

THIRD DIVISION

[G.R. No. 178317, September 23, 2015]

**SPOUSES RICARDO AND ELENA C. GOLEZ, PETITIONERS, VS.
MELITON NEMEÑO,^[1] RESPONDENT.**

D E C I S I O N

VILLARAMA, JR., J.:

This is a petition for review on certiorari under Rule 45 of the 1997 Rules of Civil Procedure, as amended, assailing the January 20, 2006 Decision^[2] and April 18, 2007 Resolution^[3] of the Court of Appeals (CA) in CA-G.R. CV No. 60638. The appellate court affirmed with modification the March 16, 1998 Decision^[4] of the Regional Trial Court (RTC) of Molave, Zamboanga del Sur, Branch 23, ordering petitioners Spouses Ricardo and Elena C. Golez to pay respondent Meliton Nemeño the contract amount in their lease agreement of P143,823.00 with 12% interest per annum plus damages.

The antecedents of the case follow:

Respondent is the registered owner of a commercial lot located in Molave, Zamboanga del Sur known as Lot No. 7728 and covered by Original Certificate of Title No. 0-2,233^[5] of the Registry of Deeds of Zamboanga del Sur.

On May 31, 1989, respondent entered into a Lease Contract^[6] over a portion of Lot No. 7728 with petitioners as "lessees." The pertinent portion of the contract is quoted verbatim hereunder:

That, the Party of the First Part/Lessor hereby leased a portion of that Commercial Lot with an area of 12 meters by 7 meters to the Party of the Second Part;

That, the Party of the Second Part shall construct a Commercial Building thereon amounting to ONE HUNDRED FORTY THREE THOUSAND EIGHT HUNDRED TWENTY THREE (P143,823.00) PESOS;

That, the Party of the Second Part shall pay a monthly rental of the space occupied by the building in the amount of TWO THOUSAND (P2,000) PESOS, of which amount, the Party of the First Part shall not collect, instead, said amount shall be used/paid to the herein Lessee as payment of the cost of building built on the aforesaid lot;

That, the total amount payable by the herein Lessor to the Lessee includes the following: a. Building permit fees; b. Cost of building; c. 21

pcs. tables; d. 23 pcs. chairs; e. 5 pcs[.] benches; f. 1 unit cabinet; g. 3 window trapal; h. 1 unit deepwell handpump with accessories; j. lighting facilities; and all things permanently attached to the building; of which the total amount is the one reflected above;

That, the term of this contract shall be for FOUR (4) Years only, however, if the amount of (P143,823.00) shall not be fully paid within the period, the parties hereby reserves the right to extend this contract, until such time that the above[-]mentioned amount shall have been fully paid;

That, as soon as the above amount shall be fully paid, the building shall be deemed owned by the herein Party of the First Part; however, the Party of the Second Part is hereby obligated to cause the repair of the building before it shall be turned over to the Party of the First Part;

That, this contract shall take effect on June 1, 1989, whereby payment of the rental shall take effect on the said date[.]

On May 23, 1992, the building subject of the lease contract was burned down.

Because of the destruction of the building, respondent, on May 29, 1992, sent a letter^[7] to petitioners demanding the accumulated rentals for the leased property from March 17, 1989 to June 17, 1992 totaling P78,000.00. As the demand was left unheeded, respondent filed a complaint^[8] for collection of rentals plus damages before the Molave RTC.

Respondent alleged that Ricardo is the proximate cause of the fire that razed the building to the ground. He also claimed that without his knowledge, petitioners insured the building with two insurance companies for face values of more than its cost. He further alleged that Ricardo was charged with arson before the Municipal Trial Court (MTC) of Molave in relation to the burning of the subject building. He prayed that petitioners be ordered to pay him P96,000.00 representing the unpaid rentals from March 17, 1989 until the expiration of the lease and P100,000.00 representing damages for violating the lease contract. Respondent also sought the issuance of a writ of attachment in his favor.

Petitioners, for their part, admitted the execution of the contract of lease but dispute their liability to pay respondent rentals. They contended that under the contract of lease, the rental payment is amortized over the cost of the subject building, thus, respondent had already become its co-owner who must suffer the loss of his property. They also denied liability for the burning of the building contending that it has been destroyed by a fortuitous event. They admitted though that they insured the building beyond their insurable interest over it. By way of counterclaim, they alleged that they extended various cash loans to respondent in the total amount of P11,000.00 starting April 1989 with an agreed monthly interest of 5%. Because respondent failed to pay the loan, they claimed that the total demandable amount from him is already P39,104.00 as of the filing of their Answer. Petitioners are also demanding P1,000,000.00 in damages from respondent for publicly imputing to them the burning of the subject building.

On July 9, 1992, Molave MTC Judge Diosdado C. Arriesgado, the investigating judge

on the criminal complaint for arson filed by respondent against Ricardo, issued an Order^[9] finding probable cause to indict the latter for arson. The findings of the investigating judge were approved by Zamboanga del Sur Provincial Prosecutor Elpidio A. Nacua on September 4, 1992.^[10] However, upon motion for reconsideration filed by Ricardo, the criminal case for arson was dismissed in a Resolution^[11] dated November 3, 1992 issued by Prosecutor Nacua. This prompted respondent to file a motion for reconsideration of the resolution issued by the Provincial Prosecutor.

In the meantime, the RTC issued a Pre-trial Order^[12] dated November 18, 1992, which stated, among others, the following issues the parties agreed to litigate on:

Issues submitted by [respondent]:

1. Whether or not under the contract of lease entered into by [petitioners] and [respondent], [petitioners are] liable for back rentals to [respondent];
2. Whether or not [petitioners have] any responsibility to the burning of the house which is the subject matter of the lease contract.

Issues submitted by [petitioners]:

1. Whether or not [respondent] has unpaid loan in favor of [petitioners] in the amount of P39,000.00;
2. Whether or not [petitioners have] the right to claim moral damages for the alleged character assassination made by the [respondent] against [petitioners] for having burned the house built on the leased premises.^[13] (Emphasis supplied)

During trial, respondent testified on the contract he executed in favor of petitioners; the subject building built thereon by the latter to be delivered at the end of the term of the contract; the burning of the subject building; and that after the building was burned, he demanded payment of rentals from petitioners but said demand remained unheeded. When respondent was about to present evidence to supposedly prove that Ricardo was the author of the fire that gutted down the subject building, the trial court prohibited him and his counsel on the ground that the alleged arson is not the basis of his complaint. The pertinent portion of respondent's testimony is quoted hereunder:

ATTY. ACAIN Q :Do you know if the Office of the Chief of Police lile[d] a case of Arson against defendant Ricardo Golez?

COURT : If your theory is that the defendant is responsible for the burning of the building[,], why is this collection of rental not damages?

x x x x

ATTY. ACAIN : Our theory, Your Honor, is that recollect (sic) the rental and that there is a breach of contract.

COURT : Then this evidence of the responsibility of the burning is not relevant to this case.

ATTY. ACAIN : We submit, Your Honor, but we contend that the defendant is still violating the contract by burning the subject matter of the contract. Because the contract says that upon the expiration[,] this building will go to the lessor. There are two causes of action here, Your Honor, which is payment of rental and damages, Your Honor.

COURT : But the claim for damages is based on the non[-] performance of the contract not on the criminal act of Arson.

ATTY. ACAIN : Yes, Your Honor, but I would like to make it of record, Your Honor, that he still ha[s] a pending case of Arson against the defendants, Your Honor, and it is in that case that we are claiming damages for the building that [was] destroyed, Your Honor, We are claiming damages as far as this building is concerned, Your Honor.^[14]

Respondent also testified on the damages he was claiming in the amount of P100,000.00 for petitioners' failure to comply with the agreement "that after four (4) years the building will be delivered to [him]."^[15]

When it was petitioners' turn to present their evidence, the trial court likewise prohibited them from proving that Ricardo was not responsible for the burning of the subject building. The relevant portion of Ricardo's testimony reads:

ATTY. ALOOT R.Q : Now I am confronting you with a certain receipt from the [F]aith Hospital which is dated May 23, 1992, will you please examine this document which is merely a xerox copy and tell the court what is this having a relation to stay in your house? (sic)

ATTY. ACAIN A. : We beg[,] Your Honor[,] incompetent, the witness Your Honor (sic).....

ATTY. ALOOT R. : Because at the time Your Honor there was I think an incident which cause for the attention of the witness to the fact that he should stay in the house. (sic)

ATTY. ACAIN A. : Already answered[,] Your Honor.

COURT : What has this to do with the cause of action[?] [T]he cause of action is collection of the rental. It is admitted facts that there was a rented premises (sic) no payment was made and the house that was supposed to be made as payment of the rental got burned.

ATTY. ALOOT R. : Your Honor[,] please[.] [T]here was a claimed (sic) that the defendant[,] Ricardo Golez[,] was responsible [for] the fire on May 23, 1992.

ATTY. A. : He [denied] that already.

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ATTY.
ALOOT
COURT

R. : Yes[,] that is denied but....

: That [has] nothing to do with the cause of action[.] [T]he cause of action is not the burning of the house[.] [T]he cause of action is collection of the rental. Now, if the parties was (sic) to establish that the defendant is responsible for damages for the burning of the house[,] you can file another case.

ATTY.
ALOOT
COURT

R. : If the plaintiff agrees[,] Your Honor[,] that there is no claim for the burning of the house...

: The complaint will bear that out[.] [T]here is no claim[.] You point to any claim of the alleged burning of the house, the court did not notice anything.^[16]

Ricardo also testified on his counterclaim referring to an indebtedness of respondent amounting to P11,000.00 as evidenced by a promissory note dated January 1, 1990 signed by the latter. According to him, the loan remained unpaid and ballooned to P368,362.50 as of December 1995 because of the 5% monthly interest.^[17] Petitioners likewise presented two handwritten letters of respondent, one dated May 8, 1991^[18] and another dated January 12, 1992,^[19] to supposedly prove that said loan remains outstanding.

On rebuttal, respondent took again the witness stand to refute petitioners' allegation that his debt was still unpaid. He presented the supposed original of the January 1, 1990 promissory note that was in his possession since July 26, 1990, the date when he claimed to have paid his debt. He also testified that he wrote the May 8, 1991 and January 12, 1992 letters to demand from petitioners the previous promissory notes which were consolidated in the January 1, 1990 promissory note.^[20]

While the trial was ongoing, the Department of Justice (DOJ) through Undersecretary Ramon S. Esguerra, denied the motion for reconsideration filed by respondent on February 10, 1994 and upheld the dismissal of the criminal complaint for arson against Ricardo.^[21]

In a Decision dated March 16, 1998, the trial court ruled in favor of respondent. The *fallo* reads:

WHEREFORE, judgment is hereby rendered in favor of the plaintiff and against the defendants —

1. Ordering the defendants jointly and severally to pay the plaintiff the contract amount of P143,823.00, to bear interest at 12% a year from the filing of this action up to the time the same is fully paid.

2. Ordering the defendants jointly and severally to pay the plaintiff the following sums: