

**LEONARDO CHUA AND HEIRS OF YONG TIAN, PETITIONERS, VS.
MUTYA B. VICTORIO, HEREIN REPRESENTED BY HER
ATTORNEY-IN-FACT ARMANDO Z. COSME, RESPONDENT.**

G.R. No. 157568. May 18, 2004

Ponente: YNARES-SATIAGO, J.

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YNARES-SATIAGO, J.:

The instant petition for review on certiorari has its genesis in Civil Cases Nos. 21-2761 and 21-2762, entitled “Mutya Victorio v. Yong Tian” and “Mutya Victorio v. Leonardo Chua,” respectively. These were ejectment cases filed by respondent Mutya Victorio, the owner of certain commercial units located on Panganiban Street, Santiago City, Isabela, against petitioners herein. Leonardo Chua is currently the occupant of one unit, while petitioners Heirs of Yong Tian are the occupants of two units.[1]

It appears that these were not the first ejectment cases filed by respondent against petitioners. An earlier ejectment case ended in a compromise between the parties,[2] approved by the trial court, whereby they agreed as follows:

COMPROMISE AGREEMENT

- That the present rental on the leased premises shall be increased by 100 (100%) Percent effective August 1990;
- That rental increases shall be reviewed every after (sic) four (4) years based on the then prevailing rental rates at commercial establishments along Panganiban Street, Santiago, Isabela, but in no case shall be increased by more than twenty-five (25%) percent;
- That defendants shall pay to plaintiffs their respective accrued rental differentials within a period of one (1) year to be covered by postdated checks in equal amounts beginning November 30, 1991, and every end of the month thereafter;
- That this compromise agreement amends the compromise agreement embodied in the Decision, Annex “C” to the complaint with respect to paragraph (2) above; and all other terms and conditions not inconsistent of (sic) this compromise agreement shall remain and continue to be in full force and effect.[3]

Sometime in September of 1994, respondent (through her attorney-in-fact), made a rental survey of other commercial establishments along Panganiban Street. On the basis of this survey, a 25% rental increase was demanded from petitioners.[4]

Petitioners refused to pay the increased rentals which compelled respondent to file unlawful detainer cases against both lessees, docketed as Civil Cases Nos. II-370 and II-371. However, both complaints were dismissed by the Municipal Trial Court in Cities (“MTCC”), Branch II, Santiago City. The dismissal was affirmed by the Regional Trial Court (“RTC”), but reversed by the Court of Appeals, which ordered petitioners to vacate the leased premises.[5]

The decision of the Court of Appeals became final and executory, and, upon motion filed by respondent, the MTCC issued writs of execution ordering the ejectment of petitioners from respondent's property.[6]

Petitioners filed motions to quash the writs of execution, contending that there were supervening events which rendered the execution unjust or impossible. Specifically, petitioners claimed that they had acceded to the request for an increase in rentals, and had paid respondent the amount demanded.[7]

The MTCC found that petitioners had indeed paid to respondent the increased monthly rental even before the Court of Appeals decision attained finality.[8] In fact, petitioners offered to pay the increased rentals as early as January 1996, while the cases were still pending with the RTC.[9] The increased monthly rentals were accepted by respondent without reservation, and monthly payment of the rentals at the increased rate continued throughout the pendency of the suits.[10] Accordingly, the MTCC quashed the writs of execution that it earlier issued.[11]

Respondent assailed the quashal of the writ of execution directly to the Supreme Court via a petition for review on certiorari. This petition was dismissed by the Supreme Court on procedural grounds.[12] Petitioners thus remained in possession of respondent's properties.

Subsequently, on October 10, 1998, respondent wrote a letter to petitioners informing them of her intention to increase the monthly rentals effective November 1, 1998, from P6,551.25 per unit to a sum more than double that, namely, P15,000.00 per unit.[13] Petitioners refused to pay this amount, contending that it was beyond the allowable rental increase embodied in the compromise agreement.[14]

Respondent thus instituted Civil Cases Nos. 21-2761 and 21-2762 seeking the ejectment of petitioners. In a joint decision dated May 10, 1999, the MTCC, Branch II, Santiago City dismissed these complaints for lack of merit.[15] On appeal, the RTC initially reversed the MTCC,[16] but later reversed its earlier decision. On March 9, 2000, the RTC issued an order affirming the MTCC's dismissal of the complaints.[17]

Respondent filed a petition for review with the Court of Appeals, which was docketed as CA-G.R. SP No. 157568. On May 31, 2001,[18] the Court of Appeals reversed the March 9, 2000 Order of the RTC affirming the MTCC's dismissal of the complaints. The Court of Appeals ruled that the compromise agreement, which set a definite period of four years for the lease contract, had been abrogated by petitioners' refusal to pay the increased rentals in 1994. Accordingly, in 1994, the juridical relation between the parties was severed. When respondent accepted payment of the increased monthly amount, an entirely new contract of lease was entered into between the parties. Since payment of rent was made on a monthly basis, and pursuant to Article 1687 of the Civil Code, the period of this lease contract was monthly. Upon the expiration of every month, the lessor could increase the rents and demand that the lessee vacate the premises upon non-compliance with increased terms. In exercise of equity, however, the Court of Appeals granted petitioners an extension of one year from finality of the decision within which to vacate the premises.

Petitioners' motion for reconsideration was denied on March 11, 2003.[19] Hence, this petition.

The petition lacks merit.

Petitioners' case centers on the interpretation of the compromise agreement, which, they claim, continues to govern the juridical relation between the parties. Specifically, petitioners invoke the second clause of the compromise agreement, referring to the allowable increase in the rentals of respondents' premises. Petitioners contend that they have a continued right of occupancy, paying monthly rentals which may be increased only by 25% every four years. They argue that the increase demanded by respondent was in excess of the allowable amount, and, therefore, is invalid.

Petitioners' contention is bereft of merit.

The right of rescission is statutorily recognized in reciprocal obligations, such as contracts of lease. In addition to the general remedy of rescission granted under Article 1191 of the Civil Code,[20] there is an independent provision granting the remedy of rescission for breach of any of the lessor or lessee's statutory obligations. Under Article 1659 of the Civil Code, the aggrieved party may, at his option, ask for (1) the rescission of the contract; (2) rescission and indemnification for damages; or (3) only indemnification for damages, allowing the contract to remain in force.[21]

Payment of the rent is one of a lessee's statutory obligations,[22] and, upon non-payment by petitioners of the increased rental in September 1994, the lessor acquired the right to avail of any of the three remedies outlined above.

Ordinarily, an obligee's remedies upon breach of an obligation are judicial in nature. This is implicit in the third paragraph of Article 1191, and in Article 1659 of the Civil Code. Thus, the mere failure by the lessees to comply with the increased rental did not ipso jure produce the rescission of the contract of lease.

However, although the lessor did not resort to judicial action to specifically avail of any of the three remedies in Article 1659, this does not mean that the compromise agreement continues in force. In certain exceptional cases, the law recognizes the availability of extrajudicial remedies, which exist in addition to the judicial remedies given above. In the case of lease agreements, Article 1673 of the Civil Code provides:

Art. 1673. The lessor may judicially eject the lessee for any of the following causes:

- (1) When the period agreed upon, or that which is fixed for the duration of leases under articles 1682 and 1687, has expired;
- (2) Lack of payment of the price stipulated;
- (3) Violation of any of the conditions agreed upon in the contract;
- (4) When the lessee devotes the thing leased to any use or service not stipulated which causes the deterioration thereof; or if he does not observe the requirement in No. 2 of article 1657, as regards the use thereof.

The ejectment of tenants of agricultural lands is governed by special laws.

The above provision must be read in conjunction with Rule 70, Section 2 of the Rules of Court, which provides that a demand to pay or to comply with the conditions of the lease and to vacate the premises is a condition precedent for the institution of an ejectment suit against the lessee.

The import of these provisions is to grant the lessor the option of extrajudicially terminating the contract of lease by simply serving a written notice upon the lessee. This extrajudicial termination has the same effect as rescission. Indeed, as early as the 1929 case of *Vda. de Pamintuan v. Tiglao*,[23] we ruled in this wise:

Upon non-payment of rent by the lessee, the lessor may elect to treat the contract as rescinded and thereby determine the right of the lessee to continue in possession; and this right to recover possession may be enforced in an action of unlawful detainer. It is not necessary, in such situation, that an independent action for the rescission of the lease should first be instituted in the CFI [now RTC], for the purpose of putting an end to the right of the tenant to remain in possession under the lease.[24](Underscoring supplied)

More recently, in the 1998 case of *Dio v. Concepcion*,[25] we reiterated this ruling and explained that rescission of lease contracts under Article 1659 of the Civil Code is not one that requires an independent action, unlike resolution of reciprocal obligations under Article 1191 of said Code.[26]

When, in 1994, the petitioners refused to pay the rentals, and respondent initiated the earlier ejectment suits, the juridical bond between the parties was severed. The parties were no longer connected by the link of a lessor-lessee relation. The compromise agreement ceased to be the law between the parties and ceased to govern their legal relationship. No amount of subsequent payment by the lessees could automatically restore the parties to what they once were.

The lessor's acceptance of the increased rentals did not have the effect of reviving the earlier contract of lease. Upon the moment of acquiescence by respondents to the increased amount, an entirely new contract of lease was entered into, forging an entirely new juridical relation.

The new contract of lease did not have a fixed period. As such, Article 1687 of the Civil Code is applicable:

Art. 1687. If the period for the lease has not been fixed, it is understood to be from year to year, if the rent agreed upon is annual; from month to month, if it is monthly; from week to week, if the rent is weekly; and from day to day, if the rent is to be paid daily. However, even though a monthly rent is paid, and no period for the lease has been set, the courts may fix a longer term for the lease after the lessee has occupied the premises for over one year. If the rent is weekly, the courts may likewise determine a longer period after the lessee has been in possession for over six months. In case of daily rent, the courts may also fix a longer period after the lessee has stayed in the place for over one month.

Since the payment of the rentals was made on a monthly basis, respondent's contention, that the contract of lease was on a monthly term, is correct.

Hence, respondent was well within her rights to increase the rental of her properties each month as she desired, subject to existing laws. Petitioners were similarly within their rights to refuse to acquiesce. Upon this refusal, the contract of lease between the parties was once more terminated. Respondent thus has the right to demand that petitioners vacate her properties.

Petitioners seek to restore the compromise agreement, allegedly because this Court has already made a definitive pronouncement interpreting paragraph 2 thereof. Petitioners invoke a Resolution issued by this Court dated September 5, 2001, in G.R. No. 148262, entitled "Mutya B. Victorio v. Rodolfo Sy", which had a similar factual milieu as the instant case, involving the same lessor, the same commercial property, and a similarly worded compromise agreement.

A perusal of the aforecited Resolution, however, indicates that the same contains no definitive pronouncement as to the continued validity of the compromise agreement. Rather, we rejected the contention that the compromise agreement provided a fixed four-year term for the contract of lease, and said:

The contention has no merit. The compromise agreement in question primarily dealt with the amount and frequency of the increase of the rent of the leased premises and not with the duration of the lease itself. This is clear not only from the terms of the agreement but also from paragraph 4 which provides that "all other terms and conditions not inconsistent with this compromise agreement shall remain and continue to be in full force and effect." Needless to say, petitioner cannot be allowed to unilaterally change the lease contract between her and respondent based on her reading of a court ruling. Indeed, there is nothing in the decision of the Court of Appeals in CA G.R. SP No. 41560 to justify petitioner's contention. At any rate, CA G.R. SP No. 59482, by petitioner's own admission, is not yet final and executory as it is the subject of a motion for reconsideration.[27]

We correctly pointed out that the compromise agreement did not deal with the duration of the original lease contract; but we did not categorically state that the compromise agreement continues to be valid between the parties thereto.

The earlier contract of lease was terminated not because the term expired. As stated, the compromise agreement did not fix any specific period for the lease. Rather, the earlier contract of lease was terminated because respondent chose to exercise a right granted by law to an aggrieved lessor, which statutory right is deemed written into the contract of lease.

Moreover, it must be pointed out that the aforecited Resolution has absolutely no relevance to the parties herein. The parties to this case are bound by res judicata in the concept of “conclusiveness of judgment”, as found under paragraph (c) of Rule 39, Section 47[28] of the Rules of Court. Under the doctrine of conclusiveness of judgment, which is also known as “preclusion of issues” or “collateral estoppel,” issues actually and directly resolved in a former suit cannot again be raised in any future case between the same parties involving a different cause of action.[29]

The said concept is explained in this manner:

[A] fact or question which was in issue in a former suit and was there judicially passed upon and determined by a court of competent jurisdiction, is conclusively settled by the judgment therein as far as the parties to that action and persons in privity with them are concerned and cannot be again litigated in any future action between such parties or their privies, in the same court or any other court of concurrent jurisdiction on either the same or different cause of action, while the judgment remains unreversed by proper authority. It has been held that in order that a judgment in one action can be conclusive as to a particular matter in another action between the same parties or their privies, it is essential that the issue be identical. If a particular point or question is in issue in the second action, and the judgment will depend on the determination of that particular point or question, a former judgment between the same parties or their privies will be final and conclusive in the second if that same point or question was in issue and adjudicated in the first suit.[30] (Citations omitted, underscoring supplied.)

The Court of Appeals’ final and executory decisions ordering ejectment in the earlier cases, Civil Cases No. II-370 and II-371, were premised on the severance of the lessor-lessee relationship between the parties. This lessor-lessee relationship was based on the contract of lease embodied in the compromise agreement. The Court of Appeals could not have ordered the ejectment of the petitioners unless it conclusively passed on the issue of the continued effectivity of the compromise agreement, and made the determination that the compromise agreement no longer governed the parties’ relation. Thus, when the Court of Appeals ordered the ejectment of the petitioners, it did so on the basis of a finding that the earlier lessor-lessee relation, embodied in the compromise agreement, was terminated.

The particular point or question in this case is the determination of the continued validity of the compromise agreement, which issue has already been decisively settled. This finding has become conclusive on the parties.

Finally, although the Court of Appeals, in the exercise of equity jurisdiction,[31] granted petitioners an extension of one year to vacate the premises,[32] we do not consider that such an extension is necessary. The Court of Appeals’ decision which was unfavorable to petitioners was promulgated almost three years ago, on May 31, 2001. In the interim, petitioners have had ample time to seek other premises where they can operate their business establishments. A period of one month should suffice to wrap up their remaining business affairs.

WHEREFORE, in view of the foregoing, the instant petition for review is DENIED. The decision of the Court of Appeals dated May 31, 2001 in CA-G.R. SP No. 59482, is AFFIRMED with the MODIFICATION that petitioners are ordered to vacate the leased premises one month after the finality of this decision. Petitioner Leonardo Chua is also ORDERED to pay respondent the sum of P15,000.000 a month as reasonable compensation for the use of the premises from November 1, 1998 until he finally vacates the premises. Petitioners, Heirs of Yong Tian, are ORDERED to pay respondent the monthly sum of P15,000.00 per unit, or

P30,000.00 per month from November 1, 1998 until they finally vacate the premises.

Costs against petitioners.

SO ORDERED.

Panganiban, Carpio, and Azcuna, JJ., concur.

Davide, Jr., C.J., on official leave.

[1] Rollo, p. 13.

[2] Id., p. 40.

[3] Id., pp. 40-41.

[4] Id., p. 41.

[5] Id., p. 42.

[6] Id.

[7] Id.

[8] Id., p. 76.

[9] Id., pp. 74-76.

[10] Id., p. 76.

[11] Id., p. 77.

[12] Id., pp. 78-79.

[13] Id., p. 43.

[14] Id., p. 44.

[15] Id.

[16] Id., pp. 80-85.

[17] Id., pp. 86-89.

[18] Id., pp. 38-50.

[19] Id., p. 52.

[20] Said provision reads: "Article 1191. The power to rescind obligations is implied in reciprocal ones, in case one of the obligors should not comply with what is incumbent upon him.

The injured party may choose between the fulfillment and the rescission of the obligation, with the payment of damages in either case. He may also seek rescission, even after he has chosen fulfillment, if the latter should become impossible.

The court shall decree the rescission claimed, unless there be just cause authorizing the fixing of a period.

This is understood to be without prejudice to the rights of third persons who have acquired the thing, in

accordance with articles 1385 and 1388 and the Mortgage Law.”

[21] Civil Code, art. 1659, which reads: “If the lessor or the lessee should not comply with the obligations set forth in articles 1654 and 1657, the aggrieved party may ask for the rescission of the contract and indemnification for damages, or only the latter, allowing the contract to remain in force.”

[22] Civil Code, art. 1657, par. (1), which reads: “The lessee is obliged: (1) To pay the price of the lease according to the terms stipulated; x x x.”

[23] 53 Phil. 1 (1929).

[24] Vda. de Pamintuan v. Tiglao, 53 Phil. 1, 4 (1929).

[25] 357 Phil. 578 (1998).

[26] Dio v. Concepcion, 357 Phil. 578, 587 (1998).

[27] Rollo, p. 97.

[28] Rules of Court, Rule 39, sec. 47. “Effect of judgments or final orders. x x x; (c) In any other litigation between the parties or their successors in interest, that only is deemed to have been adjudged in a former judgment or final order which appears upon its face to have been so adjudged, or which was actually and necessarily included therein or necessary thereto.”

[29] Kilosbayan v. Morato, 316 Phil. 652, 692-693 (1995), citing Penalosa v. Tuason, 22 Phil. 303 (1912); and Heirs of Roxas v. Galido, 108 Phil. 582 (1960).

[30] Calalang v. Register of Deeds of Quezon City, G.R. No. 76265, 11 March 1994, 231 SCRA 88, 99.

[31] Rollo, p. 49.

[32] Id. p. 50.

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