

SECOND DIVISION

[G.R. No. 177484, July 18, 2014]

**SPOUSES ALEJANDRO MANZANILLA AND REMEDIOS VELASCO,
PETITIONERS, VS. WATERFIELDS INDUSTRIES CORPORATION,
REPRESENTED BY ITS PRESIDENT, ALIZA MA, RESPONDENT.**

D E C I S I O N

DEL CASTILLO, J.:

Assailed in this Petition for Review on *Certiorari* is the September 15, 2006 Decision^[1] of the Court of Appeals (CA) in CA-G.R. SP No. 60010. Said Decision granted respondent Waterfields Industries Corporation's (Waterfields) Petition for Review of the July 14, 2000 Decision^[2] of the Regional Trial Court (RTC) of Manila, Branch 42 in Civil Case No. 00-96228, which in turn affirmed the May 7, 1999 Decision^[3] of the Metropolitan Trial Court (MTC) of Manila, Branch 4 in Civil Case No. 160443-CV granting petitioners spouses Alejandro Manzanilla and Remedios Velasco's (spouses Manzanilla) Complaint for Unlawful Detainer against Waterfields. Likewise questioned is the CA April 12, 2007 Resolution^[4] denying the Motion for Reconsideration thereof.

Factual Antecedents

The spouses Manzanilla are the owners of a 25,000-square meter parcel of land in Barangay San Miguel, Sto. Tomas, *Batangas*, covered by Transfer of Certificate of Title No. T-35205. On May 24, 1994, they leased a 6,000-square meter portion of the above-mentioned property to Waterfields, as represented by its President Aliza R. Ma (Ma). Pertinent portions of their Contract of Lease^[5] provide, *viz*:

Section 2. TERM OF LEASE. The Lease shall be for a period of TWENTY FIVE (25) YEARS from May 16, 1994 to May 15, 2019, renewable upon the option of the LESSEE;

Section 3. MONTHLY RENTAL AND ESCALATION. In consideration of the lease herein constituted, LESSEE shall pay unto the LESSORS a monthly rental in the gross amount of EIGHTEEN THOUSAND (P18,000.00) payable within the first TEN (10) days of each month x x x.

Section 4. DEPOSIT. **LESSORS hereby acknowledge receipt from LESSEE a rental deposit in the amount of TWO HUNDRED SIXTEEN THOUSAND (P216,000.00) PESOS, Philippine currency, to answer for any unpaid rentals, damages, penalties and unpaid utility charges.** Such deposit or any balance thereof shall be refunded to the LESSEE immediately upon the termination or expiration of this contract.

[6]

The parties executed on June 6, 1994 an Amendment to the Contract of Lease.^[7] Save for the commencement of the lease which they reckoned on the date of the execution of the amendment and the undertaking of the spouses Manzanilla to register the agreements, the parties agreed therein that all other terms and conditions in the original Contract of Lease shall remain in full force and effect.

Beginning April 1997, however, Waterfields failed to pay the monthly rental. Hence, Ma sent the spouses Manzanilla a letter^[8] dated July 7, 1997 which reads as follows:

Spouses Mr. & Mrs. Alejandro Manzanilla
Sto. Tomas, Batangas

I promise to pay the following rentals in arrears:

10 April 97	8,000.00
10 May 97	18,000.00
10 June 97	18,000.00
10 July 97	18,000.00
check replacement	<u>8,000.00</u>
	P70,000.00

by way of check payment dated July 15, 1997.

In addition to the aforementioned, I will give a check for the amount of P18,000, representing advance rental for the month of August 1997.

From hereon, notwithstanding the terms of the lease contract, I shall pay rentals (eve) on or before the 10th day of each month, (30-day) representing advance rental.

The deposit stipulated in our lease contract shall be used exclusively for the payment of unpaid utilities, if any, and other incidental expenses only and applied at the termination of the lease.

The lease contract dated 5/24/94 shall be amended according to the above provision.

(Signed) ALIZA MA President
Waterfields Industries Corporation
7/9/97
Quezon City^[9]

On July 30, 1998, the spouses Manzanilla filed before the MTC a Complaint^[10] for Ejectment against Waterfields. They alleged in paragraph 4 thereof that they entered into a Contract of Lease with Waterfields on May 24, 1994, and in paragraph 5, that the same was amended on June 6, 1994 and July 9, 1997.^[11] However, Waterfields had committed violations of the lease agreement by not paying the

rentals on time. And in yet another violation, it failed to pay the P18,000.00 monthly rental for the past six months prior to the filing of the Complaint, that is, from December 1997 to May 1998 or in the total amount of P108,000.00. Demands upon Waterfields to pay the accrued rentals and vacate the property were unheeded so the spouses Manzanilla considered the contract terminated and/or rescinded.^[12] And since Waterfields still failed to comply with their final demand to pay and vacate,^[13] the spouses filed the Complaint and prayed therein that the former be ordered to (1) vacate the subject property and, (2) pay the accrued rentals of P108,000.00 as of May 1998, the succeeding rentals of P18,000.00 a month until the property is vacated, the interest due thereon, attorney's fees, and cost of suit.

In its Answer,^[14] Waterfields admitted paragraphs 4 and 5 of the Complaint and alleged that: (1) when the lease agreement was executed, the property subject thereof was just bare land; (2) it spent substantial amounts of money in developing the land, *i.e.*, building of water dikes, putting up of a drainage system, land filling and levelling; (3) it built thereon a processing plant for fruit juices, preserved vegetables and other frozen goods for which it spent around P7,000,000.00; and (4) it caused the installation in the said premises of an electrical system for P80,000.00 and water system for P150,000.00. Waterfields further alleged that although the first two years of its operation were fruitful, it later suffered from business reverses due to the economic crisis that hit Asia. Be that as it may, Waterfields claimed that it did not fail or refuse to pay the monthly rentals but was just utilizing the rental deposit in the amount of P216,000.00 (equivalent to one year rentals) as rental payment in accordance with Section 4 of the original Contract of Lease. Hence, it argued that the spouses Manzanilla have no cause of action against it. Waterfields also asserted that the precipitate filing of the Complaint against it is tainted with bad faith and intended to cause it grave injustice considering that it already spent an enormous amount of almost P10,000,000.00 in developing the property. By way of compulsory counterclaims, Waterfields sought that the spouses Manzanilla be ordered to pay it moral damages and attorney's fees.

Ruling of the Metropolitan Trial Court

In its Decision^[15] of May 7, 1999, the MTC found Ma's letter of July 9, 1997 to have amended the Contract of Lease. In particular, Section 4 of the Contract of Lease which provides that the rental deposit shall answer ***for any unpaid rentals, damages, penalties and unpaid utility charges*** was superseded by the portion in Ma's July 9, 1997 letter which states that "*the deposit stipulated in our lease contract shall be used **exclusively for the payment of unpaid utilities, if any, and other incidental expenses only** and applied at the termination of the lease*". Hence, the MTC found no merit in Waterfield's claim that it did not fail or refuse to pay the monthly rentals as it was applying the rental deposit to its payment of the same. Consequently, the MTC declared that Waterfields violated the lease agreement due to non-payment of rentals and disposed of the case as follows:

WHEREFORE, premises considered, judgment is hereby rendered in favor of [the spouses Manzanilla] and against [Waterfields], ordering the latter to –

1. vacate subject premises and surrender same peacefully to [the spouses Manzanilla];
2. to pay [the spouses Manzanilla] the sum of P108,000.00 representing rental arrears from December, 1997 to May, 1998, and the sum of P18,000.00 a month thereafter, until it has actually vacated and surrendered subject premises;

Toward this end, whatever rental deposit [Waterfields] may have, shall be taken into account to answer for the latter's arrearages.

3. to pay the costs of suit. SO ORDERED."^[16]

Ruling of the Regional Trial Court

Before the RTC, Waterfields questioned the MTC's ruling that Ma's letter of July 9, 1997 effectively amended the Contract of Lease. It argued that the said letter is unenforceable under the Statute of Frauds since the same was merely in the handwriting of Ma, unsubscribed by both parties, and unacknowledged before a notary public. Hence, the rental deposit should have been applied as payment for monthly rentals pursuant to the original Contract of Lease.

The RTC, however, was unimpressed. It noted in its Decision^[17] dated July 14, 2000 that in its Answer, Waterfields admitted paragraph 5 of the Complaint which states that the Contract of Lease was amended on June 6, 1994 and **July 9, 1997**. Further, the very existence of Ma's July 9, 1997 letter negated the applicability of the Statute of Frauds. The RTC thus disposed of the case as follows:

WHEREFORE, finding no reversible error, the judgment of the trial court is affirmed in toto.

SO ORDERED.^[18]

Ruling of the Court of Appeals

The CA, however, had a different take. In its Decision^[19] dated September 15, 2006, it gave weight to the spouses Manzanilla's allegation that they terminated the Contract of Lease. Upon such termination, it held that the rental deposit should have been applied as payment for unpaid utilities and other incidental expenses, if any, in view of the following portion of the July 9, 1997 letter:

The deposit stipulated in our lease contract shall be used exclusively for the payment of unpaid utilities, if any, and other incidental expenses only and applied **at the termination of the lease**.^[20]

And since the spouses Manzanilla did not allege that there were unpaid utilities or incidental expenses for the account of Waterfields as of the termination of the

contract, the whole amount of P216,000.00 should have been returned by the former to the latter when the contract was terminated. Not having done so, the spouses Manzanilla therefore, became debtors of Waterfields insofar as the said amount is concerned. And since Waterfields is also a debtor of the spouses Manzanilla with respect to the unpaid rentals, compensation should take place. It ratiocinated:

Compensation shall take place when two persons, in their own right, are creditors and debtors of each other (Art. 1278, Civil Code). As of the filing of the action, [Waterfields] was indebted to [the spouses Manzanilla] in the amount of P144,000.00 as unpaid rentals covering the period December 1997 to July 1998, while [the Spouses Manzanilla] owed [Waterfields] the sum of P216,000.00 representing its rental deposit. Offsetting the P144,000.00 unpaid rentals against the P216,000.00 rental deposit, [Waterfields] emerges as the creditor to the tune of P72,000.00. In other words, as of the filing of the action, respondents were even overpaid in the sum of P72,000.00.^[21]

The CA thereafter concluded that the spouses Manzanilla have no cause of action against Waterfields, *viz*:

Consequently, [the spouses Manzanilla] had no cause of action against [Waterfields] for alleged violation of the Contract, particularly non-payment of rentals.^[22]

Hence, the *fallo* of the CA's September 15, 2006 Decision:

WHEREFORE, the petition is GRANTED. The decision dated May 7, 1999 of the Metropolitan Trial Court of Manila (Branch 4), as affirmed by the Regional Trial Court of Manila (Branch 42), is REVERSED and SET ASIDE and judgment is rendered DISMISSING [the spouses Manzanilla's] action for unlawful detainer against [Waterfields]. Costs against [the spouses Manzanilla].

SO ORDERED.^[23]

The spouses Manzanilla filed a Motion for Reconsideration,^[24] which was denied by the CA in a Resolution^[25] dated April 12, 2007.

Hence, this Petition for Review on *Certiorari*.

Issues

THE HONORABLE COURT OF APPEALS DECIDED A QUESTION OF SUBSTANCE NOT IN ACCORD WITH LAWS AND THE APPLICABLE DECISIONS OF THIS HONORABLE COURT WHEN IT HELD THAT THE