

SAMUEL PARILLA, CHINITA PARILLA AND DEODATO PARILLA, PETITIONERS, VS. DR. PROSPERO PILAR, RESPONDENT.

G.R. NO. 167680. November 30, 2006

Ponente: CARPIO MORALES, J.

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CARPIO MORALES, J.:

Assailed via Petition for Review on Certiorari is the Court of Appeals Decision[1] of January 19, 2005 reversing that of the Regional Trial Court (RTC) of Vigan City, Branch 20[2] which affirmed the Decision[3] of February 3, 2003 of the Municipal Trial Court (MTC) of Bantay, Ilocos Sur.

Petitioner-spouses Samuel and Chinita Parilla and their co-petitioner-son Deodato Parilla, as dealers[4] of Pilipinas Shell Petroleum Corporation (Pilipinas Shell), have been in possession of a parcel of land (the property) located at the poblacion of Bantay, Ilocos Sur which was leased to it by respondent Dr. Prospero Pilar under a 10-year Lease Agreement[5] entered into in 1990.

When the lease contract between Pilipinas Shell and respondent expired in 2000, petitioners remained in possession of the property on which they built improvements consisting of a billiard hall and a restaurant, maintained a sari-sari store managed by Leonardo Dagdag, Josefina Dagdag and Edwin Pugal, and allowed Flor Pelayo, Freddie Bringas and Edwin Pugal to use a portion thereof as parking lot.[6]

Despite demands to vacate, petitioners[7] and the other occupants[8] remained in the property.

Hence, respondent who has been residing in the United States,[9] through his attorney-in-fact Marivic Paz Padre, filed on February 4, 2002 a complaint for ejectment before the Bantay MTC with prayer for the issuance of a writ of preliminary injunction with damages[10] against petitioners and the other occupants of the property.

After trial, the MTC, by Decision of February 3, 2003, ordered herein petitioners and their co-defendants and all persons claiming rights under them to vacate the property and to pay the plaintiff-herein respondent the amount of P50,000.00 as reasonable compensation for the use of the property and P10,000.00 as attorney's fees and to pay the cost of suit. And it ordered the plaintiff-herein respondent to reimburse defendants Samuel Parilla, Chinita Parilla and Deodato Parilla the amount of Two Million Pesos (P2,000,000.00) representing the value of the improvements introduced on the property.

Respondent appealed to the RTC of Vigan City that portion of the trial court's decision ordering him to reimburse petitioners the amount of Two Million Pesos. The RTC affirmed the MTC Decision, however.[11]

On respondent's petition for review, the Court of Appeals set aside the questioned order for respondent to reimburse petitioners Two Million Pesos.[12] In setting aside the questioned order, the appellate court, applying Article 546 of the New Civil Code which provides:

ART. 546. Necessary expenses shall be refunded to every possessor; but only the possessor in good faith may retain the thing until he has been reimbursed therefor.

Useful expenses shall be refunded only to the possessor in good faith with the same right of retention, the person who has defeated him in the possession having the option of refunding the amount of the expenses or of paying the increase in value which the thing may have acquired by reason thereof[,]

held that "[herein petitioners]" tolerated occupancy . . . could not be interpreted to mean . . . that they are builders or possessors in good faith"[13] and that for one to be a builder in good faith, it is assumed that he claims title to the property which is not the case of petitioners.

Hence, the present petition which faults the appellate court to have erred

I

. . . WHEN IT SET ASIDE THE DECISIONS OF THE TRIAL COURTS WHICH ORDERED THE RESPONDENT TO REIMBURSE PETITIONERS THE AMOUNT OF TWO MILLION (P2,000,000.00) PESOS FOR THE SUBSTANTIAL IMPROVEMENTS INTRODUCED BY THEM ON THE SUBJECT PREMISES.

II

. . . IN NOT HOLDING THAT PETITIONERS ARE BUILDERS IN GOOD FAITH OF THE SUBSTANTIAL IMPROVEMENTS THEY HAD INTRODUCED ON THE PREMISES, HENCE, THEY ARE ENTITLED TO REIMBURSEMENT OF SUCH IMPROVEMENTS.

III

. . . IN NOT HOLDING THAT THE BUILDING WHICH PETITIONERS ERECTED ON THE PREMISES WAS WORTH, AND THAT THE PETITIONERS ACTUALLY SPENT, THE AMOUNT OF TWO MILLION (P2,000,000.00) PESOS.

IV

. . . IN NOT HOLDING THAT PETITIONERS HAVE THE RIGHT OF RETENTION OF THE PREMISES UNTIL THEY ARE REIMBURSED OF THE SAID AMOUNT ADJUDGED IN THEIR FAVOR BY THE COURTS A QUO.[14]

Petitioners, proffering that neither respondent nor his agents or representatives performed any act to prevent them from introducing the improvements,[15] contend that the appellate court should have applied Article 453 of the New Civil Code which provides that "[i]f there was bad faith not only on the part of the person who built, planted or sowed on the land of another, but also on the part of the owner of such land, the rights of one and the other shall be the same as though both had acted in good faith."[16]

Petitioners thus conclude that being builders in good faith, until they are reimbursed of the Two Million Peso-value of the improvements they had introduced on the property, they have the right of retention or occupancy thereof pursuant to Article 448, in relation to Article 546, of the New Civil Code,[17] otherwise, respondent would be unjustly enriched at their expense.

The petition fails in light of the following discussions.

The evidence shows that in 1960, a lease contract over the property was forged between Shell Company of the Philippines Limited and respondent's predecessors-in-interest. In 1990, the lease contract was renewed by Pilipinas Shell and respondent.

Petitioners, being dealers of Pilipinas Shell's petroleum products, were allowed to occupy the property. Petitioners are thus considered agents[18] of Pilipinas Shell. The factual milieu of the instant case calls then for the

application of the provisions on lease under the New Civil Code.

The right of the lessor upon the termination of a lease contract with respect to useful improvements introduced on the leased property by a lessee is covered by Article 1678 which reads:

Art. 1678. If the lessee makes, in good faith, useful improvements which are suitable to the use for which the lease is intended, without altering the form or substance of the property leased, the lessor upon the termination of the lease shall pay the lessee one-half of the value of the improvements at that time. Should the lessor refuse to reimburse said amount, the lessee may remove the improvements, even though the principal thing may suffer damage thereby. He shall not, however, cause any more impairment upon the property leased than is necessary.

x x x (Emphasis supplied)

The foregoing provision is a modification of the old Code under which the lessee had no right at all to be reimbursed for the improvements introduced on the leased property, he being entitled merely to the rights of a usufructuary – right of removal and set-off, but not of reimbursement.[19]

The modification introduced in the above-quoted paragraph of Article 1678 on partial reimbursement was intended to prevent unjust enrichment of the lessor which now has to pay one-half of the value of the improvements at the time the lease terminates because the lessee has already enjoyed the same, whereas the lessor could enjoy them indefinitely thereafter.[20]

As the law on lease under the New Civil Code has specific rules concerning useful improvements introduced by a lessee on the property leased, it is erroneous on the part of petitioners to urge this Court to apply Article 448, in relation to Article 546, regarding their claim for reimbursement and to invoke the right of retention before reimbursement is made. Article 448 and Article 546 read:

ART. 448. The owner of the land on which anything has been built, sown or planted in good faith, shall have the right to appropriate as his own the works, sowing or planting, after payment of the indemnity provided for in articles 546 and 548, or to oblige the one who built or planted to pay the price of the land, and the one who sowed, the proper rent. However, the builder or planter cannot be obliged to buy the land if its value is considerably more than that of the building or trees. In such case, he shall pay reasonable rent, if the owner of the land does not choose to appropriate the building or trees after proper indemnity. The parties shall agree upon the terms of the lease and in case of disagreement, the court shall fix the terms thereof.

ART. 546. Necessary expenses shall be refunded to every possessor; but only the possessor in good faith may retain the thing until he has been reimbursed therefor.

Useful expenses shall be refunded only to the possessor in good faith with the same right of retention, the person who has defeated him in the possession having the option of refunding the amount of the expenses or of paying the increase in value which the thing may have acquired by reason thereof.

Jurisprudence is replete with cases[21] which categorically declare that Article 448 covers only cases in which the builders, sowers or planters believe themselves to be owners of the land or, at least, have a claim of title thereto, but not when the interest is merely that of a holder, such as a mere tenant, agent or usufructuary. A tenant cannot be said to be a builder in good faith as he has no pretension to be owner.[22]

In a plethora of cases,[23] this Court has held that Articles 448 of the Civil Code, in relation to Article 546 of the same Code, which allows full reimbursement of useful improvements and retention of the premises until reimbursement is made, applies only to a possessor in good faith, i.e., one who builds on land with the belief that he is the owner thereof. It does not apply where one's only interest is that of a lessee under a rental contract; otherwise, it would always be in the power of the tenant to "improve" his landlord out of his property.

[24] (Underscoring supplied)

Sia v. Court of Appeals,[25] which cites Cabangis v. Court of Appeals,[26] exhaustively explains the applicability of Article 1678 on disputes relating to useful improvements introduced by a lessee on leased premises, viz:

x x x x

Second. Petitioner stubbornly insists that he may not be ejected from private respondent's land because he has the right, under Articles 448 and 546 of the New Civil Code, to retain possession of the leased premises until he is paid the full fair market value of the building constructed thereon by his parents. Petitioner is wrong, of course. The Regional Trial Court and the Court of Appeals correctly held that it is Article 1678 of the New Civil Code that governs petitioner's right vis-a-vis the improvements built by his parents on private respondent's land.

In the 1991 case of Cabangis v. Court of Appeals where the subject of the lease contract was also a parcel of land and the lessee's father constructed a family residential house thereon, and the lessee subsequently demanded indemnity for the improvements built on the lessor's land based on Articles 448 and 546 of the New Civil Code, we pointed out that reliance on said legal provisions was misplaced.

"The reliance by the respondent Court of Appeals on Articles 448 and 546 of the Civil Code of the Philippines is misplaced. These provisions have no application to a contract of lease which is the subject matter of this controversy. Instead, Article 1678 of the Civil Code applies. . . .

x x x x

On the other hand, Article 448 governs the right of accession while Article 546 pertains to effects of possession. The very language of these two provisions clearly manifest their inapplicability to lease contracts. . . .

x x x x

Thus, the improvements that the private respondent's father had introduced in the leased premises were done at his own risk as lessee. The right to indemnity equivalent to one-half of the value of the said improvements — the house, the filling materials, and the hollow block fence or wall — is governed, as earlier adverted to, by the provisions of Art. 1678, first paragraph of the Civil Code above quoted. But this right to indemnity exists only if the lessor opts to appropriate the improvements (Albuero v. Villanueva, supra, note 10 at 279-280; Valencia v. Ayala de Roxas, supra, note 10 at 46). The refusal of the lessor to pay the lessee one-half of the value of the useful improvements gives rise to the right of removal. On this score, the commentary of Justice Paras is enlightening.

'Note that under the 1st paragraph of Art. 1678, the law on the right of REMOVAL says that 'should the lessor refuse to reimburse said amount, the lessee may remove the improvements, even though the principal thing may suffer thereby.' While the phrase 'even though' implies that Art. 1678 always applies regardless of whether or not the improvements can be removed without injury to the leased premises, it is believed that application of the Article cannot always be done. The rule is evidently intended for cases where a true accession takes place as when part of the land leased is, say, converted into a fishpond; and certainly not where as easily removable thing (such as a wooden fence) has been introduced. There is no doubt that in a case involving such a detachable fence, the lessee can take the same away with him when the lease expires (5 E. Paras, Civil Code of the Philippines Annotated 345 [11th ed., 1986]).'

x x x x

Clearly, it is Article 1678 of the New Civil Code which applies to the present case.

Petitioners' claim for reimbursement of the alleged entire value of the improvements does not thus lie under

Article 1678. Not even for one-half of such alleged value, there being no substantial evidence, e.g., receipts or other documentary evidence detailing costs of construction. Besides, by petitioners' admission, of the structures they originally built — the billiard hall, restaurant, sari-sari store and a parking lot, only the "bodega-like" sari-sari store and the parking lot now exist.[27]

At all events, under Article 1678, it is the lessor who is given the option, upon termination of the lease contract, either to appropriate the useful improvements by paying one-half of their value at that time, or to allow the lessee to remove the improvements. This option solely belongs to the lessor as the law is explicit that "[s]hould the lessor refuse to reimburse said amount, the lessee may remove the improvements, even though the principal thing may suffer damage thereby." It appears that the lessor has opted not to reimburse.

WHEREFORE, the petition is DENIED. The Court of Appeals Decision of January 19, 2005 is AFFIRMED in light of the foregoing discussions.

Costs against petitioners.

SO ORDERED.

Quisumbing, (Chairperson), Carpio, and Velasco, Jr., JJ., concur.
Tinga, J., in the result.

[1] Rollo, pp. 44-50. Penned by Associate Justice Conrado Vasquez, Jr. and concurred in by Associate Justices Josefina Guevara-Salonga and Fernanda Lampas Peralta.

[2] Id. at 79-83. Penned by Judge Alipio Flores and dated November 13, 2003.

[3] Id. at 73-78. Penned by Judge Francisco Ante, Jr.

[4] Id. at 13.

[5] 1 Records, pp. 162-168.

[6] Rollo, pp. 74-75.

[7] 1 Records, p. 13

[8] Id. at 14-17.

[9] Rollo, p. 53.

[10] Records, pp. 1-7.

[11] Rollo, pp. 79-83.

[12] Id. at 49-50

[13] Id. at 49.

[14] Id. at 17-18.

[15] Id. at 22.

[16] Id. at 22-23.

[17] Id. at 37.

[18] Article 1868 and 1869 of the New Civil Code provide:

ART. 1868. By the contract of agency a person binds himself to render some service or to do something in representation or on behalf of another, with the consent or authority of the latter.

ART. 1869. Agency may be express, or implied from the acts of the principal, from his silence or lack of action or his failure to repudiate the agency, knowing that another person is acting on his behalf without authority.

[19] V. PARAS, CIVIL CODE OF THE PHILIPPINES, 14[th] ed., 2000, p. 402.

[20] REPORT OF THE CODE COMMISSION, pp. 144-145.

[21] Macasaet v. Macasaet, G.R. Nos. 154391-92, September 30, 2004, 439 SCRA 625, 643-644; Lopez v. Sarabia, G.R. No. 140357, September 24, 2004, 439 SCRA 35, 50; Chua v. Court of Appeals, 361 Phil. 308, 318 (1999); Heirs of the Late Jaime Binuya v. Court of Appeals, G.R. No. 100493, July 23, 1992, 211 SCRA 761, 766-767; Cabangis v. Court of Appeals, G.R. No. 83722, Aug. 9, 1991, 200 SCRA 414 (1991); Gabrito v. Court of Appeals, No. L-77976, November 24, 1988, 167 SCRA 771, 778-779; Balucanag v. Francisco, No. L-33422, May 30, 1983, 122 SCRA 498, 502; Racaza v. Susana Realty, Inc, No. L-20330, December 22, 1966, 18 SCRA 1172, 1177-1178; Quemuel v. Olaes, No. L-11084, April 29, 1961, 1 SCRA 1159, 1164.

[22] Quemuel v. Olaes, supra.

[23] Citing Alburo v. Villanueva, 7 Phil. 277, 280 (1907) (referring to the provisions of the Old Civil Code); Racaza v. Suzana Realty, Inc., supra at 1177-1178; Balucanag v. Francisco, supra; Gabrito v. Court of Appeals, supra; Cabangis v. Court of Appeals, supra at 419-421; Heirs of the late Jaime Binuya v. Court of Appeals, supra.

[24] Geminiano v. Court of Appeals, G.R. No. 120303, July 24, 1996, 259 SCRA 344, 351.

[25] G.R. No. 108222, May 5, 1997, 272 SCRA 141, 156-158.

[26] Supra.

[27] Rollo, p. 22.

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