

**SPOUSES RAMON AND REBECCA NIEVES, PETITIONERS, VS.
HONORABLE COURT OF APPEALS, HON. TOMAS V. TADEO AND LEO
YADAO, RESPONDENTS.**

G.R. No. 85184. June 03, 1991

Ponente: MEDIALDEA, J.

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MEDIALDEA, J.:

This petition seeks the reversal of the decision of the Court of Appeals in C.A.-G.R. No. 10809 entitled "Spouses Ramon and Rebecca Nieves versus Hon. Tomas V. Tadeo, Jr., as Presiding Judge, Regional Trial Court, Branch 105, Quezon City and Leo Yadao," which affirmed the decision of the Regional Trial Court ordering the eviction of petitioners from the premises subject of the controversy.

The facts are as follows:

Spouses Ramon and Rebecca Nieves were lessees of an apartment building owned by Leo Yadao located at No. 3-A, 18th Avenue, Murphy, Cubao, Quezon City. The letter-contract dated April 10, 1980 evidencing the lease agreement for a period of four (4) years, to end on June 1, 1984, was presented as Annex "A" to complaint. The monthly rental was P363.00 with a ten percent (10%) yearly increase. (p. 21, Rollo).

The lessor-lessee relationship between the parties continued despite the lapse of the written contract.

On June 15, 1985, Yadao wrote the Nieves spouses stating that the rental for the period from July 1, 1985 to December 31, 1985 would be P642.00. The latter did not object.

After the lapse of one month or on July 15, 1985, Yadao again wrote the Nieves spouses informing them that effective August 1, 1985, the monthly rental would be increased to P1,300.00. The Nieves spouses refused to agree to the increase. Their payment of P641.82 for the month of August, 1985 was refused by Yadao.

On August 6, 1985, Yadao demanded from the Nieves spouses the payment of P1,300.00 monthly rental or should they not agree to the increase, that they vacate the premises. The spouses refused to pay the increased rent and to vacate the leased premises.

The matter was brought to the Katarungang Pambarangay but no settlement was reached by the parties. Hence, on September 9, 1985, Yadao brought an action for ejectment before the Metropolitan Trial Court of Quezon City. The case was docketed as Civil Case No. 37-48454 (p. 3, Rollo).

The Nieves spouses for their part, filed a petition for consignment and annulment of document with the Regional Trial Court of Quezon City, docketed as Civil Case No. 46303 [46304] (p. 3, Rollo).

After trial, a decision (pp. 13-16, Rollo) in Civil Case No. 37-48454 dated April 30, 1986 was rendered dismissing Yadao's complaint for ejectment on two grounds, to wit: 1) failure of Yadao to comply with the three (3) month advance notice to evict as required by B.P. 877 (Rent Control Law); and 2) the lease contract between the parties was renewed in the letter (Annex "2" of the Answer) of Yadao and he is estopped from unilaterally

amending or revoking said contract. He appealed to the Regional Trial Court of Quezon City.

Meanwhile, on November 24, 1986, the parties in Civil Case No. 46303 for consignation and annulment, entered into an agreement setting the monthly rental to P641.82 for the period from August 1985 to November 1986. This settlement was confirmed by the court (p. 18, Rollo).

In the ejectment case, the decision of the Municipal Trial Court was reversed by the Regional Trial Court in a decision dated November 25, 1986 (pp. 21-24, Rollo), concluding that: 1) upon the termination of the four year written contract of lease, the lease was on a month to month basis; and 2) the rule requiring three (3) month prior notice to evict does not apply because the lease is not covered by B.P. 877. The dispositive portion of the decision reads:

"WHEREFORE, premises considered, the decision appealed from is hereby REVERSED; and a new one is hereby rendered:

"a) ordering the defendants and all persons claiming rights under them to vacate the premises in question and surrender possession thereof to plaintiff; and,

"b) ordering defendants to pay unto plaintiff rental computed at P1,300.00 monthly from August 1, 1985 up to the time defendants vacate the premises.

"NO COST." (p. 24, Rollo)

The Nieves spouses filed a petition for review of the Regional Trial Court decision with the Court of Appeals. On June 15, 1988, the Court of Appeals dismissed the petition and affirmed the decision of the Regional Trial Court (pp. 25-33, Rollo). The Court of Appeals agreed with the Regional Trial Court that:

"There seems to be no question that the month-to-month lease agreement between the parties in the case had been duly terminated by the private respondent's letter of August 6, 1985 which demanded that the petitioners pay a monthly rental of P1,300.00 or to vacate the premises should they not agree to the rental demanded. Since the petitioners did not agree to the rental asked for by the private respondent, their monthly lease agreement is terminated. This is sanctioned by Articles 1673 and 1687 of the Civil Code of the Philippines.

"As to the question of whether or not the area is within a zone specified as an urban land reform area, the petitioners has failed to show that the respondent Judge committed error in finding that the leased premises is not in "one of the 244 sites in Metro Manila as areas for priority development and urban land reform zone as specified in Proclamation No. 1967 dated May 14, 1980." (pp. 30-31, Rollo)

The spouses moved for the reconsideration of the decision, alleging for the first time the existence of a compromise agreement by the parties in the consignation case. On September 7, 1988, the motion for reconsideration was dismissed (pp. 34-35, Rollo).

In this petition, the Nieves spouses raise the following assignment of errors:

I. THE HONORABLE COURT OF APPEALS ERRED IN FAILING TO APPRECIATE THE LEGAL NOVIATION EFFECTED BY THE COMPROMISE AGREEMENT DATED NOVEMBER 24, 1986 FIXING THE MONTHLY RENTAL DUE ON THE DECISION OF THE RESPONDENT COURT.

II. THE HONORABLE COURT OF APPEALS ERRED IN FAILING TO CONSIDER OR TAKE JUDICIAL NOTICE OF THE FACT THAT SUBJECT APARTMENT IS WITHIN AN AREA FOR PRIORITY DEVELOPMENT (APD) ZONE AND THEREFORE PETITIONERS BY FORCE OF PD 1517 AND PRESIDENTIAL PROCLAMATION 1967 ARE BENEFICIARIES OF "NO EVICTION RULE" UNDER THE SAME.

III. THE HONORABLE COURT OF APPEALS ERRED IN FAILING TO REVERSE THE DECISION OF RESPONDENT COURT IN FAVOR OF PETITIONERS.

In their first assignment of error, there is no merit in the contention of petitioners that the compromise agreement entered into by the parties on November 24, 1986 effected a novation in the lease contract and had the effect of *res judicata* in the ejectment case.

First, the said agreement, although captioned "Compromise Agreement" was not a compromise in contemplation of our existing civil laws. The compromise agreement entered into by the respective counsel of the parties in the case for consignment and annulment of document is hereunder quoted:

"COMPROMISE AGREEMENT"

"COME NOW counsel of both parties in the above entitled case manifesting their agreement as to the amount of rental in arrear for the period FROM August, 1985 up to November 1986 inclusive.

"Both counsel are in agreement in the amount of P10,269.12 as the rental in arrear for the above PERIOD.

"x x x." (p.17, Rollo).

A compromise is a contract whereby the parties, by making reciprocal concessions, avoid a litigation or put an end to one already commenced (Art. 2028, New Civil Code of the Philippines). A compromise has upon the parties the effect and authority of *res judicata* (Art. 2037, *supra*), with respect to matters definitely stated therein, or which by implication from its terms should be deemed to have been included therein (Art. 2016, *supra*).

In the instant case, the parties did not agree to put an end to the ejectment case as part of the concession in their compromise agreement. Neither party filed a motion to dismiss the appeal in the ejectment case in view of the "compromise agreement" in the consignation case. In fact, the respondent Court of Appeals had correctly refused to consider the matter of the "compromise agreement" since the petitioners brought this to its attention only in the motion for reconsideration of its decision.

Second, there was no more contract of lease to be novated. Contracts are created by the meeting of the minds of the parties. When, from the facts of the case, the lessor had clearly shown his disagreement to enter into a contract of lease with another unless the lessee will pay him the increased rent, no contract of lease is created, there was no more lessor-lessee relationship between petitioners and private respondent. Private respondent had from then a cause of action against the petitioners. Thus, in *Ching Pue v. Gonzales*, G.R. Nos. L-2554-2564, July 21, 1950, 87 Phil. 81, We ruled:

"Another question to be considered is the relation between the petitioners and respondent. As already stated, the former claim that they are debtors of Gonzales and as such they made tender of payments of the rentals, and when tender was refused, they made the deposits in court. Up to February, 1947, when the landlord (Gonzales) notified his tenants to either pay the increased rents or vacate the premises, the petitioners as regards the old rentals due might be regarded as debtors of their landlord; but after that time when they refused to pay the increased rents, as a result of which the landlord decided to terminate the leases which according to him, he had right to do because the leases were from month to month, such relation of debtor and creditor ceased. x x x."

The "compromise agreement" is not a new lease contract voluntarily entered into by the parties because the intention of the private respondent to the contrary is clear. No contract of lease was created by the "compromise agreement". Only a reasonable payment in arrears for actual use of the premises was provided therein and the months following the execution of the agreement were not covered.

Since We have ruled above that the "Compromise Agreement" entered into by the parties was not a compromise agreement in contemplation of law, the same cannot operate as *res judicata* in the ejectment case. Besides, one of the requisites for *res judicata* to apply is not present. There is no identity of causes of action in the two cases. In determining the question of the identity of causes of action, the following test is as a rule sufficient: "Would the same evidence support and establish both the present and the former cause of action?" (*Penalosa v. Tuason*, 22 Phil. 303). In an action for unlawful detainer, evidence is presented to prove that the occupation is legal. In an action for consignation a different set of evidence is presented to prove that, there being a creditor-debtor relationship, the creditor refuses, without just cause, to receive payment by the debtor.

In the case at bar, there exists a sufficient ground on the part of the private respondent to eject the petitioners from the premises and that is, the latter's refusal to pay the increased rate.

"The rule is settled that the owner of the land leased has the right not only to terminate the lease at the expiration of the term, but also to demand a new rate of rent. The tenant or lessee has the option either to accept the new rent or vacate the premises. (*Iturralde v. Alfonso*, 7 Phil. 576; *Iturralde v. Evangelista*, 7 Phil. 588; *Iturralde v. Magcauas*, 9 Phil. 599; *Cortez v. Ramos*, 46 Phil. 189). As plaintiffs, after the termination of this lease, refused either to pay the new rent or to vacate the lot after the termination of their lease, they have evidently become deforciants, and can be ousted judicially without the need of demand [*Bulahan, et al. v. Tuason, et al.*, 109 Phil. 251, citing *Co Tiamco v. Diaz*, 75 Phil. 672, Article 1669, New Civil Code; reiterated in *Gindoy v. CA*, 97 SCRA 453 cited in *Lesaca v. Cuevas*, L-48419, October 27, 1983)."

Only where the rental demanded is clearly exorbitant or unreasonable would the courts intervene as a matter of fairness and equity. The burden of proof to show that the rental demanded is exorbitant and unreasonable rested upon the lessee, and since the lessee presented no evidence in substantiation of his claim other than the original cost to the lessor of the property, he has manifestly failed to discharge its burden (*Vda. de Roxas v. Court of Appeals*, 63 SCRA 302). The trial court justified the increase in rental demanded by private respondent by the fact that the apartment is located near the commercial area in Cubao and the two military camps, Aguinaldo and Crame.

Presidential Decree No. 1642 dated September 21, 1979, froze the rates of rentals of residential and commercial buildings, apartment houses and dwelling units within Metropolitan Manila above three hundred (P300.00) pesos as the monthly rental then prevailing. No law was subsequently passed expressly repealing P.D. 1642. Considering however, that in *Batas Pambansa Bilang 877*, passed on June 12, 1985, the maximum rent regulated by the rent control law was already P480.00, higher than the minimum monthly rental covered by P.D. 1642, and which has, as of January 1, 1992 been upped to P1,891.92 (R.A. 6828), P.D. 1642 is deemed repealed and is no longer good law.

It is settled that the rent control law does not apply to this case because the prevailing rental agreeable to the parties at the time of the effectivity of BP 877 was already P584.61 (p. 21, Rollo), while BP 877 which became effective on June 12, 1985, only covered rentals not exceeding P480.00.

The respondent appellate court, however, erred in ruling that the premises in question are not within the area for Priority Development Zone decreed under Presidential Proclamation 1967 pursuant to Section 4 of P.D. 1517 (Urban Land Reform Act). The apartment and the lot fall within an urban land reform zone as provided in No. 49, Quezon City, Presidential Proclamation 1967.

The fact that the apartment in question lies within an area declared as an urban land reform zone however, does not help petitioners' cause. Beneficiaries of the Urban Land Reform Law (Presidential Decree 1517) should refer to tenants or families qualified to avail of its benefits and not the properties covered by it (*Vergara v. IAC*, G.R. No. 74998, May 7, 1990, emphasis supplied).

The "no eviction" rule invoked by petitioners as embodied under Section 6 of PD 1517 provides:

SECTION 6. Land Tenancy in Urban Land Reform Areas. Within the Urban Zones legitimate tenants who have resided on the land for ten years or more who have built their homes on the land and residents who have legally occupied the lands by contract, continuously for the last ten years shall not be dispossessed of the land and shall be allowed the right of first refusal to purchase the same within a reasonable time and at reasonable prices, under terms and conditions to be determined by the Urban Zone Expropriation and Land Management Committee created by Section 8 of this Decree.

The rule applies only to land tenants who have resided for ten years or more on the land declared as within the Urban Land Reform Zone and who have built their homes on the land. It does not apply to apartment dwellers.

ACCORDINGLY, the petition is DENIED. The questioned decision of the Court of Appeals is AFFIRMED with the modification that the monthly rentals of P1,300.00 be paid not from August 1, 1986 but from December 1, 1987.

SO ORDERED.

Narvasa, (Chairman), Cruz, and Gancayco, JJ., concur.

Grino-Aquino, J., on leave.

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