

## THIRD DIVISION

[ G.R. NO. 154765, March 29, 2007 ]

**PEDRO T. BERCERO, PETITIONER, VS. CAPITOL DEVELOPMENT CORPORATION,<sup>[1]</sup>**

### D E C I S I O N

**AUSTRIA-MARTINEZ, J.:**

Before the Court is a Petition for Review on *Certiorari* under Rule 45 of the Revised Rules of Court assailing the Decision<sup>[2]</sup> dated February 11, 2002 of the Court of Appeals (CA) in CA-G.R. CV No. 56484 which set aside the Decision<sup>[3]</sup> dated May 27, 1996 of the Regional Trial Court, Branch 88, Quezon City (RTC-Branch 88) in Civil Case No. Q-92-11732, and the CA Resolution<sup>[4]</sup> dated August 29, 2002 which denied petitioner's Motion for Reconsideration.

The factual background of the case is as follows:

On January 31, 1983, Capitol Development Corporation (respondent) leased its commercial building and lot located at 1194 EDSA, Quezon City to R.C. Nicolas Merchandising, Inc., (R.C. Nicolas) for a 10-year period or until January 31, 1993 with the option for the latter to make additional improvements in the property to suit its business and to sublease portions thereof to third parties.<sup>[5]</sup>

R.C. Nicolas converted the space into a bowling and billiards center and subleased separate portions thereof to Midland Commercial Corporation, Jerry Yu, Romeo Tolentino, Julio Acuin, Nicanor Bas, and Pedro T. Bercero (petitioner). Petitioner's sublease contract with R.C. Nicolas was for a three-year period or until August 16, 1988.<sup>[6]</sup>

Meanwhile, for failure to pay rent, respondent filed an ejectment case against R.C. Nicolas before the Metropolitan Trial Court, Branch 41, Quezon City (MeTC-Branch 41), docketed as Civil Case No. 52933. Respondent also impleaded the sub-lessees of R.C. Nicolas as parties-defendants.

During the pendency of Civil Case No. 52933, several sub-lessees including petitioner, entered into a compromise settlement with respondent.<sup>[7]</sup> In the compromise settlement, the sub-lessees recognized respondent as the lawful and absolute owner of the property and that the contract between respondent and R.C. Nicolas had been lawfully terminated because of the latter's non-payment of rent; and that the sub-lessees voluntarily surrendered possession of the premises to respondent; that the sub-lessees directly executed lease contracts with respondent considering the termination of leasehold rights of R.C. Nicolas.

Petitioner entered into a lease contract with respondent for a three-year period,

from August 16, 1988 to August 31, 1991.<sup>[8]</sup>

On October 21, 1988, respondent and petitioner, as well as several other sub-lessees of R.C. Nicolas, filed a Joint Manifestation and Motion in Civil Case No. 52933, manifesting to the MeTC-Branch 41 that they entered into a compromise settlement and moved that the names of the sub-lessees as parties-defendants be dropped and excluded.<sup>[9]</sup>

On November 14, 1988, R.C. Nicolas filed a complaint for ejectment and collection of unpaid rentals against petitioner before the Metropolitan Trial Court, Branch 39, Quezon City (MeTC-Branch 39), docketed as Civil Case No. 0668.<sup>[10]</sup> On April 18, 1989, MeTC-Branch 39 rendered a Decision in favor of R.C. Nicolas and ordered the eviction of petitioner from the leased premises.<sup>[11]</sup>

Dissatisfied, petitioner filed an appeal before the Regional Trial Court, Branch 78, Quezon City (RTC-Branch 78). R.C. Nicolas filed a Motion for Execution Pending Appeal which was opposed by petitioner.

In an Order dated October 4, 1990, RTC-Branch 78 directed the issuance of a writ of execution pending appeal since petitioner failed to file a *supersedeas* bond and periodically deposit the rentals due during the pendency of the appeal.<sup>[12]</sup> Accordingly, on October 22, 1990 a writ of execution was issued.<sup>[13]</sup> Sometime in November 1990, petitioner was evicted from the leased premises.<sup>[14]</sup>

Petitioner assailed the Order dated October 4, 1990 in a petition for *certiorari* with the CA, docketed as CA-G.R. SP No. 23275, but the petition was denied due course and dismissed by the CA in a Decision dated December 28, 1990.<sup>[15]</sup>

On September 3, 1991, respondent filed a Manifestation in Civil Case No. 52933 urging MeTC-Branch 41 to order R.C. Nicolas to desist from harassing respondent and petitioner, and to confirm respondent's right of possession to the premises in the light of the ejectment case filed by R.C. Nicolas against petitioner.<sup>[16]</sup>

Two months later, or on November 13, 1991, MeTC-Branch 41 rendered a Decision in Civil Case No. 52933 in favor of respondent and ordered R.C. Nicolas to pay its unpaid rentals from September 1986 until October 1988.<sup>[17]</sup>

Meanwhile, since his eviction in November 1990, petitioner made repeated demands on respondent for the restoration of his possession of the commercial space leased to him to no avail. <sup>[18]</sup>

Thus, on March 24, 1992, petitioner filed a complaint for sum of money with attachment and mandatory injunction with damages against the respondent before the RTC-Branch 88, docketed as Civil Case No. Q-92-11732.<sup>[19]</sup>

On May 27, 1996, RTC-Branch 88 rendered its Decision<sup>[20]</sup> in favor of petitioner, the dispositive portion of which reads:

WHEREFORE, premises rendered, this Court finds for the plaintiff and orders the defendant:

1) to restore plaintiff's possession of the rented building located at 1194 EDSA, Quezon City for the next three years effective from receipt of the copy of this decision;

2) to pay the plaintiff the following:

- a. P480,000.00 - actual damages
- b. P 50,000.00 - moral damages
- c. P 50,000.00 - exemplary damages
- d. P 50,000.00 - attorney's fees

3) to pay the costs.

Accordingly, the counterclaim filed by the defendant Capitol Development Corporation is hereby DISMISSED.

SO ORDERED.<sup>[21]</sup>

The RTC held that respondent miserably failed to comply with its obligation under Article 1654 of the New Civil Code due to its apathy and failure to extend any assistance to the petitioner and was, therefore, liable for the restoration of petitioner's possession and the payment of actual damages corresponding to lost profit, cash, generator, and other items petitioner lost due to the eviction, as well as moral and exemplary damages and attorney's fees.

Dissatisfied, respondent filed an appeal with the CA, docketed as CA-G.R. CV No. 56484.

On February 11, 2002, the CA rendered its Decision<sup>[22]</sup> setting aside the Decision of RTC-Branch 88, to wit:

WHEREFORE, premises considered, the Decision dated May 27, 1996 of the Regional Trial Court of Quezon City, Branch 88, in Civil Case No. Q-92-11732, is hereby REVERSED and SET ASIDE. No pronouncement as to costs.

Applying the equitable principle of estoppel, the CA held that although respondent as lessor failed to ensure the peaceful possession of petitioner as its lessee in the subject premises, the latter is not entitled to damages since he was aware of the facts which led to his ouster from the subject premises; and that petitioner was well aware that respondent had a 10-year lease contract with R.C. Nicolas which was subject of an ejectment suit that was still pending litigation when petitioner executed a lease contract with respondent.

On March 5, 2002, petitioner filed his Motion for Reconsideration.<sup>[23]</sup> On August 29, 2002, the CA issued its Resolution denying petitioner's Motion for Reconsideration.

<sup>[24]</sup>

Hence, the present Petition anchored on the following grounds:

I.

THE HONORABLE COURT OF APPEALS CLEARLY COMMITTED GRAVE ERROR AND ABUSE OF DISCRETION IN APPLYING THE

PRINCIPLE OF ESTOPPEL TO PETITIONER

II.

THE HONORABLE COURT OF APPEALS COMMITTED GRAVE ERROR BY DISREGARDING THE LAW, JURISPRUDENCE AND EVIDENCE IN DELETING THE AWARD MADE BY THE LOWER COURT OF DAMAGES AND REVERSING THE THREE (3) YEAR POSSESSION OF THE SUBJECT PROPERTY GIVEN TO THE PETITIONER<sup>[25]</sup>

Petitioner argues that the principle of estoppel is inapplicable because he dealt with respondent in good faith and relied upon the latter's representations that the lease of R.C. Nicolas was already terminated at the time he contracted with the latter; that respondent assured him that it had a valid and legal right to enter into a new lease contract with him; that he is entitled to damages since respondent did not even lift a finger to protect him when R.C. Nicolas filed an ejectment case against him; and that respondent acted in utter bad faith when it still refused to restore his possession after he was evicted in November 1990, notwithstanding that his lease contract with respondent was valid until August 31, 1991.

Respondent, on the other hand, counters that the CA correctly applied the principle of estoppel since petitioner voluntarily entered into a lease agreement with respondent despite full knowledge that the latter's lease with R.C. Nicolas over the subject premise had yet to be judicially terminated; and that petitioner knew that at the time he contracted with respondent, he still had existing obligations to R.C. Nicolas relating to their sub-lease agreement.

Under Article 1654 (3) of the New Civil Code, to wit:

Art. 1654. The lessor is obliged:

x x x x

(3) To maintain the lessee in the peaceful and adequate enjoyment of the lease for the entire duration of the contract.

it is the duty of the lessor to place the lessee in the legal possession of the premises and to maintain the peaceful possession thereof during the entire term of the lease.

<sup>[26]</sup> To fully appreciate the importance of this provision, the comment of Manresa on said article is worth mentioning:

The lessor must see that the enjoyment is not interrupted or disturbed, either by others' acts x x x or by his own. By his own acts, because, being the person principally obligated by the contract, he would openly violate it if, in going back on his agreement, he should attempt to render ineffective in practice the right in the thing he had granted to the lessee; and by others' acts, because he must guarantee the right he created, for he is obligated to give warranty in the manner we have set forth in our