

IGNACIO V. SORIANO, PETITIONER, VS. HONORABLE COURT OF APPEALS AND GELANO SANCHEZ, RESPONDENTS.*G.R. No. 78975. September 07, 1989*

Ponente: GANCAYCO, J.

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Is the vendee bound by the existing lease agreement of a lot entered into by the vendor in favor of another person prior to the sale? This is the principal issue which the Court is called upon to decide in this petition for review on certiorari of the decision[1] and the resolution[2] of the Court of Appeals dated October 22, 1986 and June 4, 1987, respectively, in CA-G.R. CV No. 64799.

The parcel of land in question with an area of 870 square meters (sq.m.) is located in Daet, Camarines Norte, which originally belonged to Lucio Pabico, Sr. Upon his death, his heirs, namely his widow, Filomena Pabico and her children, entered into an extra-judicial partition of his estate. Among the properties adjudicated to Filomena was the aforementioned lot. On February 15, 1961, Filomena and her children entered into a contract of lease over the aforesaid lot with Gelano Sanchez, also a respondent herein, for a period of thirty (30) years at a monthly rental of THREE PESOS (P3.00). Said lease was duly registered with the Registry of Deeds in Camarines Norte. On the same date, they sold their house erected on the said lot to Sanchez. On June 16, 1962, Filomena sold part of the aforesaid lot with an area of 420 sq.m. to her son Emiliano.

On January 22, 1966, that is, five (5) years after the execution of the lease contract, Sanchez sold the house he bought from the Pabicos to Ignacio Soriano, petitioner herein, for the sum of Five Thousand Pesos (P5,000.00) with right to repurchase, but this was not effected. After over a year, or on February 23, 1967, Filomena and Emiliano sold their respective portions of the property to the petitioner with a warranty that the land is free from all liens and encumbrances. Subsequently, on November 1, 1967, petitioner leased the lot in question to Filoil together with his lot covered by OCT No. T-3374 with an area of 418 sq.m. for a period of twenty years (20) at a monthly rental of Five HUNDRED PESOS (P500.00).

On June 9, 1969, two (2) years after the lease entered into by the petitioner with Filoil, Sanchez filed a complaint for damages against Filomena and Emiliano Pabico, Ignacio Soriano and Filoil, before the then Court of First Instance (CFI) of Daet, Camarines Norte, praying that the lease entered into between him and the Pabicos be declared existing and in full force and that all payments made by Filoil to the petitioner be delivered to him instead.

After hearing and submission of the memorandum, judgment was rendered on July 19, 1973 in favor of Sanchez.[3]

On September 10, 1973, defendants filed a motion for the reopening of the case and for new trial on the grounds of fraud, accident, mistake or excusable negligence which allegedly led to their failure to adduce complete evidence. Defendants questioned further the award of damages on the ground that the same is excessive.

On October 3, 1973, the trial court granted the reopening of the case wherein the movants manifested that the contract was vitiated on the ground that Filomena was already nearing 90 years old at the time of the execution of the contract and that she was no longer in possession of her faculties.[4]

On October 29, 1973, the trial court rendered judgment requiring the defendants below to pay Sanchez jointly and severally the sum of P79,119.00 with legal interest until the same is fully paid.[5]

Petitioner appealed the decision to the Court of Appeals. In the decision dated October 22, 1986, the appellate court affirmed the judgment with the modification making Emiliano Pabico jointly and severally liable.[6] The appellate court likewise denied petitioner's motion for reconsideration.

Hence, the present petition.

Petitioner posits the view that the contract of lease in favor of Sanchez was already terminated when the latter sold to him the house existing on the lot and imposed no condition regarding the right of the petitioner to sub-lease the premises nor require petitioner to pay rentals for the use of the portion of the lot occupied by the house.[7] Petitioner added that if Sanchez was actually interested in his registered leasehold right, then he should have taken material possession thereof by filing a suit when the gasoline station was being built thereon.[8] Petitioner further argues that the consolidation of ownership of the land and the house in his name rightfully terminated the leasehold right of Sanchez over the lot as its retention would be incompatible with the idea of consolidation.[9] Finally, he contends that Sanchez would be unjustly enriching himself in this instance.

We do not agree.

Once a lease is recorded as in this case, it becomes binding on third persons.[10] It is a real right, an act of strict ownership and not merely an act of administration. From the time of the execution of the lease contract, its efficacy continues until it is terminated on the grounds provided for by law.

In the case before Us, the lease was not only duly registered but as borne by the record the petitioner had actual knowledge of the fact that prior to the sale of the land in his favor by the Pabicos, the land had been leased to Sanchez. Petitioner admitted he had personal knowledge of the said subsisting lease as early as January 22, 1966, more than a year before he acquired said lot on February 23, 1967.[11] The rule is that when a third person already knows of the existence and duration of the lease, he is bound by such lease even if it has not been recorded. The reason is that actual knowledge is for this purpose equivalent to registration.[12]

The Court had the occasion to rule squarely on the same issue in *Gustilo vs. Maravilla*,[13] where We held that when a purchaser of the land at the time of the purchase has actual knowledge of the fact that the land has been leased to a third person and is informed of the terms of such lease, he is bound to respect said lease although it is not entered upon the certificate of title.

Moreover, where there exists a valid lease, as in this case, the same may only be terminated when the period of the lease expired or where there was a violation of contractual conditions or for non-payment of rentals.[14]

Petitioner alleges that Sanchez continued paying rent for a period of seven (7) years only. Be that as it may, it should be noted that mere failure to pay rent does not ipso facto make the lessee's possession of the premises unlawful. It is necessary that there be non-payment after the demand for payment of the rent was made. It appears that Sanchez kept paying or offering to pay the rent due on the leased premises to one Ester Pabico who was allegedly authorized by her mother Filomena to receive the same.[15] Obviously, at the time that the leased premises had been sold to the petitioner and when he rented out the same to Filoil, there existed a valid contract of lease in favor of Sanchez which was thereby violated by the petitioner.

Petitioner insists, however, that the prior and subsequent acts of Sanchez were indicative of his will to terminate the contract of lease.

We disagree. As borne by the records, the lease contract was executed separately from the contract of sale of the house in favor of Sanchez. The continuance of the contract of lease does not appear to be dependent upon his ownership of the house existing thereon. Hence, the fact that Sanchez later on sold the house to the petitioner is immaterial. As asserted by Sanchez, he planned to put up a warehousing business for copra and palay, and a ricemill, hence a long term lease was necessary.[16] Said testimony remained uncontroverted.

On the other hand, the fact that it took Sanchez a period of over a year before he sued for possession or a declaration of the existence of the lease contract would not in any manner militate against his right over the leased premises. The records reveal that upon knowing that the petitioner executed a lease in favor of Filoil, Sanchez instituted an ejectment suit against Filoil.[17] However, the case was dismissed in a decision dated December 10, 1971 on the ground that there was no illegal possession.[18] Thus, Sanchez filed a suit for damages which is now the subject of the present petition.

Finally, We see no cogent basis for the application of the doctrine of unjust enrichment. It is commonly accepted that this doctrine simply means that, "a person shall not be allowed to profit or enrich himself inequitably at another's expense." [19] The aforesaid elements are absent in the case before Us. The fact that for a modest outlay of One Thousand Eighty Pesos (P1,080.00), the total rentals for 30 years, the trial court awarded Sanchez Seventy Nine Thousand Nine Hundred Twenty Pesos (P79,920.00), less Eight Hundred One Pesos (P801.00) corresponding to the unpaid rents, does not make the situation one of unjust enrichment. As discussed earlier, there exists a valid contract of lease in favor of Sanchez and the petitioner is bound by the same. This being so, it is but fair that the fruits resulting from the use of the said lot be awarded to Sanchez.

Petitioner insists, however, that the award of damages is excessive. The award made by the lower court actually corresponds to the rental due the land on the basis of the lease entered by the petitioner in favor of Filoil. The lower court, in awarding P79,920.00, took into account that the P500.00 a month paid by Filoil to herein petitioner as rentals include the lease for the use of petitioner's lot covered by OCT No. T-33711, with an area of 418.33 sq. meters which is almost 1/3 of the total area leased. The lower court correctly concluded thus that 1/3 of the P500.00 belongs to the petitioner while the remaining 2/3 belongs to Sanchez. Thus, the award of damages to the rental for 20 years in the amount of P79,920.00 minus unpaid rentals of P801.00 is correct.

WHEREFORE, the petition is DISMISSED for lack of merit. No costs.

This decision is immediately executory.

SO ORDERED.

Narvasa, (Chairman), Cruz, Griño-Aquino, and Medialdea, JJ., concur.

[1] Penned by Justice Jorge R. Coquia and concurred in by Justices Bienvenido C. Ejercito and Antonio M. Martinez.

[2] Penned by Justice Oscar N. Herrera and concurred in by Justices Leonor Ines Luciano and Justo P. Torres.

[3] Page 35, Record on Appeal.

[4] Page 120, Record on Appeal.

[5] Pages 128-143, Record on Appeal.

- [6] Pages 17-24, Rollo.
- [7] Page 7, Rollo.
- [8] Page 10, Rollo.
- [9] Page 11, Rollo.
- [10] Article 1648, Civil Code of the Philippines.
- [11] T.S.N., October 25, 1972, pages 6-7, and January 24, 1973, page 9.
- [12] Quimson vs. Suarez, 45 Phil. 901 (1924).
- [13] 48 Phil. 442 (1925).
- [14] Article 1673, Civil Code of the Philippines.
- [15] Page 20, Rollo.
- [16] T.S.N., March 5, 1974, page 3.
- [17] Civil Case No. 790, Municipal Court of Daet, Camarines Norte.
- [18] Page 84, Record on Appeal.
- [19] 43 Words & Phrases Perm. 272, citing American University vs. Forbes, 182 A. 258, 262, 88 N.H. 17.

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