the front area of the property to Coron Handicraft but it closed shop in 1999 due to labor problems. Because there was a violation on the prohibition to sub-lease the property, Atty. Arzadon recommended that the lease contract of Signet be terminated. On September 8, 2000, respondent informed Signet

to vacate the premises and to pay the unpaid rentals of P318,035.90, as of September 15, 2000. On February 26, 2002, another demand letter was sent to Signet reiterating the latter to vacate the premises and to pay the unpaid rentals. On March 19, 2002, Signet, through its counsel, wrote respondent seeking reconsideration of the cancellation of the lease contract stating that it did not violate the prohibition of sub-leasing since it was able to obtain a written authority to sublease the portion of its leased premises. Respondent requested Signet to submit documents to prove that Kaka & Sons Touchwood Incorporated/Highland Furniture and Exal Industries were the sister companies of Signet but it failed to comply with the request.

On September 29, 2005, respondent again directed Signet to vacate the leased premises and pay the unpaid rentals. Signet, through counsel, sent a reply in a letter dated October 13, 2005, insisting that it has not violated any prohibition in the lease contract and expressed its intention to pay the unpaid rentals and its desire to purchase the property. On October 16, 2006, respondent sent a final demand letter to Signet to pay and immediately vacate the leased premises. Notwithstanding this last demand, Signet refused to vacate, hence, respondent filed before the court a quo a case for Ejectment on October 16, 2007.[5]

The MTC-Branch 80, to where said case was raffled, rendered its decision dated January 31, 2012, the dispositive portion of which reads:

WHEREFORE, PREMISES CONSIDERED, judgment is hereby rendered in favor of the Republic of the Philippines represented by the officer-in-charge, Director of The Lands Management Bureau against SIGNET DISTRIBUTORS, INC., represented by its President Jose M. Barretto, Sr., ordering the latter to pay unpaid rentals for the use and occupation of the subject premises in the amount of SIX MILLION NINE HUNDRED EIGHTY FIVE THOUSAND SIX HUNDRED NINETY NINE PESOS and EIGHT CENTAVOS (PHP 6,985,699.08).

No pronouncement as to costs.[6]

Signet appealed to the RTC. On April 1, 2013, the RTC rendered its judgment stating in its fallo that:

WHEREFORE, the DECISION appealed from is hereby AFFIRMED with MODIFICATION. SIGNET DISTRIBUTORS, INC. is directed to pay the REPUBLIC OF THE PHILIPPINES represented by the Officer-In-Charge - Director of the Lands Management Bureau, the amount of FOUR MILLION NINE HUNDRED NINETY SEVEN THOUSAND SEVEN HUNDRED SEVEN PESOS (Php 4,997,707.00) with interest thereon at 6% per annum from October 16, 2007, the date of judicial demand until fully paid.

Defendant SIGNET is further ordered to pay the costs of suit[7].

A Motion for Reconsideration was filed but this was denied in the Order of the RTC dated May 22, 2013.[8]

Hence, the instant petition.

Signet (now referred to as petitioner) raises the following errors:

A. THE REGIONAL TRIAL COURT ERRED IN RULING THAT THE COMPLAINT FOR UNLAWFUL DETAINER AGAINST THE PETITIONER HAS NOT YET PRESCRIBED.

B. THE REGIONAL TRIAL COURT ERRED IN RULING THAT PETITIONER VIOLATED THE CONTRACT OF LEASE AND IS LIABLE FOR THE AMOUNT OF UNPAID RENTALS FROM THE TIME OF JUDICIAL DEMAND.

C. THE REGIONAL TRIAL COURT ERRED IN NOT CONSIDERING THE TEMPORARY IMPROVEMENTS CONSTRUCTED ON THE PREMISES TO OFFSET THE BACK RENTALS.[9]

Petitioner argues that the one-year period to file the complaint for unlawful detainer should be counted from the

date of the original demand, or on September 8, 2000, or at the very least on September 27, 2005. The petitioner's appeal to the notice to pay and demand to vacate did not toll the prescriptive period as there was no indication that respondent merely tolerated petitioner's occupation of the property. Since the complaint was filed on October 22, 2007, it was already beyond the one-year period, hence, respondent's cause of action has prescribed. Citing the cases of *Desbarats vs. Vda. De Lauren* and *Racaza vs. Gozum*,^[10] petitioner contends that the subsequent demands on petitioner are merely in the nature of reiterations of the original demand and they do not operate to renew the one-year period within which to commence the ejectment suit. Petitioner also maintains that it did not violate Paragraph 3 of the Contract of Lease on subleasing and respondent's allegation on this matter was not substantiated. According to petitioner, it was respondent who refused to accept rental payments and later unilaterally declared the lease contract null and void. Petitioner also claims that the value of the improvement (Warehouse) constructed in the property worth P4,000,000.00 must be applied to the amount of back rentals considering that said improvement is not permanent and is intended to be removed by petitioner upon the expiration of the lease. Petitioner argues that the kind of improvement contemplated in the provision in the lease contract is permanent in nature.

There is no merit in the petition.

The Court finds that petitioner correctly availed an action for unlawful detainer.

Under the Rules of Court, lessors against whom possession of any land is unlawfully withheld after the expiration of the right to hold possession may — by virtue of any express or implied contract, and within one year after the unlawful deprivation — bring an action in the municipal trial court against the person unlawfully withholding possession, for restitution of possession with damages and costs.^[11] Section 1, Rule 70 of the Rules of Court provides that actions for unlawful detainer must be filed "within one (1) year after such unlawful deprivation or withholding of possession." The one-year period to file an unlawful detainer case is not counted from the expiration of the lease contract. Such one-year period should be counted from the date of respondent's last demand on petitioner to vacate the real property, because only upon the lapse of that period does the possession become unlawful.^[12]

In this case, the last demand made by respondent for petitioner to pay the back rentals and to vacate the property was on October 16, 2006. Contrary to petitioner's claim, the complaint for unlawful detainer was filed not on October 22, 2007, but on October 16, 2007^[13]. The record also shows that the final demand letter dated October 16, 2006, was received by petitioner on October 26, 2006.^[14] The date of the receipt of the final demand letter was not rebutted by petitioner. Thus, when the unlawful detainer case was filed on October 16, 2007, which is well within the one-year period, prescription has not set in. Accordingly, the case is within the jurisdiction of the court a quo.

Petitioner could not rely in the cases of *Desbarats* and *Racaza*.^[15] In said cases, the Supreme Court emphasized that the subsequent demands were merely in the nature of reminders or reiterations of the original demand and would not operate to renew the one-year period. In the instant case, however, the demand made on October 16, 2006 could not be considered as a reiteration or reminder of the earlier demands to vacate. The Order dated August 28, 2008, issued by the then Presiding Judge of the court a quo, thoroughly explained thus:

“x x x. As correctly argued, the subsequent demand letter is not just a mere reminder or reiteration of the first or earlier demand letter because of defendant's supervening appeals and requests from plaintiff not to cancel the lease contract which necessitated plaintiff to reply through and send another demand letter to vacate before it could file its complaint.” ^[16]

On the second issue: The RTC did not err when it ruled that petitioner violated the contract of lease which made

the latter liable to pay the unpaid rentals. It is undisputed that when petitioner asked the permission of respondent to sub-lease the property, it specifically stated that it will be used by its sister company. Respondent allowed petitioner to sub-lease the same, subject to the following terms and conditions:

- (1) That the word “USE” as herein contemplated is understood to be temporary in nature such that the prohibition on non-subleasing is not violated.
- (2) That the area shall be utilized only for warehouses (bodega) and for minor operations.
- (3) That the area to be utilized shall not exceed 3,500 square meters consisting of two (2) buildings and a small office space.[17]

However, as found out in the ocular inspection, petitioner violated the above conditions when it sub-leased the property to Kaka & Sons Touchwood Incorporated/Highland Furniture and Exal Industries. Respondent required petitioner to submit documents to show that corporations sub-leasing the property are its sister companies but petitioner failed to do the same. This considering, respondent's refusal to accept petitioner's tender of payment of monthly rentals in 2000 was justified in view of the latter's violation of the lease contract particularly the prohibition on sub-leasing the property.

Anent the last issue, the RTC acted correctly when it did not offset to the back rentals the value of the improvements constructed by petitioner on the leased premises. The Renewal of Contract of Lease contains the provision that:

SUBLEASE, ASSIGNMENT AND ENCUMBRANCE: x x x

x x x

Any sublease in violation thereof, and/or any such assignment of this Contract and/or any such alienation or encumbrance of any building or buildings on the leased properties shall not transfer any right, title or interest in or under this Contract or in or to any said building or buildings, but shall automatically render this Contract null and void without any further formality and the said building or buildings including all improvements thereon shall thereby become property of the LESSOR and title hereto shall thereby become property of the LESSOR and title hereto shall thereupon pass to the LESSOR without the LESSOR reimbursing the cost or value thereof and without the need of a separate conveyance of the LESSEE.[18] (emphasis supplied)

It was established that petitioner violated the Renewal of Contract of Lease when it sub-leased the property to corporations (Kaka & Sons Touchwood Incorporated/Highland Furniture, Exal Industries and Coron Handicraft) which are not its sister companies. The aforesaid provision thereby gives the right to respondent to own the improvement built thereon. There is no merit in the argument of petitioner that what was referred to in the lease contract was permanent improvement, not a temporary improvement like the warehouse built by petitioner. There was no qualification in said provision whether it is temporary or permanent improvement, it simply stated “ALL IMPROVEMENTS.” Since it was also stated: “WITHOUT THE LESSOR REIMBURSING THE VALUE THEREOF,” the value of the warehouse built by petitioner on the leased premises could not be applied to the back rentals.

It is basic that a contract is the law between the parties, and the stipulations therein — provided that they are not contrary to law, morals, good customs, public order or public policy — shall be binding as between the parties. In contractual relations, the law allows the parties much leeway and considers their agreement to be the law between them.[19] Since the Renewal of Contract of Lease was freely agreed upon by the parties, the terms contained therein are the law between them.

WHEREFORE, the petition is DENIED DUE COURSE and DISMISSED.

SO ORDERED.

Carandang, R. D., Chairperson, and Reyes-Carpio, A., JJ., concur.

- [1] Annex “A”, pp. 9-15, rollo.
- [2] pp. 315-322, rollo.
- [3] Annex “B”, p. 16, rollo.
- [4] p. 100, rollo.
- [5] Complaint sent through registered mail, pp. 12-13, rollo.
- [6] p. 323, rollo.
- [7] p. 15, rollo.
- [8] p. 16, rollo.
- [9] pp. 47-48, rollo.
- [10] 18 SCRA, G.R. No. L-21875; G.R. No. 148759, June 8, 2006, 490 SCRA 302.
- [11] Republic vs. Sunvar Realty Development Corp., G.R. No. 194880, June 20, 2012.
- [12] Inocencio vs. Hospicio de San Jose, G.R. No. 201787, September 25, 2013.
- [13] Filed through registered mail, Decision, p. 13, rollo.
- [14] Memorandum filed before the RTC, p. 243; Comment to Petition, p. 352 and Memorandum, p. 412, rollo.
- [15] Supra at note 9.
- [16] Decision, p. 12, rollo
- [17] Supra at note 4.
- [18] p. 95, rollo.
- [19] NAPOCOR vs. Premier Shipping Lines, Inc., G.R. Nos. 179103 & 180209, September 17, 2009.

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