

## FIRST DIVISION

[ G.R. No. 157568, May 18, 2004 ]

**LEONARDO CHUA AND HEIRS OF YONG TIAN, PETITIONERS, VS. MUTYA B. VICTORIO, HEREIN REPRESENTED BY HER ATTORNEY-IN-FACT ARMANDO Z. COSME, RESPONDENT.**

### D E C I S I O N

**YNARES-SATIAGO, J.:**

The instant petition for review on certiorari has its genesis in Civil Cases Nos. 21-2761 and 21-2762, entitled "Mutya Victorio v. Yong Tian" and "*Mutya Victorio v. Leonardo Chua*," respectively. These were ejectment cases filed by respondent Mutya Victorio, the owner of certain commercial units located on Panganiban Street, Santiago City, Isabela, against petitioners herein. Leonardo Chua is currently the occupant of one unit, while petitioners Heirs of Yong Tian are the occupants of two units.<sup>[1]</sup>

It appears that these were not the first ejectment cases filed by respondent against petitioners. An earlier ejectment case ended in a compromise between the parties,<sup>[2]</sup> approved by the trial court, whereby they agreed as follows:

#### COMPROMISE AGREEMENT

1. That the present rental on the leased premises shall be increased by 100 (100%) Percent effective August 1990;
2. That rental increases shall be reviewed every after (sic) four (4) years based on the then prevailing rental rates at commercial establishments along Panganiban Street, Santiago, Isabela, but in no case shall be increased by more than twenty-five (25%) percent;
3. That defendants shall pay to plaintiffs their respective accrued rental differentials within a period of one (1) year to be covered by postdated checks in equal amounts beginning November 30, 1991, and every end of the month thereafter;
4. That this compromise agreement amends the compromise agreement embodied in the Decision, Annex "C" to the complaint with respect to paragraph (2) above; and all other terms and conditions not inconsistent of (sic) this compromise agreement shall remain and continue to be in full force and effect.<sup>[3]</sup>

Sometime in September of 1994, respondent (through her attorney-in-fact), made a rental survey of other commercial establishments along Panganiban Street. On the

basis of this survey, a 25% rental increase was demanded from petitioners.<sup>[4]</sup>

Petitioners refused to pay the increased rentals which compelled respondent to file unlawful detainer cases against both lessees, docketed as Civil Cases Nos. II-370 and II-371. However, both complaints were dismissed by the Municipal Trial Court in Cities ("MTCC"), Branch II, Santiago City. The dismissal was affirmed by the Regional Trial Court ("RTC"), but reversed by the Court of Appeals, which ordered petitioners to vacate the leased premises.<sup>[5]</sup>

The decision of the Court of Appeals became final and executory, and, upon motion filed by respondent, the MTCC issued writs of execution ordering the ejectment of petitioners from respondent's property.<sup>[6]</sup>

Petitioners filed motions to quash the writs of execution, contending that there were supervening events which rendered the execution unjust or impossible. Specifically, petitioners claimed that they had acceded to the request for an increase in rentals, and had paid respondent the amount demanded.<sup>[7]</sup>

The MTCC found that petitioners had indeed paid to respondent the increased monthly rental even before the Court of Appeals decision attained finality.<sup>[8]</sup> In fact, petitioners offered to pay the increased rentals as early as January 1996, while the cases were still pending with the RTC.<sup>[9]</sup> The increased monthly rentals were accepted by respondent without reservation, and monthly payment of the rentals at the increased rate continued throughout the pendency of the suits.<sup>[10]</sup> Accordingly, the MTCC quashed the writs of execution that it earlier issued.<sup>[11]</sup>

Respondent assailed the quashal of the writ of execution directly to the Supreme Court via a petition for review on certiorari. This petition was dismissed by the Supreme Court on procedural grounds.<sup>[12]</sup> Petitioners thus remained in possession of respondent's properties.

Subsequently, on October 10, 1998, respondent wrote a letter to petitioners informing them of her intention to increase the monthly rentals effective November 1, 1998, from P6,551.25 per unit to a sum more than double that, namely, P15,000.00 per unit.<sup>[13]</sup> Petitioners refused to pay this amount, contending that it was beyond the allowable rental increase embodied in the compromise agreement.<sup>[14]</sup>

Respondent thus instituted Civil Cases Nos. 21-2761 and 21-2762 seeking the ejectment of petitioners. In a joint decision dated May 10, 1999, the MTCC, Branch II, Santiago City dismissed these complaints for lack of merit.<sup>[15]</sup> On appeal, the RTC initially reversed the MTCC,<sup>[16]</sup> but later reversed its earlier decision. On March 9, 2000, the RTC issued an order affirming the MTCC's dismissal of the complaints.<sup>[17]</sup>

Respondent filed a petition for review with the Court of Appeals, which was docketed as CA-G.R. SP No. 157568. On May 31, 2001,<sup>[18]</sup> the Court of Appeals reversed the March 9, 2000 Order of the RTC affirming the MTCC's dismissal of the complaints. The Court of Appeals ruled that the compromise agreement, which set a definite

period of four years for the lease contract, had been abrogated by petitioners' refusal to pay the increased rentals in 1994. Accordingly, in 1994, the juridical relation between the parties was severed. When respondent accepted payment of the increased monthly amount, an entirely new contract of lease was entered into between the parties. Since payment of rent was made on a monthly basis, and pursuant to Article 1687 of the Civil Code, the period of this lease contract was monthly. Upon the expiration of every month, the lessor could increase the rents and demand that the lessee vacate the premises upon non-compliance with increased terms. In exercise of equity, however, the Court of Appeals granted petitioners an extension of one year from finality of the decision within which to vacate the premises.

Petitioners' motion for reconsideration was denied on March 11, 2003.<sup>[19]</sup> Hence, this petition.

The petition lacks merit.

Petitioners' case centers on the interpretation of the compromise agreement, which, they claim, continues to govern the juridical relation between the parties. Specifically, petitioners invoke the second clause of the compromise agreement, referring to the allowable increase in the rentals of respondents' premises. Petitioners contend that they have a continued right of occupancy, paying monthly rentals which may be increased only by 25% every four years. They argue that the increase demanded by respondent was in excess of the allowable amount, and, therefore, is invalid.

Petitioners' contention is bereft of merit.

The right of rescission is statutorily recognized in reciprocal obligations, such as contracts of lease. In addition to the general remedy of rescission granted under Article 1191 of the Civil Code,<sup>[20]</sup> there is an independent provision granting the remedy of rescission for breach of any of the lessor or lessee's statutory obligations. Under Article 1659 of the Civil Code, the aggrieved party may, at his option, ask for (1) the rescission of the contract; (2) rescission and indemnification for damages; or (3) only indemnification for damages, allowing the contract to remain in force.<sup>[21]</sup>

Payment of the rent is one of a lessee's statutory obligations,<sup>[22]</sup> and, upon non-payment by petitioners of the increased rental in September 1994, the lessor acquired the right to avail of any of the three remedies outlined above.

Ordinarily, an obligee's remedies upon breach of an obligation are judicial in nature. This is implicit in the third paragraph of Article 1191, and in Article 1659 of the Civil Code. Thus, the mere failure by the lessees to comply with the increased rental did not ipso jure produce the rescission of the contract of lease.

However, although the lessor did not resort to judicial action to specifically avail of any of the three remedies in Article 1659, this does not mean that the compromise agreement continues in force. In certain exceptional cases, the law recognizes the availability of extrajudicial remedies, which exist in addition to the judicial remedies given above. In the case of lease agreements, Article 1673 of the Civil Code provides:

Art. 1673. The lessor may judicially eject the lessee for any of the following causes:

- (1) When the period agreed upon, or that which is fixed for the duration of leases under articles 1682 and 1687, has expired;
- (2) Lack of payment of the price stipulated;
- (3) Violation of any of the conditions agreed upon in the contract;
- (4) When the lessee devotes the thing leased to any use or service not stipulated which causes the deterioration thereof; or if he does not observe the requirement in No. 2 of article 1657, as regards the use thereof.

The ejectment of tenants of agricultural lands is governed by special laws.

The above provision must be read in conjunction with Rule 70, Section 2 of the Rules of Court, which provides that a demand to pay or to comply with the conditions of the lease and to vacate the premises is a condition precedent for the institution of an ejectment suit against the lessee.

The import of these provisions is to grant the lessor the option of extrajudicially terminating the contract of lease by simply serving a written notice upon the lessee. This extrajudicial termination has the same effect as rescission. Indeed, as early as the 1929 case of *Vda. de Pamintuan v. Tiglao*,<sup>[23]</sup> we ruled in this wise:

Upon non-payment of rent by the lessee, the lessor may elect to treat the contract as rescinded and thereby determine the right of the lessee to continue in possession; and this right to recover possession may be enforced in an action of unlawful detainer. It is not necessary, in such situation, that an independent action for the rescission of the lease should first be instituted in the CFI [now RTC], for the purpose of putting an end to the right of the tenant to remain in possession under the lease.

<sup>[24]</sup>(Underscoring supplied)

More recently, in the 1998 case of *Dio v. Concepcion*,<sup>[25]</sup> we reiterated this ruling and explained that rescission of lease contracts under Article 1659 of the Civil Code is not one that requires an independent action, unlike resolution of reciprocal obligations under Article 1191 of said Code.<sup>[26]</sup>

When, in 1994, the petitioners refused to pay the rentals, and respondent initiated the earlier ejectment suits, the juridical bond between the parties was severed. The parties were no longer connected by the link of a lessor-lessee relation. The compromise agreement ceased to be the law between the parties and ceased to govern their legal relationship. No amount of subsequent payment by the lessees could automatically restore the parties to what they once were.

The lessor's acceptance of the increased rentals did not have the effect of reviving the earlier contract of lease. Upon the moment of acquiescence by respondents to the increased amount, an entirely new contract of lease was entered into, forging an