

LIMITLESS POTENTIALS, INC., PETITIONER, VS. THE HON. REINATO G. QUILALA, IN HIS CAPACITY AS PRESIDING JUDGE OF THE REGIONAL TRIAL COURT, BRANCH 57, CITY OF MAKATI AND THE ROMAN ...*G.R. No. 157391. July 15, 2005*

Ponente: CALLEJO, SR., J.

Read online (full-text search, related cases, audio case brief): <https://batas.org/library/g-r-no-157391/>**CALLEJO, SR., J.:**

On October 20, 1987, the Roman Catholic Archbishop of Manila (RCAM), as lessor, and Limitless Potentials, Inc. (LPI), as lessee, executed a Contract of Lease for advertising purposes over certain areas, including Lot 28-B, in the property covered by TCT No. 328187[1] where the Our Lady of Guadalupe Minor Seminary Compound and the San Carlos Seminary Compound are located.

LPI bound and obliged itself to pay a monthly rental of P11,000.00, with a 10% increase every two years. Due to a pending case between RCAM and Advertising Associates, LPI was unable to take possession of the premises. Thus, on November 14, 1989, RCAM and LPI executed an "Amendment to an Agreement,"[2] fixing the period for the lease of the premises from February 1, 1990 to March 1, 1997, with a monthly rental of P12,000.00, to be increased by 10% every year.

In the meantime, other advertising agencies, including ASTRO Advertising, Inc. (ASTRO), applied to RCAM for the putting up of neon signs/billboards in the leased premises. RCAM referred the applications to LPI.

LPI wrote RCAM that it would execute the appropriate contracts with the applicants, and oversee the installation and operation of neon advertising signs; the overlapping of signboards would be avoided and the area would not be rendered unsightly and unmanageable. It also stated that the monthly rentals from the agencies shall go to the church to enable it to earn more. RCAM agreed.

On January 18, 1990, LPI, as sublessor, and ASTRO, as sublessee, executed an agreement (Sublease Agreement) in which LPI sublet Lot 28-B for a period of five (5) years from February 1, 1990 to February 1, 1995. The parties agreed on the following monthly rentals:

1st year

-

P 21,000.00

2nd year

-

23,000.00

3rd year

-

25,410.00

4th year

-

27,951.00

5th year

-

30,746.00[3]

Under the agreement, ASTRO was to remit the rentals for the property directly to RCAM. RCAM, through a representative, was one of the two witnesses to the deed.

LPI paid the rentals to RCAM until August 1993. ASTRO also paid to RCAM the rentals due under the Sublease Agreement from February 1, 1990 to July 1, 1993 totaling P832,920.00; LPI, however, was not credited the rental payments made by ASTRO.

On September 28, 1993, RCAM and LPI executed a Memorandum of Agreement (MOA)[4] in which RCAM leased to LPI the areas/spaces subject of the lease agreement, including those sublet to ASTRO for a period of four (4) years, from August 1, 1993 to July 31, 1997. LPI agreed to pay RCAM monthly rentals in the amount of P60,783.96 payable within the first five (5) days of the month, with ten (10%) percent annual interest. This MOA expressly cancelled the prior agreements of the parties. It was, likewise, agreed upon that if the lease were to be extended after the four-year period, LPI would pay a monthly rental of P97,084.15, payable within the first five (5) days of the month, with 12% annual increment.[5]

When the sublease to ASTRO expired in February 1995, RCAM did not turn over to LPI the possession of the sublet advertising spaces/areas; instead, the said areas were leased to Macgraphics Carranz International Corporation (MCIC) which erected its own billboards and advertising signs thereon.[6] In a Letter[7] dated February 11, 1997, LPI informed MCIC that it was the lessee of the premises previously sublet to ASTRO, and demanded that the said billboards be removed within 24 hours. MCIC ignored the letter, but LPI did not file any action against RCAM or MCIC.

On October 12, 1995, LPI received a letter from RCAM, informing it that it violated the MOA, to wit:

1. Non-payment of rentals since March 1995.

The Memorandum specifically provides for the immediate rescission of the contractual relation as Limitless failed to pay the proper rentals within the first five days of each month.

2. The misuse of the property since November 1994.

Despite the warning given your company by Fr. Jovi Mejino, your employees continue to assemble and construct billboards destined for areas outside of the specified properties in the Memorandum.

3. The causing of inconvenience, disturbance or nuisance.

There is the matter of your employees leaving behind garbage and construction scrap after assembling the above billboards and a sublessee who damaged the swimming pool.[8]

RCAM, likewise, declared that it considered the MOA rescinded as of October 31, 1995 and demanded payment

of the alleged back rentals from ASTRO, as well as increments thereof from March to October 1995 and attorney's fees; and that LPI vacate the property and remove its billboards or non-permanent structures by October 31, 1995, otherwise, RCAM would dismantle the same.[9]

On October 19, 1995, LPI filed a Complaint against RCAM with the Regional Trial Court (RTC) of Makati City, for consignation of the amount of P300,000.00 corresponding to the rentals from March to October 1995, with a plea for a writ of preliminary injunction and temporary restraining order. The complaint contained the following prayer:

WHEREFORE, it is respectfully prayed that, immediately upon hearing thereof, a Temporary Restraining Order be issued by the Honorable Executive Judge, prohibiting defendants RCAM, Yalung and/or Villasor, including their employees, subordinates and/or its agents, from enforcing their demands and/or threats in the October 12, 1995 Letter (Annex "D") and, after hearing, a writ of preliminary injunction be issued pending final determination of this case.

It is further prayed that plaintiff be allowed to consign the amount of THREE HUNDRED THOUSAND PESOS (P300,000.00) with this Honorable Court to show its willingness, readiness and/or capability to pay for whatever amount is really due defendant RCAM from the months of March to October 1995, if any, and whatever sum is actually due to defendant RCAM as monthly rentals for the subject advertising areas or spaces thereafter. It is further prayed that defendants RCAM and/or Astro be ordered to pay plaintiff Limitless the sum of NINE HUNDRED NINETY THOUSAND FOUR HUNDRED SIXTY-TWO PESOS AND NINETY CENTAVOS (P990,462.90) plus twelve (12) percent interest thereon from date of filing hereof.

It is further prayed that defendants RCAM, Yalung and/or Villasor be jointly and severally ordered to pay the plaintiffs Quirino Quin Baterna, Gregoria T. Baterna, Quirino Roni Baterna, Mary Gelle Baterna-Maranan and Louise Belle Baterna-Maranan, the sums of ONE MILLION PESOS (P1,000,000.00) EACH as moral damages. It is finally prayed [that] said defendants be ordered jointly and severally to pay plaintiffs the amount of P100,000.00 plus 25% of the amounts demanded or awarded as a consequence hereof, exclusive of hearing and other expenses as may be proven during trial hereof, subject to the reservations made herein.[10]

The case was docketed as Civil Case No. 95-1559 and raffled to Branch 57 of the said court. LPI alleged, among others, that it should be credited for the rental payments of ASTRO to RCAM from February 1990 to February 1995. The court issued an Order on October 30, 1995, enjoining the defendant (RCAM) to maintain the status quo, thus, allowing the plaintiff (LPI) to continue using the advertising areas/spaces.[11]

Still unaware of the complaint, RCAM wrote LPI on October 28, 1995, demanding payment of back rentals, including those from ASTRO, from March to October 1995, and damages and attorney's fees, totaling P1,021,219.15 within five (5) days from receipt thereof.[12]

RCAM filed a Complaint for unlawful detainer against LPI before the Metropolitan Trial Court of Makati (MTC) on November 13, 1995 praying, thus:

WHEREFORE, it is respectfully prayed that a Summary Judgment be rendered in favor of the Plaintiff against the Defendant ordering the Defendant:

- To vacate and peacefully surrender the premises to Plaintiff and/or to allow Plaintiff to remove or dismantle any and all advertising signs or non-permanent structures;
- To pay Plaintiff the amount of rentals due from March 1995 until Defendant vacates the premises; with legal interests and penalties;
- To pay the Plaintiff the amount of P50,000.00 as attorney's fees plus P2,000.00 per hearing as appearance fees;

- To pay the cost of suit.

Plaintiff prays for such other reliefs just and equitable under the premises.[13]

The complaint was docketed as Civil Case No. 50450. RCAM alleged that the defendant failed to pay rentals from March 1995. In its answer to the complaint, LPI alleged, inter alia, that RCAM had no cause of action against it for ejectment, and prayed that:

WHEREFORE, it is respectfully prayed that this Answer with Affirmative Defenses and Compulsory Counterclaim be noted, and this ejectment case be ordered dismissed, without prejudice to defendant's compulsory counterclaim. It is finally prayed that defendant be granted such other reliefs as may be considered just, proper and equitable based on the foregoing premises.[14]

On October 30, 1995, LPI filed a Complaint against RCAM, et al., with the RTC of Makati, for damages on account of the latter's failure to comply with the order of the RTC in Civil Case No. 95-1559. The case was docketed as Civil Case No. 96-949, raffled to Branch 136 of the RTC. The complaint was dismissed on October 24, 1996.[15]

Meanwhile, on September 13, 1996, the RTC (in Civil Case No. 95-1559) issued an Order[16] dismissing the complaint on the grounds of lack of jurisdiction, *litis pendencia*, and lack of cause of action.

On October 5, 1996, RCAM caused the dismantling of the billboards of LPI on the leased premises. For its part, LPI filed a criminal complaint for malicious mischief against Bishop Crisostomo Yalung, et al. An Information was, thereafter, filed against the said accused with the MTC for malicious mischief, docketed as Criminal Case No. 207096. During the pre-trial, the parties agreed to submit a reconciliation of the parties' respective accounts.

In its Position Paper in Civil Case No. 50450, LPI averred that during the first period — from February 1, 1990 (when the sublease agreement was executed) to August 1, 1993 (when the MOA took effect) — ASTRO had remitted rentals to RCAM for its account in the total amount of P832,920.00; the said amount should be credited to it and deducted from its accountability for the period covering March 1995 to October 1995, in the total amount of P553,134.00; hence, it had overpaid RCAM in the amount of P279,786.00.[17]

LPI posited that during the second period (from August 1, 1993 to February 1, 1995 when the sublease expired), ASTRO's payments to RCAM had been credited to LPI. Hence, there was no reason why ASTRO's rental payments during the first period should not likewise be credited to it.

On May 25, 2000, the MTC rendered judgment in favor of LPI in Civil Case No. 50450 for unlawful detainer. The fallo of the decision reads:

WHEREFORE, judgment is hereby rendered:

- declaring defendant's possession over the leased premises to be lawful;
- ordering defendant to pay the monthly rentals from September 1995 until it stopped occupying the leased premises;
- ordering plaintiff to pay defendant the amount of P100,000.00 as damages.[18]

The MTC declared that based on the reconciliation of the account of LPI, it had paid P1,584,185.82 to RCAM. Since the rentals due for the period of February 1, 1990 to March 1, 1995 amounted to P1,239,635.00, LPI made an overpayment of P344,550.33. According to the court, the payments made directly to RCAM during the first period of the sublease (February 1, 1990 to July 1, 1993) in the amount of P832,920.00 should not be credited to LPI because the latter had donated the amount to RCAM, in accordance with the Letter dated November 28, 1989,

and as stipulated in the sublease agreement. The MTC declared that such stipulation was a stipulation pour autrui under Article 1311 of the New Civil Code. However, the court also declared that LPI should be credited for the payments made by ASTRO during the second period (from August 1993, after the MOA took effect, to March 1995). The MTC also held that LPI was obliged to pay rentals in the amount of P414,486.50[19] from March 1995 to October 1995 when the complaint was filed.

LPI appealed the decision to the RTC and alleged that the MTC erred as follows:

I

IN RULING THAT THE RENTAL PAYMENTS MADE BY DEFENDANT-APPELLANT'S SUB-LESSEE, ASTRO ADVERTISING, INC., (AAI) TO RCAM SHOULD NOT BE CREDITED AS PART OF AND AGAINST THE RENTAL OBLIGATION OF THE DEFENDANT-APPELLANT (LPI).

II

IN FINDING THAT APPELLANT'S RENTAL OVERPAYMENT TO APPELLEE (RCAM) IS ONLY P344,550.33 WHEN IT IS ACTUALLY P796,421.44.

III

IN NOT ORDERING APPELLEE TO RETURN TO APPELLANT THE LATTER'S OVERPAYMENT IN THE SUM OF P796,421.44;

IV

IN ORDERING THE APPELLANT TO PAY APPELLEE MONTHLY RENTALS FROM SEPTEMBER 1995 UNTIL IT SUPPOSEDLY STOPPED OCCUPYING THE PREMISES; AND

V

IN NOT ORDERING PLAINTIFF TO ALLOW DEFENDANT TO CONTINUE THE LEASE FOR THE UNUSED AND UNEXPIRED PERIOD THEREOF OF SIXTEEN (16) MONTHS (31 OCTOBER 1995 TO 31 JULY 1997).[20]

On October 10, 2001, the RTC rendered judgment affirming the appealed decision with modification. It declared that LPI overpaid the RCAM in the amount of P796,421.44. The fallo of the decision reads:

WHEREFORE, premises considered, the Decision appealed from is hereby affirmed in all respects subject to the following modification:

- Ordering the plaintiff to return to defendant the sum of P796,421.44 representing the overpayment of rentals made by the appellant to the appellee.

SO ORDERED.[21]

The RTC ruled that LPI should be credited for the rental payments of ASTRO during the first period (from February 1, 1990 to August 1, 1993). The RTC rejected the ruling of the MTC that the stipulation in the sublease agreement in favor of RCAM was not a stipulation pour autrui. It, likewise, rejected RCAM's claim that the rentals due from ASTRO during the said period were LPI's donations to RCAM.

LPI filed a motion for partial reconsideration of the decision, in that RCAM be ordered to reinstate possession of the leased premises to it for the unexpired period of the lease-four (4) years and nine (9) months, from October 31, 1995 to July 31, 2000.[22] LPI argued that the running of the lease period was suspended pending the adjudication of the ejectment case against it.

On May 24, 2002, the RTC issued an Order granting the motion of LPI and rendered an amended decision, the decretal portion of which reads:

WHEREFORE, premises considered, the Decision appealed from is hereby affirmed in all respects subject to the following modification:

- Ordering the plaintiff to restore to the defendant the possession of the leased property for a period of 21 months from October 31, 1995 to July 31, 1997.
- Ordering the plaintiff to return to defendant the sum of P796,421.44 representing overpayment of rentals by the appellant to the appellee.

SO ORDERED.[23]

LPI filed a motion for execution of the Amended Decision of the RTC, to compel RCAM to restore possession of the property to LPI. On October 14, 2002, the trial court issued an Order[24] denying the motion. LPI filed a motion for reconsideration of the said order, which the RTC denied on January 9, 2003.[25]

RCAM filed a petition for review on certiorari with the Court of Appeals (CA), alleging that the RTC erred in holding that the stipulation in the Sublease Agreement was not a stipulation pour autrui; in ordering it to refund P796,421.44 to LPI although the latter did not interpose any counterclaim for the said amount; and in extending the lease period through ordering the reinstatement of the LPI to the property despite the lapse of the lease period under the MOA, and despite the absence of MCIC as party to the case which had introduced P20,000,000.00 worth of improvements on the property.

For its part, LPI filed a petition for certiorari and mandamus with this Court, assailing the October 14, 2002 and January 9, 2003 Orders of the RTC. The case was docketed as G.R. No. 157391. LPI alleged therein the following:

RESPONDENT JUDGE ACTED WITH GRAVE ABUSE OF DISCRETION AMOUNTING TO LACK AND/OR EXCESS OF JURISDICTION IN ISSUING THE ASSAILED ORDERS BECAUSE:

- HE ERRONEOUSLY RULED THAT THE RULE ON IMMEDIATE EXECUTION UNDER SECTION 21, OF THE REVISED RULES ON SUMMARY PROCEDURE AND SECTION 21, RULE 70, OF THE 1997 RULES OF CIVIL PROCEDURE, APPLY ONLY WHEN THE JUDGMENT IS FOR THE PLAINTIFF; HENCE, PETITIONER, THE DEFENDANT, IS NOT ENTITLED TO IMMEDIATE EXECUTION OF JUDGMENT EVEN IF IT IS THE PARTY DISPOSSESSED.

- HE FAILED TO APPRECIATE THE CLEAR AND STARK DISPARITY IN THE FACTUAL LANDSCAPE BETWEEN THE PRESENT CASE AND THAT OF THE DECIDED CASE HE RELIED UPON (PASCUA VS. NABLE, 71 PHIL. 186) BECAUSE IN THE PRESENT CASE, IT IS THE DEFENDANT (PETITIONER) WHICH WAS UNLAWFULLY AND FORCIBLY DISPOSSESSED BY THE PLAINTIFF DURING THE PENDENCY OF THE EJECTMENT CASE.[26]

LPI averred that under Section 21 of the Rules on Summary Procedure, the decision of the RTC on appeal in ejectment cases should be immediately executory, without distinction as to in whose favor the decision is rendered. The petitioner posits that Section 21, Rule 70 of the Rules of Court should apply, since it was evicted from the property by RCAM while the latter's complaint in Civil Case No. 50450 was still pending.

In its comment on the petition, RCAM averred that immediate execution of the RTC decision is proper only if the same is in favor of the petitioner as plaintiff. In a case where the decision is in favor of the defendant-respondent, the procedure is different. The respondent also averred that the petition had become moot and academic because the CA had rendered judgment in CA-G.R. SP No. 71261, setting aside and reversing the amended decision of the

RTC and affirming with modification the MTC ruling.

Indeed, the CA had rendered judgment in CA-G.R. SP No. 71261 on June 30, 2003, granting the petition of RCAM. The fallo of the decision reads:

WHEREFORE, the petition is GRANTED. The Decision dated October 10, 2001 and the Order dated May 24, 2002 of the Regional Trial Court of Makati are hereby SET ASIDE, and the Decision dated May 25, 2002 of the Metropolitan Trial Court of Makati is hereby AFFIRMED, with the modification that the petitioner Roman Catholic Archbishop of Manila is ordered to return to the respondent Limitless Potentials, Inc. the amount of P344,550.33, with legal interest thereon from date of the finality of this Decision until full payment thereof.

No pronouncement as to costs.

SO ORDERED.[27]

The CA agreed with the ruling of the MTC that applying Article 1311 of the New Civil Code, no double payments were made during the first period of the lease. The payments of LPI pertained only to those areas/spaces leased by it, while the payments of ASTRO pertained to the areas/spaces sublet to it; hence, such payments should not be credited to LPI.[28] Relying on the rulings of this Court in *Filoil Refinery Corporation v. Sayo*,[29] and *Tan v. Lim*,[30] the CA, likewise, ruled that the RTC also erred in ordering LPI to be placed in possession of the property, considering that the MOA had already expired pendente lite; hence, LPI could no longer regain possession of the property as lessee.

RCAM filed a petition for review on certiorari of the decision in CA-G.R. SP No. 71261, docketed as G.R. No. 160749; LPI filed a similar petition, docketed as G.R. No. 160816. LPI raised the following issues:

I.

DOES THE STIPULATED PERIOD OF A LEASE CONTINUE TO RUN AGAINST THE LESSEE EVEN IF, THRU THE ADMITTEDLY ILLEGAL ACTS OF THE LESSOR, THE LESSEE WAS UNLAWFULLY DISPOSSESSED OF THE PREMISES AND PREVENTED FROM MAKING FULL USE OF THE PERIOD?

II.

IS A STIPULATION IN A CONTRACT OF SUBLEASE THAT THE SUBLESSEE'S RENT SHALL BE PAID DIRECTLY TO THE PRINCIPAL LESSOR, A STIPULATION POUR AUTRUI?

[III.]

ASSUMING ARGUENDO IT IS, ARE THE DIRECT RENTAL PAYMENTS OF THE SUBLESSEE TO THE PRINCIPAL LESSOR NOT CREDITABLE AGAINST OR DEDUCTIBLE FROM THE LESSEE'S RENT?[31]

The Issues

The issues raised in the three (3) cases are the following: (a) whether or not LPI had overpaid RCAM for rentals due up to February 1, 1995 (insofar as the sublet spaces are concerned) and October 5, 1995 (insofar as the rest of the leased premises are concerned), and if so, how much LPI had overpaid; (b) whether or not LPI had the right to continue to possess the property from the time RCAM rescinded the MOA, until the expiration of the two-year period; and (c) whether the amended decision of the RTC ordering RCAM to restore possession of the property to LPI was immediately executory.

RCAM avers that the CA erred in ruling that LPI overpaid by P344,550.33 as of March 1995. It maintains that

LPI had paid only P1,584,185.83 and, deducting the amount of P1,239,635.50 which it was obliged to pay as rentals, it had overpaid by only P344,550.33. RCAM laments that the CA ignored the finding of the MTC that LPI failed to pay the rentals due for six months (from March 1995 to October 1995) when the MOA was rescinded, in the amount of P414,486.00; this should be added to the amount of P1,239,635.00. As such, LPI is entitled to a refund of only P69,935.61. RCAM insists that the CA erred in affirming the amended decision of the RTC.

For its part, LPI avers that it should not be made to pay rentals from March 1995 because as early as February 1, 1995, it had not been able to use the areas/spaces previously sublet to ASTRO. Moreover, the rentals paid directly by ASTRO to RCAM in the total amount of P1,255,889.55 from 1990 to 1994 should be credited to it, since there was no intent to donate the said amount to RCAM. The amounts remitted by ASTRO to RCAM were made in payment of a debt or obligation. Furthermore, there was no stipulation pour autrui in favor of RCAM as it was already a party to the sublease agreement between LPI and ASTRO. The benefit conferred upon RCAM under the sublease agreement was merely incidental, because it was a creditor of ASTRO and as such entitled to the rentals, either directly from LPI or indirectly from ASTRO, as the sublessee. Even if Article 1311 of the New Civil Code were to apply, and assuming that the rental payments made by ASTRO were in the nature of donations, RCAM, as donee-beneficiary, was required by Article 748 of the New Civil Code to accept the donation in writing. Hence, RCAM must refund to LPI the amount of P798,421.96. LPI insists that the theory of donation was but a belated concoction of RCAM. Thus, the decision of the CA is erroneous and should be reversed, and the amended decision of the RTC should be maintained.

LPI asserts that it had the right to continue to possess the leased premises during the entire duration of the contract, that is, from October 31, 1995 when RCAM unilaterally rescinded the MOA. Since the unilateral rescission of the MOA was nullified, the possession of the leased spaces/areas must be restored to it for the unexpired period of the agreement.

On March 30, 2005, the Court resolved to consolidate the three (3) cases in the Second Division.

The Rulings of the Court

On the first issue, the Court agrees with RCAM that LPI was obliged to continue paying the rentals for the leased premises (except those previously sublet to ASTRO) from March 1995 until October 1995 and up to its eviction therefrom on October 5, 1996. This is so because LPI continued to possess and use the same until October 6, 1996 despite the unilateral rescission of the MOA by RCAM. We note that LPI consigned the rentals for March 1995 to October 1995 to the RTC in Civil Case No. 95-1559. Hence, the rentals due for such period should be added to P1,239,645.00 which LPI was obliged to pay to RCAM.

However, the Court rejects the contention of RCAM that LPI is obliged to pay rentals for the areas/spaces sublet to ASTRO after February 1995. It bears stressing that, after the expiration of the sublease agreement between LPI and ASTRO in February 1995, RCAM did not turn over the said areas/spaces to LPI; instead, it leased the said areas/spaces to MCIC, in violation of its MOA with LPI. RCAM even dismantled the billboards of LPI on October 6, 1996.

Under Article 1054(3) of the New Civil Code, RCAM, as lessor, was obliged to maintain the LPI, as lessee, in the peaceful and adequate enjoyment of the areas/spaces for the entire duration of the contract. And since it failed to comply with its obligation, the LPI had the right to suspend the payments of rentals^[32] until possession thereof had been delivered to it. It also had the right to ask for the rescission of the MOA and indemnification for damages, or only the latter, allowing the contract to remain in force.^[33] It would be unjust enrichment on the part of RCAM to require LPI to pay rentals for the areas/spaces leased by RCAM to MCIC.^[34] The MTC is mandated to ascertain, after hearing the parties, the reasonable rentals LPI is obliged to pay for the leased areas/spaces,

(except those sublet to MCIC) and ascertain, based on its findings, the amount that RCAM is obliged to refund to LPI, if any.

We agree with the ruling of the CA that the sublease contract between LPI and ASTRO contains a stipulation pour autrui in favor of RCAM, which the latter had accepted long before LPI filed its complaint in Civil Case No. 96-949.

Central to the issue is Article 1311 of the New Civil Code, which provides:

Art. 1311. Contracts take effect only between the parties, their assigns and heirs, except in cases where the rights and obligations arising from the contracts are not transmissible by their nature, or by stipulation or by provision of law. The heir is not liable beyond the value of the property he received from the decedent.

If a contract should contain some stipulation in favor of a third person, he may demand its fulfillment provided he communicated his acceptance to the obligor before its revocation. A mere incidental benefit or interest of a person is not sufficient. The contracting parties must have clearly and deliberately conferred a favor upon a third person.

The definition of a stipulation pour autrui is set forth in the second paragraph of the above provision. The requisites for such stipulation are the following: (a) the stipulation in favor of a third person, the third-party beneficiary which should be a part, not the whole, of the contract; (b) the contracting parties must have clearly and deliberately conferred a favor upon a third person, not a mere incidental benefit or interest; (c) the favorable stipulations should not be conditioned or compensated by any kind of obligation whatsoever; (d) the third person must have communicated his acceptance to the obligor before its revocation; and (e) neither of the contracting parties bear the legal representation or authorization of the third party.[35]

The third-party may be (a) a donee beneficiary; (b) a creditor beneficiary; or (c) an incidental beneficiary. A donee beneficiary is regarded as such only if it appears from the terms of the promisee, in view of the accompanying circumstances, that the purpose of the promisee in obtaining the promise of and/or part of the performance thereof is to make a gift to the beneficiary or to confer upon him a right against the promisee to secure performance neither due nor supposed or asserted to be due from the promisee to the beneficiary.[36]

The intent of the promisee to benefit a third person as a primary party-in-interest is generally said to be controlling. It is not enough that the contract may operate to the benefit of a third-party. It must appear that the parties' intent to recognize him as the primary party-in-interest and privy to the promise.[37] Such intent may be gleaned from the construction of the contract in the light of the surrounding circumstances. Intent, in a legal sense, is defined as the purpose to use a particular manner to effect a certain result.[38] Otherwise stated, if the performance of a promise will satisfy an actual or supposed or asserted duty of the promisee to the beneficiary, he is a creditor beneficiary and may enforce the promise.[39] The right of recovery of a third-party beneficiary is upon the theory that the contracting parties intended to create a cause of action in his favor.[40] The right of the beneficiary is, however, limited by the terms of the promise.[41]

Absent the intent to benefit a third-party, such party is merely an incidental beneficiary. Such party is one who benefits from the contract of another but whose benefit was not the intent of the contracting parties. An incidental beneficiary has no right or obligation under the contract.[42] If, indeed, there is an intent of the parties to a contract to benefit a third person, it matters not whether the stipulation is in the nature of a gift or whether there is an obligation owing from the promisee to the third person.[43]

Contrary to the contention of LPI, the third-party beneficiary may accept the benefit in any form. Article 1311 of the New Civil Code does not require that the acceptance by the third-party beneficiary of the benefit be in writing.

Indeed, in *Florentino v. Encarnacion, Sr.*, the Court ruled that:

The acceptance does not have to be in any particular form, even when the stipulation is for the third person an act of liberality or generosity on the part of the promisor or promisee.

It need not be made expressly and formally. Notification of acceptance, other than such as is involved in the making of demand, is unnecessary.

A trust constituted between two contracting parties for the benefit of a third person is not subject to the rules governing donation of real property. The beneficiary of a trust may demand performance of the obligation without having formally accepted the benefit of the trust in a public document, upon mere acquiescence in the formation of the trust and acceptance under the second paragraph of Art. 1257 of the Civil Code.[44]

In the present case, a careful study of the surrounding circumstances of the agreement has revealed that RCAM is a third-party beneficiary under the sublease agreement between LPI and ASTRO. The records show that ASTRO filed an application with RCAM for the installation of its own billboards on the spaces/areas leased by LPI; RCAM then referred the application to LPI. Without any solicitation therefor, LPI informed RCAM, through a letter, that it would earn more from monthly rentals from ASTRO, and that such rentals "shall go to the church." [45] Indeed, under the sublease agreement between LPI and ASTRO, the latter is obliged to remit its rental payments directly to RCAM, and not to LPI. RCAM accepted the offer of LPI and indeed, received all the rentals of ASTRO from February 1990 to July 1993. RCAM did not credit the said rentals to LPI. For its part, LPI paid the rentals under its lease agreement with RCAM, without deducting therefrom the rental payments of ASTRO for the said period. LPI never demanded that RCAM credit it for the rental payments of ASTRO. It was only when LPI sued RCAM for consignation, and the latter filed a suit for ejectment that LPI claimed the crediting of ASTRO's rental payments from February 1990 to July 1993 for the first time. Such claim, as correctly ruled by the MTC and the CA, was but an afterthought, thus:

The Court does not agree with defendant that there were double payments made during the "first period". It is apparent that the rentals being paid by defendant during the "first period" cover only the area/space actually used by defendant and does not cover the area/space used by Astro Advertising, although the portion occupied by the latter are within the area being leased by defendant from plaintiff. This observation finds support in the letter of Louise Belle Bateria, dated Nov. 28, 1998, addressed to RCAM, informing the latter that rental payments made by the sublessees "shall go to the church" in order for the latter to earn more. If rental payments shall be deducted from defendant's monthly rentals or credited to the defendant, plaintiff will not earn more. Such was not the intention of Louise Belle Bateria when she wrote her letter dated Nov. 28, 1988. Beside, the action of defendant Belle that payments made by Astro Advertising during the "first period" were supposed to be credited to defendant, why then did it not bring the matter to the attention of plaintiff. Why is it that when defendant received from plaintiff the Statement of Account as of December 1994 (Exhibit 5 the defendant) showing that it has an outstanding obligation in the amount of P171,200.63, it did not raise in issue the matter of its overpayment and instead on March 8, 1995, defendant meekly paid the amount of P279,549.00 under official receipt no. 73991 and rentals from January to March 1995 in the total amount of P108,349.00.[46]

The factual backdrop is similar to that in *Florentino v. Encarnacion, Sr.*[47] where the Court ruled —

. . . While a stipulation in favor of a third person has no binding effect in itself before its acceptance by the party favored, the law does not provide when the third person must make his acceptance. As a rule, there is no time limit; such third person has all the time until the stipulation is revoked. Here, we find that the church accepted the stipulation in its favor before it is sought to be revoked by some of the co-owners, namely the petitioners-appellees herein. It is not disputed that from the time of the death of Doña Encarnacion Florentino in 1941, as had always been the case since time immemorial, up to a year before the filing of their application

in May 1964, the Church had been enjoying the benefits of the stipulation. The enjoyment of benefits flowing therefrom for almost seventeen years without question from any quarters can only be construed as an implied acceptance by the Church of the stipulation pour autrui before its revocation.[48]

It bears stressing that under the lease agreement between RCAM and LPI, the latter was obliged to pay a monthly rental of only P12,000.00 subject to an annual 10% increase. In contrast, under the sublease agreement between LPI and ASTRO, the latter was obliged to pay a monthly rental to LPI of P21,000.00, P23,000.00 and P25,410.00 covering the period of February 1, 1990 to February 1993. LPI remitted its rentals to RCAM periodically during the said period without any preconditions. Not only that - LPI likewise failed to demand from RCAM that it be credited for the rental payments of ASTRO. LPI continued to remit its rental payments to RCAM as provided for in no less than the lease agreement.

It is true that, after the execution of the MOA, the rental payments of ASTRO during the second period (February 1995 to October 1995) were credited to the LPI; this does not mean, however, that the rental payments of ASTRO during the first period should, likewise, be similarly credited. Based on the pleadings of the parties, RCAM and LPI had agreed to revoke the stipulation pour autrui in the sublease agreement during the second period.

The contention of LPI that RCAM is a party to the sublease agreement is belied by the records. As gleaned from the agreement, RCAM was merely a witness to the deed. It bears stressing that in a sublease agreement, there are two distinct leases involved: the principal lease and the sublease.[49] In a contract of sublease, the lessor is not a party. Except in those cases provided by the New Civil Code, the lessor is a stranger to the relationship between the lessee and sublessee. The latter has no right or authority to pay the sublease rentals to the lessor, the said rentals being due and payable to the lessee.[50] However, the lessor may demand the payment by the sublessee of the rentals due from the lessee if the latter fails to pay the same.[51]

On the second issue, the appellate court reversed the ruling of the RTC ordering RCAM to restore possession of the leased property to LPI for a period of 21 months corresponding to the alleged unused portion of the period set in the MOA: from October 31, 1995 when RCAM unilaterally rescinded the MOA, to July 31, 1997. Citing the rulings of the Court in *Filoil Refinery Corporation v. Sayo*,[52] and *Tan v. Lim*,[53] the CA held as follows:

The MTC was correct in not ordering the restoration of LPI in possession of the leased premises. The reason is obvious. The four-year term of the lease under the MOU (sic), which began on August 1, 1993 had expired on July 31, 1997. In view of the expiration of the lease, the directive of the Court a quo to restore LPI in possession of the leased premises for the period of 21 months from October 31, 1995 to July 31, 1997 was moot and academic, such period having already lapsed. A lessee's claim of possessory rights over the leased premises is lost upon the expiry of the lease contract. The subject directive cannot be interpreted to empower LPI to retake possession of the leased premises even after July 31, 1997, as this will amount to an extension of the lease, contrary to the express provision in the lease contract. A court is completely devoid of authority to extend the lease after the period stipulated has expired.[54]

It is the contention of LPI that the unused period of the lease was suspended when RCAM unilaterally rescinded the MOA in October 1995. Citing Article 539 of the New Civil Code, it asserts that, being the lessee, it is entitled to the possession of the said premises for the unused period of the lease. LPI asserts that RCAM, as lessor, was mandated to maintain it in the peaceful possession of the leased premises for the period fixed in the MOA, a period fixed for the benefit of both parties. Its right to remain in possession of the property for the duration of the lease was not lost by the expiration of the lease period during the pendency of the ejectment case in the MTC until its elevation to the Court. LPI argues that it would be unjust if it would be deprived of its right to remain in possession of the premises simply because the unused portion of the lease period expired while the ejectment case filed by RCAM against LPI was pending.

Citing the ruling of the Court in *Ace-Agro Development Corporation v. Court of Appeals*,^[55] RCAM avers that the literal meaning of the MOA should be enforced. It argues that LPI's claim, that the unused portion of the lease period was suspended because of its unilateral rescission of the MOA, has no basis in fact and in law. It insists that the Court has no authority to create, construct or alter the MOA, except in those instances provided for in Article 1197 and Article 1670 of the New Civil Code. In light of the nullification of the rescission of the MOA, the only right of LPI is to file an action for its rescission and damages under Article 1191 of the New Civil Code.

The contention of LPI is correct.

As lessor, RCAM was obliged to maintain LPI's peaceful and adequate possession and enjoyment of the lease for the entire duration of the contract.^[56] Indeed, it is the duty of the lessor to place the lessee in the legal possession of the premises and to maintain the peaceful possession thereof during the entire term of the lease.^[57] The lessee has the right to be respected in his possession and should he be disturbed therein, he shall be restored to said possession by the means established by the law or by the Rules of Court.^[58] Every possessor, under the law, includes all kinds of possession, including that of a mere holder.^[59] Possession is not protection against right but against the exercise of a right by one's own authority.^[60] If the owner/lessor forcibly dispossesses a lessee, the lessor would be acting illegally, and the lessee shall be entitled to be restored to his possession via an action for forcible entry with a plea for a writ of preliminary mandatory injunction within five (5) days from the filing of the complaint to restore him to his possession,^[61] by an *accion publiciana*^[62] or by an action to compel the lessor to comply with his obligation under the contract of lease.^[63] The lessee may ask for the rescission of the lease contract and indemnification for damages, or only the latter, allowing the contract to remain in force.^[64]

A lessee unlawfully evicted by the lessor is entitled to be restored to the possession of the property leased for the "unused" period of the lease contract, counted from his eviction; such "unexpired portion" of the contract cannot be affected by the lapse of the period pending the final resolution of the complaint for ejectment filed by the lessor.

It bears stressing that in a reciprocal contract, like a lease, the period of the lease must be deemed to have been agreed upon for the benefit of both parties, absent any language therein showing that the term was deliberately fixed for the benefit of either the lessor or the lessee alone. Its continuance, effectivity or fulfillment cannot be made to depend exclusively upon the free and uncontrolled choice of just one party to a lease contract.^[65]

In this case, RCAM unilaterally rescinded the contract; it had the billboards of LPI on the spaces/areas leased by the latter dismantled on October 5, 1996, without waiting for the final outcome of the ejectment case. The MTC, RTC and the CA found this unilateral rescission of the MOA unlawful. Indisputably, RCAM was obliged to deliver to LPI the premises which it forcibly took over on the said date.

It bears stressing that LPI had occupied the leased property from August 1, 1993 to October 6, 1996, or only three (3) years, two months and two days. Thus, LPI is entitled to remain in the property, as lessee, for the unused portion of the four-year period provided for in the MOA. By so ruling, the Court would not be extending the period of the lease contrary to the MOA; the Court would thereby be merely enforcing the same. As covenanted, LPI must remain in possession of the property, as lessee, for a period of four (4) years - not a day less. For the Court to do otherwise would be to enrich RCAM at the expense of LPI, allowing the former to profit by its misdeeds.

The Court of Appeals' reliance on the rulings of the Court in *Filoil Refinery Corporation v. Sayo and Tan v. Lim* is misplaced. The factual backdrop and the issues in the two cases are markedly different. In *Filoil Refinery Corporation*, the issue was whether the action for unlawful detainer against the petitioner should be filed against the sublessee (which was in possession of the leased property) even if the lease period had expired. The Court

ruled that any sublessee of Filoil or any other person or entity claiming any right under the petition cannot remain in possession of the property beyond the expiry date of the lease contract. On the other hand, the Court, in Tan, held that the petition for a writ of preliminary mandatory injunction had no merit because there was no evidence that the petitioner had an easement of right-of-way to the street by virtue of a title or prescription, or that the condition or a legal easement was properly made. Moreover, Tan filed his complaint with a plea for a mandatory injunction long after his lease contract had expired.

As for the recovery of the possession of the areas/spaces now in possession of MCIC, this matter should be the subject of a separate action against the said corporation and RCAM, since the lease contract between MCIC and RCAM was executed before the latter filed its complaint for ejectment against LPI. The judgment of the MTC and this Court is not binding on MCIC; it must be given its day in court.

On the last issue, the Court finds and so holds that the RTC did not commit any grave abuse of discretion in denying LPI's motion for execution of that portion of the amended decision ordering RCAM to place it in possession of the subject areas/spaces. The execution of the judgment pending appeal is proper only if the judgment is in favor of the plaintiff and against the defendant, and not vice versa. This is in accordance with Section 19, Rule 70 of the Rules of Court, to wit:

SEC. 19. Immediate execution of judgment; how to stay same. — If judgment is rendered against the defendant, execution shall issue immediately upon motion, unless an appeal has been perfected and the defendant to stay execution files a sufficient supersedeas bond, approved by the Municipal Trial Court and executed in favor of the plaintiff to pay the rents, damages, and costs accruing down to the time of the judgment appealed from, and unless, during the pendency of the appeal, he deposits with the appellate court the amount of rent due from time to time under the contract, if any, as determined by the judgment of the Municipal Trial Court. In the absence of a contract, he shall deposit with the Regional Trial Court the reasonable value of the use and occupation of the premises for the preceding month or period at the rate determined by the judgment of the lower court on or before the tenth day of each succeeding month or period. The supersedeas bond shall be transmitted by the Municipal Trial Court, with the other papers, to the clerk of the Regional Trial Court to which the action is appealed.

What LPI should have done when RCAM dismantled its billboards on October 5, 1996 while the ejectment case was still pending in the MTC was to file a motion with the said court to compel RCAM to restore the possession of the property to it pending the resolution of the ejectment case. However, LPI failed to do so.

IN LIGHT OF ALL THE FOREGOING, the Court renders judgment as follows:

- 1) The Petition in G.R. No. 157391 is DENIED for lack of merit.
- 2) The Petitions in G.R. Nos. 160749 and 160816 are PARTIALLY GRANTED. The Decision of the Court of Appeals is SET ASIDE. The Decision and Amended Decision of the RTC are AFFIRMED WITH MODIFICATIONS, thus:
 - a) The records are REMANDED to the MTC for it to determine, after hearing the parties, the precise amount to be refunded by the Roman Catholic Archbishop of Manila to Limitless Potentials, Inc., if any, in light of the Court's decision;
 - b) The Roman Catholic Archbishop of Manila is ORDERED to deliver possession of the areas/spaces leased to Limitless Potentials, Inc., covered by the Memorandum of Agreement dated September 28, 1993, except those areas now leased to MCIC; Limitless Potentials, Inc. shall be entitled to remain in possession of the property for the remaining period of the lease, with the corresponding rental rate as provided for in the Memorandum of Agreement dated September 28, 1993.

No costs.

SO ORDERED.

Puno, (Chairman), Austria-Martinez, Tinga, and Chico-Nazario, JJ., concur.

- [1] Rollo, p. 51-56. (G.R. No. 160816)
- [2] Id. at 56.
- [3] Rollo, p. 12. (G.R. No. 160816)
- [4] Rollo, pp. 93-96. (G.R. No. 160816)
- [5] Id. at 94.
- [6] CA Rollo, pp. 95-96.
- [7] Rollo, pp. 83-84. (G.R. No. 160816)
- [8] Rollo, p. 97. (G.R. No. 160816)
- [9] Rollo, pp. 48-49. (G.R. No.157391)
- [10] CA Rollo, pp. 207-208.
- [11] Id. at 227.
- [12] Id. at 51.
- [13] CA Rollo, p. 42.
- [14] Id. at 74.
- [15] CA Rollo, pp. 226-228.
- [16] Rollo, pp. 123-125. (G.R. No. 160816)
- [17] CA Rollo, pp. 102-103.
- [18] Rollo, pp. 134-135. (G.R. No. 160749)
- [19] Rollo, p. 133.
- [20] CA Rollo, p. 132.
- [21] Rollo, p. 144. (G.R. No. 160749)
- [22] Id. at 176.
- [23] Rollo, pp. 242-243 (G.R. No. 160816)
- [24] Rollo, pp. 25-26. (G.R. No. 157391)
- [25] Id. at 28.
- [26] Rollo, p. 14. (G.R. No. 157391)
- [27] Rollo, p. 57. (G.R. No. 160749)

- [28] Id. at 55.
- [29] G.R. No. L-46236, 24 October 1980, 100 SCRA 413.
- [30] G.R. No. 128004, 25 September 1998, 296 SCRA 455.
- [31] Rollo, pp. 19-20. (G.R. No. 160816)
- [32] Article 1658, New Civil Code.
- [33] Article 1659, New Civil Code.
- [34] Aguilar v. Court of Appeals, G.R. No. 116895, 7 July 2000, 335 SCRA 308.
- [35] Young v. Court of Appeals, G.R. No. 79518, 13 January 1989, 169 SCRA 213; Florentino v. Encarnacion, Sr., G.R. No. L-27696, 30 September 1977, 79 SCRA 193.
- [36] Johnson Farm Equipment v. Cooke, 230 F. 2d 119 (1956).
- [37] In Re: Gufeluna, 137 F. 2d 730 (1926).
- [38] Havnill v. Maryland Gas, Co., 209 F. 2d 338 (1954).
- [39] Ibid.
- [40] In Re: Gufeluna, supra.
- [41] Willestone on Contracts, Revised Edition, Vol. 2, Section 364(A).
- [42] Implement Science, Inc. v. Teacunah Product Company, 726 F. Supplement 1171 (1989).
- [43] Florentino v. Encarnacion, Sr., supra.
- [44] Id. at 203.
- [45] CA Rollo, p. 134.
- [46] Rollo, p. 55. (G.R. No. 160749)
- [47] Supra, note 32.
- [48] Id. at 202.
- [49] Ouano v. Court of Appeals, G.R. No. 95900, 23 July 1992, 211 SCRA 740.
- [50] Id. at 749.
- [51] Article 1652, New Civil Code.
- [52] G.R. No. L-46236, 24 October 1980, 100 SCRA 413.
- [53] G.R. No. 128004, 25 September 1998, 296 SCRA 455.
- [54] Rollo, p. 43. (G.R. No. 160816)
- [55] G.R. No. 119729, 21 January 1997, 266 SCRA 429.
- [56] Article 1654(3), New Civil Code.
- [57] De la Cruz v. Seminary of Manila, 18 Phil. 330 (1911).

[58] Article 539, New Civil Code.

[59] Tolentino, New Civil Code, 1987, Vol. II, p. 241.

[60] Ibid.

[61] Rule 70, Section 15, Rules of Court.

[62] LL and Company Development and Agro-Industrial Corporation v. Huang Chao Chun, G.R. No. 142378, 7 March 2002, 378 SCRA 612.

[63] Article 1191, New Civil Code.

[64] Article 1659, New Civil Code.

[65] LL and Company Development and Agro Industrial Corporation v. Huang Chao Chun, *supra*.

ABOUT BATAS.ORG

Study smarter at BATAS.org

The Philippine bar review and law-school companion built around how your brain actually remembers.

The complete Philippine law library - free for everyone.

More than 100,000 Supreme Court decisions, Republic Acts, and executive issuances - full-text searchable, browsable by category and year, and always free. No paywall, no login. This PDF came from it.

Audio case-brief lectures.

Any decision becomes a podcast-style lecture - facts, issues, ruling, and doctrine - with read-along highlighting and a hands-free presentation mode. Study while commuting, working out, or resting your eyes.

Bar review built on the science of memory.

Complete, sequenced courses for all eight bar subjects, narrated like podcasts and reinforced with retrieval practice and spaced review - the study techniques with the strongest evidence behind them.

The full law-school curriculum.

One subscription unlocks the entire J.D. curriculum - every subject, every lesson, with your progress tracked down to the paragraph so you can pick up exactly where you left off, on any device.

Mock exams that tell you where you stand.

Timed multiple-choice exams graded instantly, with per-subject score breakdowns and focus suggestions that point you at your weakest topics first.

A study planner that keeps you on pace.

Set your schedule and BATAS tells you every day whether you are on track for bar day - and exactly which lesson to take next.

Start free at <https://batas.org>

The law library is free forever - and your first lesson is one click away.

The text of this document is an official public record and remains in the public domain. Formatting, presentation, and compilation © 2026 batas.org.

Downloaded free from the batas.org Law Library. Share it freely - the library is free for every law student, bar reviewee, and practitioner.