

ARAMIS B. AGUILAR, PETITIONER, VS. COURT OF APPEALS, AURELIO T. JUGUILON AND PATRIA F. JUGUILON, RESPONDENTS.

G.R. No. 116895. July 07, 2000

Ponente: KAPUNAN, J.

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KAPUNAN, J.:

Assailed in this petition for review on certiorari is the decision of the Court of Appeals sustaining the trial court's ruling that there was presumptive delivery of the subject property upon execution of the lease contract.

The facts are as follows:

On July 6, 1982, petitioner Aramis B. Aguilar entered into a lease agreement with private respondents, Spouses Aurelio T. Juguilon and Patria A. Juguilon. The subject of the lease were two adjacent parcels of land with an area of 1,949 square meters located at the corner of Libertad St. and Cinco de Junio St., Pasay City, covered by TCT Nos. 16099 and 16100, respectively registered under the name of the spouses.

The pertinent provisions of the lease agreement read as follows:

- The term of the lease shall be for a period of Twenty Five (25) years, commencing on October 1, 1982, and terminating at midnight of September 30, 2007;
- The LESSEE proposes that the leased property should form a commercial business center and all buildings and improvements thereon shall be used and occupied by commercial businesses primarily dedicated to the retail and merchandising trade of goods and services;
- The LESSEE must, therefore, construct not more than a three-storey concrete framed building for the physical facilities of such commercial establishment and businesses.
- (a) the LESSEE or its assignees shall pay to LESSOR, by way of rental for the leased property, as follows:

1st Year

-

P10.00 per sq. m.

2nd Year to 5th year

-

13.50 " " "

6th Year

-

16.50 " " "

7th "

-

18.00 " " "

8th "

-

19.50 " " "

9th "

-

22.00 " " "

10th "

-

24.00 " " "

11th "

-

26.00 " " "

12th "

-

28.00 " " "

13th "

-

30.00 " " "

14th "

-

32.00 " " "

15th "

-

34.00 " " "

16th "

-

36.00 " " "

17th "

-

39.00 " " "

18th "

-

42.00 " " "

19th "

-

45.00 " " "

20th "

-

48.00 " " "

21st "

-

51.00 " " "

22nd "

-

55.00 " " "

23rd "

-

59.00 " " "

24th "

-

63.00 " " "

25th "

-

67.00 " " "

The basis of the computation should be the total area as stated in the two transfer certificates of titles herein-stated minus the required setback for sidewalks and other requirements by the Pasay City, government, Metro Manila Commission and other regulatory government bodies or agencies. The rental shall be liquidated and paid, without necessity of demand, at the domicile or office of the LESSOR or its assigns, within ten (10) days after the end of every calendar month.

xxx

(e) The LESSEE reserves the right to assign and convey its rights and interests to his lease as well as the leased property in favor of any party or parties provided that the terms and conditions of this contract are respected. In such cases, copies of such contracts of assignment or conveyance shall be furnished the LESSOR for its record.

xxx

- The LESSOR is solely and primarily responsible in ejecting the present two tenants occupying the ground floor of the present existing building. However, the LESSEE agrees to assist the LESSOR in persuading the said tenants to vacate the building premises. The LESSEE further agrees to assist the LESSOR in the demolition of the existing building on the leased property, all salvaged building materials accruing to the LESSOR

- The LESSEE agrees to advance at least one year rental of the leased property payable 50% upon the signing of this lease contract and 50% after LESSOR vacates the building premises within ninety (90) days from the signing of this contract.[1]

As provided therein, petitioner paid the private respondents the advance rentals for one (1) year in the amount of P210,000.00 on July 7, 1982.

To comply with their obligations, on the other hand, the private respondents vacated the second floor of the building which they were using as their residence and moved to a rented house located at Leveriza St. At the same time, an action for unlawful detainer was filed against the two tenants occupying the ground floor. They were finally evicted from the premises in March, 1983. Thereafter, on May 31, 1983, the private respondents obtained a demolition permit from the building official of Pasay City to cause the demolition of the existing building. Said permit was handed to petitioner two days after it was procured.

Because of the aforesaid delay in the ejectment of the tenants, the parties on April 14, 1985 entered into an Amendment of the Contract of Lease deferring the commencement of the 25-year period of lease to October 1, 1983. The amendment reads as follows:

WHEREAS, there was a delay in the implementation of said contract of lease by reason of the failure of the two (2) tenants occupying the ground floor of the present existing apartment building to vacate the building;

WHEREAS, during the intervening period, the LESSEE has made certain proposals to amend and the LESSOR has agreed to said proposals to amend the aforesaid Lease Contract;

NOW, THEREFORE, for and in consideration of the foregoing premises, the LESSOR and the LESSEE hereby agrees; THAT the Contract of Lease executed on July 6, 1982, as hereinmentioned is hereby amended as follows:

1. Paragraph 1, page 2, is hereby amended to read - - `The term of the lease shall be for a period of twenty five (25) years, commencing on October 1, 1983, and terminating at midnight of September 30, 2008;[2]

Since construction of a commercial building or even the demolition of the existing building on the leased premises had not yet started by the end of the year of 1983, the private respondents decided to terminate their lease of the rented house at Leveriza Street where they were paying P4,500.00 a month and moved back to their building with the promise that they would vacate the place as soon as its demolition would be undertaken to give way to the construction of a commercial building.

Petitioner, meanwhile, proposed the construction of a temporary structure measuring about 200 square meters on the leased premises. The private respondents gave their consent upon the assurance that said structure which the petitioner would temporarily use as a restaurant shall be converted into a bodega where the materials for the construction of the commercial building would be kept once construction started.

On June 18, 1985, the petitioner wrote a letter to the private respondents in this wise:

Dear Mr. & Mrs. Juguilon:

This will confirm our verbal agreement regarding the application of the amount of P210,000.00 which I paid as advance rental to you embodied in our Contract of Lease executed on July 6, 1982. Accordingly, the said amount is being applied as monthly rental corresponding to the area which I am presently occupying with a dimension of 28 meters frontage along Libertad St. and 28 meters deep, minus the required set back, in accordance with the rental rate contained in the aforementioned Contract of Lease, as follows:

- P7,560.00 monthly rental fee for the period October 1, 1983 up to September 30, 1984 or a total of P90,720.00 for the said period;

- P10,200.00 as monthly rental fee for the period October 1, 1984 up to September 1, 1985 or a total of P122,400.00 for the said period.

The above agreement is however without prejudice to my contractual rights in so far as the undelivered area is concerned. The lease is deemed suspended until the same is actually delivered and accepted.

Unless we hear from you within five (5) days from receipt hereof, it is deemed understood that the foregoing is in order.[3]

On July 1, 1985, the petitioner informed the private respondents that he was assigning all his rights over the leased premises to Liberty Builders & Development Corporation. It reads:

Dear Mr. & Mrs. Juguilon:

You are hereby notified that the Liberty Builders & Development Corporation shall immediately occupy and start a building construction on the leased premises covered by T.C.T. No. 16099 and T.C.T. No. 16100 subject of our formal contract of lease and amendment thereto dated July 6, 1982 and April 14, 1983, respectively.

This serves likewise as authority for the Liberty Builders & Development Corporation to enter the premises and start construction accordingly.[4]

In reply to the aforesaid letters, the private respondents sent a Letter dated July 11, 1985 to the petitioner which states:

Dear Sir:

This will acknowledge receipt of your letters dated June 18, 1985 and July 1, 1985 respectively, and with reference to the first letter please be informed that we had a written Contract of Lease which you personally prepared and which we executed on July 6, 1982. There was no verbal agreement between us although there was an agreement which was also prepared by you entitled 'AMENDMENT OF CONTRACT OF LEASE' dated April 14, 1983 which deferred the beginning of the lease which now reads:

"The term of the lease shall be for a period of twenty-five (25) years, commencing on October 1, 1983, and terminating at midnight of September 30, 2008."

And the rentals as provided in the Contract of Lease remains to be in paragraph no. 4 (a):

"The LESSEE or its assigns shall pay to the LESSOR by way of rental for the leased property as follows:

1st Year - P10.00 per sq.m.

2nd Year to 5th Year - P13.50 per sq.m.

plus the subsequent years."

And, the subsequent paragraph no. 5 reads as follows:

"That in case of an official devaluation of the peso in relation to the U.S. dollar, a corresponding adjustment on the rental of the land is automatically made. As a point of reference, it is hereby agreed that the present value of the peso vis-à-vis the U.S. dollar is P8.50."

The figures and the area now under occupancy by you as stated in your letter of June 18, 1985 are not accurate as the area of the existing house now occupied by us is only 432 square meters, which when deducted from the total area of the two parcels of land under lease to you is One Thousand Five Hundred Seventeen (1,517) square meters. And, as aforestated your rentals will automatically adjust to the value of the dollar to the peso, your accrued rentals are as follows:

October 1, 1983 to Sept. 30, 1984

-

P437,810.68

October 1, 1984 to June 30, 1985

-

P410,453.13

TOTAL RENTALS DUE

P848,263.81

Less: Payments Made

210,000.00

TOTAL AMOUNT DUE & PAYABLE TO THE LESSORS

P638,263.81

Hereto attached is the scale of payments for guidance to show the rate exchange, factor, rental per square meter, area occupied by you and the monthly rental.

Demand is hereby made on you for your unpaid rentals up to June 30, 1985 in the sum of Six Hundred Thirty Eight Thousand Two Hundred Sixty Three Pesos & Eighty One Centavos (P638,063.81) which we request you to pay within ten (10) days from your date of receipt of this letter.

In connection with your second letter dated July 1, 1985, please furnish us a copy of your contract as provided in paragraph (e) of page 4 of our Contract of Lease which provides that we have to know what your transactions are in connection with your lease.

We hope that you will fully comply with our requests.

Consequently, the petitioner instituted an action for specific performance against the private respondents with the RTC, Pasay City. It prayed that the private respondents Spouses Juguilon be ordered to deliver to him the entire property which was the subject matter of the lease contract.

In their answer with counterclaim, the private respondents denied the non-delivery of said property. On grounds of non-payment of rentals, they sought the rescission of the lease contract, and demanded that petitioner Aguilar and all persons claiming interest under him vacate the leased premises.

On April 25, 1986, Liberty Construction and Development Corporation intervened in the case and prayed that both the private respondents and petitioner respect its rights as the assignee of Aramis Aguilar pursuant to the Contract of Lease. It prayed for damages considering that it had already spent about P120,000.00 at the start of the construction of the commercial building until it was ordered to stop by the private respondents.

On December 20, 1990, the RTC rendered a decision, the dispositive portion of which reads as follows:

WHEREFORE, judgment is hereby rendered:

- Dismissing the complaint;
- Rescinding the Contract of Lease Amendment of Contract of Lease dated July 6, 1982, together with the April 14, 1983, entered into between plaintiff Aramis B. Aguilar and defendants Aurelio T. Juguilon and Patria F. Juguilon;
- Ordering plaintiff Aguilar and all those claiming any right under him to vacate the premises subject of the Contract of Lease and the Amendment of Contract of Lease aforementioned;
- Ordering plaintiff Aguilar to pay the defendants the rentals in arrears at the rates specified in the Contract of Lease of July 6, 1982, from October 1, 1984, until he shall have vacated the premises;

2. Dismissing the counterclaim, with respect to the other claims;

3. Directing plaintiff Aguilar to reimburse intervenor Liberty Builders & Development Corporation in the sum of P10,000.00; and

4. Dismissing the complaint in intervention, as far as the other claims therein are concerned.

No pronouncement is made as to costs.

SO ORDERED.[5]

On appeal, the CA affirmed in toto the RTC decision. Thus, petitioner came to this Court asserting that the respondent court erred in affirming the trial court's decision when it considered the following assignments of error, to wit:

ASSIGNMENTS OF ERROR

I. THE LOWER COURT ERRED IN GRAVE ABUSE OF POWER AND DISCRETION AMOUNTING TO LACK OR EXCESS OF JURISDICTION WHEN IT RULED THAT THERE WAS DELIVERY OF THE ENTIRE LEASED LAND TO PLAINTIFF-APPELLANT ARAMIS AGUILAR UPON THE EXECUTION OF THE CONTRACT ON JULY 6, 1982.

II. THE LOWER COURT ERRED IN GRAVE ABUSE OF DISCRETION AMOUNTING TO LACK OF JURISDICTION WHEN IT HELD THAT PLAINTIFF-APPELLANT ARAMIS AGUILAR IS ALREADY IN POSSESSION OF THE LAND HE LEASED FROM DEFENDANTS-APPELLEES SPS. AURELIO T. JUGUILON AND PATRICIA F. JUGUILON.

III. THE LOWER COURT ERRED IN GRAVE ABUSE OF DISCRETION AMOUNTING TO LACK OR EXCESS OF JURISDICTION WHEN IT GRANTED DEFENDANTS-APPELLEES' PRAYER FOR RESCISSION OF THE CONTRACT OF LEASE BECAUSE APPELLANT AGUILAR HIMSELF WAS THE INJURED PARTY TO THE CONTRACT OF LEASE IN VIEW OF THE CONSISTENT AND

REPEATED FAILURES OF THE APPELLEES SPS. JUGUILON TO CLEAR THE LEASED PREMISES FROM THEIR OWN OCCUPANCY AND THE OCCUPANCY OF OTHER PERSONS.

IV. THE LOWER COURT ERRED IN GRAVE ABUSE OF DISCRETION AMOUNTING TO LACK OR EXCESS OF JURISDICTION WHEN IT ORDERED APPELLANT AGUILAR TO PAY THE RENTALS IN ARREARS AT THE RATE SPECIFIED IN THE CONTRACT OF LEASE OF JULY 6, 1982 FROM OCTOBER 1, 1984, UNTIL HE SHALL HAVE VACATED THE PREMISES.

V. THE LOWER COURT ERRED IN GRAVE ABUSE OF POWER AND DISCRETION AMOUNTING TO LACK OR EXCESS OF JURISDICTION IN "ORDERING PLAINTIFF AGUILAR AND ALL THOSE CLAIMING ANY RIGHT UNDER HIM TO VACATE THE PREMISES SUBJECT OF THE CONTRACT OF LEASE AND THE AMENDMENT OF CONTRACT OF LEASE."

VI. THE LOWER COURT ERRED IN GRAVE ABUSE OF DISCRETION AMOUNTING TO LACK OR EXCESS OF JURISDICTION FOR "DIRECTING PLAINTIFF AGUILAR TO REIMBURSE INTERVENOR LIBERTY BUILDERS AND DEVELOPMENT CORPORATION IN THE SUM OF P10,000.00" CONSIDERING THAT APPELLANT AGUILAR DID NOT BREACH HIS OBLIGATION TO ANY PARTY, BUT MERELY EXERCISED HIS RIGHT UNDER THE CONTRACT OF LEASE.[6]

Petitioner maintains that the presumption of constructive delivery contemplated by the respondent court is properly applicable only in a contract of sale and not in a contract of lease as in the case at bar. Moreover, this presumptive delivery is subject to the condition that nothing appears, either expressly or impliedly, that would indicate that delivery could not take place. It has allegedly been proven that the whole area cannot be delivered to the petitioner at the time of the execution of the contract in July 6, 1982 because of (1) the presence of two tenants; (2) the existence of the undemolished building; and (3) the fact that the Spouses were then residing in the premises. Since delivery has not been effected, the petitioner should not be required to pay rent for the entire area when the actual area occupied was only 200 square meters of the 1,949 square meters.

We are not impressed with the petitioner's arguments.

We find no error with the conclusions of the respondent court that there was no basis for the action for specific performance. A judicious scrutiny of the facts and circumstances surrounding the case reveal that there was constructive delivery of the subject property at the time of the execution of the contract. As correctly held by respondent court:

We therefore find that the trial court correctly ruled that the leased premises were already delivered to the lessee when the contract of lease was executed on July 6, 1982, pursuant to Article 1498 of the New Civil Code. On sale which could be applied to the case at bar, providing that when the sale is made through a public instrument, the execution thereof shall be equivalent to the delivery of the thing which is the object of the contract. Applying the aforecited provision of law to the contract of lease at bar, the leased premises were delivered to the lessee when the lease contract was executed on July 6, 1982. Moreover, the lease contract itself states that the lessor, in consideration of the tenets, averments and conditions hereinafter stated and agreed, hereby leases, lets, rents and delivers by way of lease unto the lessee two parcels of land situated at Libertad St., Pasay City."[7]

We find the case of the Roman Catholic Archbishop of Manila vs. Manila,[8] analogous to the case at bar where it was held that:

By the execution of the Lease Agreement, there was constructive transfer of possession of the incorporeal rights of the petitioner over the leased premises to private respondent, with or without squatters who do not have claims of ownership over the portions they occupy. This is so because "constructive delivery" is a general term comprehending all those acts which, although not conferring physical possession of the thing, have been

held by construction of law equivalent to acts of real delivery, as for example, the giving of the key to the house, as constructive delivery of the house from the vendor to the vendee.

Indeed, one of these incorporeal rights whose possession was transferred to private respondent by virtue of the execution of the lease contract was the right to eject and remove the tenants or squatters from the leased premises.

Secondly, a lease is not a contract imposed by law, with the terms thereof also fixed by law. It is a consensual, bilateral, onerous, and commutative contract by which the owner temporarily grants the use of his property to another who undertakes to pay rent therefor.

Par. 6 of the Lease Agreement which provides that "upon delivery of the premises to the LESSEE, the LESSEE will commence the ejectment and removal of the tenants or the squatters now occupying the premises and will commence demolition work of all existing improvements thereon, all expenses for ejectment and demolition to be the exclusive account of the LESSEE," was made by the parties through their mutual and voluntary consent.

This provision cannot be considered as delaying the delivery of the leased premises by the petitioner for the reason that by the very words of this provision, private respondent voluntarily assumed the burden of ousting the tenants or squatters of the leased premises. This cannot be considered too burdensome on the part of the private respondent either because the lease was to run for a total of 24 years, a term devised precisely because of the burden of ejecting the squatters. The presumption is that private transactions have been fair and regular.

Hence, petitioner cannot be considered to have failed in his duties under Article 1654 of the Civil Code "to deliver the thing which is the subject of the contract in such a condition as to render it fit for the use intended" and "to maintain the lessee in the peaceful and adequate enjoyment of the lease for the entire duration of the contract." (Pars.1 & 3, Art. 1654, Civil Code)

In the case at bar, petitioner entered into a lease agreement with the private respondents involving two adjacent parcels of land on which he shall construct a commercial building of not more than three storeys high. He bound himself to pay rentals at the rate specified and agreed upon by the parties. The lease period was for 25 years and at the end of which, the commercial building on said land shall be turned over to the lessors without any demand of reimbursement for all the improvements done on said property.

At the inception of the lease, however, there was an existing building on the lease premises where there were two tenants occupying the ground floor and the second floor was being used as the residence of the private respondents. Petitioner was very well aware of the presence of the tenants as this was acknowledged in paragraph 13 of the lease contract. It was also further provided in said paragraph that petitioner is to assist the lessor in the eviction of the tenants and the subsequent demolition of the existing building on the leased premises.

Upon the execution of the lease contract on July 6, 1982, the private respondents undertook steps for the immediate takeover of the premises by the petitioner. They transferred residence to another house, filed an action for the eviction of the two tenants, and finally, procured a permit for the demolition of the building which was given to the petitioner for its immediate implementation. By these unequivocal acts, the private respondents did not fail to deliver to the petitioner the subject property in such a condition as to render it fit for the use intended and to maintain the lessee in peaceful and adequate enjoyment of the property.

Petitioner argues that with the amendment of the Lease Contract on April 14, 1983, the parties tacitly recognized the failure of delivery due to the presence of the two tenants in the building. This contention is untenable.

Admittedly, the amendment of the contract of lease was caused by the failure of the two tenants occupying the ground floor to vacate the building. Biding for more time for the final eviction of these tenants, the private

respondents and the petitioner agreed to defer the effectivity of the lease period to October 1, 1983. Notwithstanding, this amendment did not in any way negate the fact that there was already delivery of the premises to the petitioner upon the execution of the lease contract in 1982. If the parties' intention was to suspend the lease until the tenants were finally evicted, such condition could have been easily stipulated in the contract. Absent such a condition, the contract of lease remained to be effective as stated therein. Unfortunately, petitioner failed to perceive this amendment as an act of benevolence on the part of the private respondents in order to absolve him of his obligation to pay the originally stipulated rentals covering the first year while awaiting the final eviction of the tenants from the premises. Instead, petitioner considered this circumstance as a failure of delivery.

Neither can we give validity to the petitioner's claim that the alleged persistence of the private respondents to remain in the building impeded the delivery of the subject property. As culled from the records, the private respondents had already vacated the building after the execution of the lease contract and transferred residence to another house in Leveriza St. They merely temporarily returned to the building seeing that construction of the commercial building which petitioner obligated himself to do under the terms of the contract had not yet started by the end of 1983. Nonetheless, the presence of the private respondents in the subject premises did not hamper the delivery of the property as petitioner claims because private respondents were ready to leave any time petitioner gave word that he would begin the construction of a commercial building which he never did.

To further demonstrate that petitioner had taken possession of the leased premises upon the execution of the lease contract, he constructed a building thereon which he used as a restaurant. He subleased a portion of the land to Zonisio Cura and authorized intervenor Liberty Builders & Development Corporation to enter the premises and start the construction of a commercial building by virtue of the assignment of the leasehold rights of petitioner to said intervenor. If the plaintiff were not in possession of the leased premises, he could not have effectively done all of these acts.

As succinctly observed by respondent court:

xxx the lessee-appellant has been in possession of the leased premises from 1983 up to the present and for ten years, he has not paid any rental to the lessor except the amount of P210,000.00 at the beginning of the contract in 1983. Before the filing of this case, the lessors-appellees demanded from the lessee-appellant to pay his arrears on the leased property. At the moment, the leased premises have several small structures erected thereon by the lessee - a restaurant, a burger city stall, a "gotohan", an ice store and a small flower shop. Except for the small restaurant, the establishment and occupation of these small structures were without lessor's permission. Is this not possession? In the lessor's agreement with the intervenor-appellant, the latter was not to demolish the lugawan/carinderia and City Burger stand, both fronting the Libertad Street, allowing them to continue normal business operation, showing therefor that the lessee was renting out parts of the leased property and profiting from it.

All these acts, in addition to the lessee's assigning of his rights to the intervenor-appellant of a part of the leased property, glaringly demonstrate that indeed, the lessee is actually in possession of the leased premises. What is then to be delivered?[9]

It has been held that a lease is not a contract imposed by law, with the terms thereof also fixed by law. It is a consensual, bilateral, onerous and commutative contract by which the owner temporarily grants the use of his property to another who undertakes to pay the rent therefor[10] And when an agreement has been forged, such contract then becomes the law between the parties, each one bound to comply with his obligations.

Undeniably, petitioner violated the terms of the lease contract. He failed to construct the commercial building as he obligated himself to do. He has been in continuous possession of the subject property but has never paid the private respondents any rentals as stipulated in the contract except for the advance rental he initially gave upon

execution of the lease contract in 1982. Thus, we concur with the respondent court's affirmance of the trial court's ruling that rescission of the contract was in order.

xxx It has been convincingly shown that the plaintiff has failed to comply with his obligation under the Contract of Lease dated July 6, 1982, of constructing a commercial building on the leased premises and of paying rentals to the defendants during the existence of the lease. The lease agreement was entered into on July 6, 1982. Yet until now, or more than eight (8) years, the plaintiff has not even started the construction of the commercial building. This period of more than eight (8) years should be considered sufficient for the plaintiff to have even completed the construction of the commercial building he is obliged to erect under the Contract of Lease. And for the long period that the lease has been in effect, the plaintiff has paid rentals only for one year, which should be deemed to cover the period from October 1, 1983 to October 1, 1984, although he has been operating a restaurant business on the leased property and has been subleasing a portion of it. (RTC Decision, pp.1-5). [11]

xxx We also find that the trial court, did not err when it rescinded the lease contract. For under the contract of lease, the lessee undertook to construct not more than a three-storey framed building for physical facilities of the commercial establishments and business, showing that it was the intention of the parties that a single building should occupy the entire leased premises. However, the lessee assigned portion of the leased premises to the intervenor, making it impossible to comply with the condition of the contract of lease to a single building. Consequently, there is no recourse but to rescind the lease.

Rescission, it must be clearly understood, is a remedy granted by law to the contracting parties to secure reparation for damages caused to them. It refers to a contract which even if initially valid produces a pecuniary danger to someone (2 Castan, 652). It sets aside the act or contract for justifiable reasons of equity. [12]

Lastly, considering that there was constructive delivery of the subject leased premises upon the execution of the contract, petitioner was already in a position to exercise his right to the use and enjoyment of the property according to the terms of the lease contract.

We cannot, however, gloss over the fact that the private respondents returned to their previous residence at the second floor of the building in the meantime that construction of the commercial building has not yet started in order to save on their rent, but with the promise that they would vacate the premises as soon as petitioner begins construction. Under such circumstances, it is but fair that the private respondents be made to pay a fair rental value for the use and occupation of a portion of the leased premises from the time that they have returned to said building. It would be unjust enrichment for the private respondents to demand rent for the entire leased premises when they themselves are at the same time occupying a portion thereof. Thus, a modification of the decision of the trial court as to the payment of the accrued rentals by the petitioner is in order.

In their letter to the petitioner, dated July 11, 1985, the private respondents acknowledged occupying 432 square meters out of the total area of the two parcels of land leased to petitioner which is 1,949 square meters. Petitioner is thus liable for the rental value of the portion of land measuring to about 1,517 square meters only. [13]

WHEREFORE, the assailed Decision of the Court of Appeals is hereby **AFFIRMED** with modification that the lease rentals covering the area of 432 square meters actually occupied by private respondents be deducted from the rentals in arrears of petitioner.

SO ORDERED.

Davide, Jr., C.J., (Chairman), Puno, Pardo, and Ynares-Santiago, JJ., concur.

[1]Appellant's Brief, pp. 7-9.

[2]Id., at 10.

[3]Id. ,at 13.

[4]Id., at 15.

[5]Rollo, p. 23.

[6]Id., at 13-14.

[7]Rollo.p.35-36.

[8] 269 SCRA 145 [1997].

[9]Rollo, p. 36.

[10]Roman Catholic Archbishop of Manila vs. CA, supra.

[11]Rollo, p. 31

[12]Rollo, pp. 36-37.

[13] Letter, dated July 11, 1985, Records, p. 23.

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