

SECOND DIVISION

[G.R. No. 136421, November 23, 2000]

**JOSE AND ANITA LEE, PETITIONERS, VS. COURT OF APPEALS,
HON. N.C. PERELLO, AS JUDGE OF RTC, BRANCH 276,
MUNTINLUPA CITY AND HEIRS OF THE DECEASED SPOUSES
MANUEL AND CARMEN RECARIO, RESPONDENTS.**

DECISION

MENDOZA, J.:

This is a petition for review of the resolution of the Court of Appeals^[1] dismissing petitioners' appeal from a decision of the Regional Trial Court, Branch 276, Muntinlupa City, ordering petitioners to vacate a piece of land in Alabang, Muntinlupa and to pay rents and damages.

The undisputed facts are as follows.

On August 1, 1986, petitioner Anita Lee, nee Anita Rivero, entered into a contract with Carmen C. Recario with regard to the land in question which the latter owned. The contract reads:

AGREEMENT

KNOW ALL MEN BY THESE PRESENTS:

This Indenture, made and executed by and between:

CARMEN C. RECARIO, of legal age, Filipino, widow and a resident of 690 T. Sulit St., Int. 7, Aguho, Pateros, Metro Manila, for herself and as Attorney-in-Fact of her children, namely: Maribeth, Marites, Marivic, Mariveluza, Maridel, Brando, Maricarl and Renrickz, all surnamed RECARIO, as per Power of Attorney acknowledged on 15 July 1985 before Notary Public, Francisco Agustin, of the City of Manila, in whose Notarial Register, the same was entered as Doc. No. 642, Page No. 66, Book No. XI, Series of 1985, hereinafter referred to as the PARTY OF THE FIRST PART;

- and -

ANITA RIVERO, of legal age, Filipino, married, and a resident of 3344 Ibarra St., Makati Metro Manila, hereinafter referred to as the PARTY OF THE SECOND PART;

WITNESSETH, THAT-

WHEREAS, the PARTY OF THE FIRST PART is the absolute owner of a parcel of commercial lot consisting of FIFTY TWO (52) sq. ms., more or less, located at Rotonda, Alabang, Muntinlupa, M.M., embraced by TCT NO. 133710 of the Registry of Deeds for Makati, M.M., as per instrument denominated as "Extra-Judicial Settlement of the Estate of the Deceased Manuel E. Recario" acknowledged before Notary Public, Francisco Agustin, in whose Notarial Register, the same was entered as Doc. No. 641, Page No. 66, Book No. XI, Series of 1985;

WHEREAS, constructed on the said lot is an unfinished two-storey commercial building of mixed materials;

WHEREAS, the PARTY OF THE SECOND PART has proposed to reimburse and/or pay the PARTY OF THE FIRST PART the expenses incurred and still to be incurred in completing the construction of the said unfinished building and to rent/lease the lot on which the same is erected, and the latter has accepted and agreed to each proposal subject to the terms and conditions hereinafter setforth;

NOW, THEREFORE, for and in consideration of the foregoing and the covenants mutually entered into, the PARTY OF THE FIRST PART hereby lets and leases the above-referred parcel of land in favor of the PARTY OF THE SECOND PART subject to the terms and conditions hereinafter stipulated, to wit:

1. THE PARTY OF THE SECOND PART shall, upon execution of this agreement, pay as he does hereby pay the PARTY OF THE FIRST PART a sum of TWO HUNDRED SEVENTY FIVE THOUSAND (P275,000.00) PESOS, Philippine Currency, and the latter hereby acknowledges receipt of said amount from the former to her full satisfaction as and by way of reimbursement and/or payment for the total amount spent and still to be spent by the PARTY OF THE FIRST PART in the construction of the aforecited unfinished building and its completion; provided, that, among others, said party shall pursue with and continue the construction until the same is completely finished in accordance with the plan and specification, as approved, complete with electrical, lighting, water and other facilities, within a period of thirty (30) days from the execution hereof;

2. Immediately upon the completion of the construction, the PARTY OF THE FIRST PART shall deliver the said building to the PARTY OF THE SECOND PART, and the latter shall automatically become the exclusive owner thereof without the necessity of executing another instrument to effect the transfer of ownership of the referred building. However, after the lapse of seven and one half (7 1/2) years therefrom, the former shall, ipso facto become a co-owner of one-half (1/2) undivided portion of the building until the expiration of the term or duration of this agreement. After the term or duration of this agreement expires, the co-ownership shall automatically terminate and the PARTY OF THE FIRST PART shall become the exclusive owner of the referred building without need of executing any other instrument to consolidate and transfer absolute

ownership of the building in favor of the PARTY OF THE FIRST PART;

3. This agreement shall have a term or duration of FIFTEEN (15) years from the completion and delivery of the building as above-contemplated, with a five-year extension, and renewable for such terms, conditions and duration as may be agreed upon by the parties hereto or their heirs, transfers, successors and assignee, for or against whom this agreement shall be binding;

4. The monthly rentals on the lot and/or both lot and building shall be FIVE THOUSAND (P5,000.00) PESOS during the first ten (10) years and the same shall be increased to SIX THOUSAND (P6,000.00) PESOS from the start of the 11th year up to the 15th year of this agreement. However, considering that the PARTY OF THE SECOND PART has paid and invested the corresponding amount of the construction or its costs, as cited heretofore, she shall pay only one-half of the agreed monthly rentals and the same shall be as they are hereby considered full satisfaction of the rentals. During the period of extension the rentals shall be subject to negotiation. Moreover, during the entire term or duration of this agreement, the monthly rentals shall be due and payable within the last five days of the month, starting from the month of the completion and delivery of the building;

5. In the event the PARTY OF THE FIRST PART shall desire to sell, alienate or encumber the lot within the first 7 1/2 years of this agreement, or the lot and building during any time thereafter while this agreement is in force or while the PARTY OF THE SECOND PART occupies the building, possesses or co-owns the same, the latter is hereby given the first priority or opportunity to purchase the same and to exercise the said priority or opportunity within 90 days from receipt of written notice to such effect;

6. Insurance policy or benefit covering the building during the duration of the agreement after the first 7 1/2 years shall be in favor of both parties hereto in equal share and the premium shall be equally borne by then;

7. The PARTY OF THE SECOND PART has absolute right and authority to transfer, sell, lease or in any manner encumber and alienate the building, or her rights and interests over the same under and by virtue of this agreement;

8. Expenses for electricity, water, gas, telephone and other facilities shall be for the account of the PARTY OF THE SECOND PART;^[2]

The building was thereafter completed and petitioners occupied it as absolute owners thereof. Before the expiration of the 7 1/2 year-term, however, Carmen C. Recario died.

On March 1, 1994, at the end of the 7 1/2 year-term, the heirs of Carmen C. Recario, led by Marivic F. Recario, demanded that petitioners vacate one-half of the building on the ground that they needed the space for a dental clinic. Petitioners

refused the demand on the ground that there was an existing lease over the building pursuant to the above agreement which would not expire until the year 2001. As several letters of demand sent by them had been ignored by petitioners, private respondents filed a case for unlawful detainer in the Metropolitan Trial Court of Muntinlupa City.

On October 17, 1995, the Metropolitan Trial Court, Branch 80, Muntinlupa City rendered a decision dismissing the complaint for lack of cause of action. It said:

Paragraph no. 2 of the agreement (Annex "C" of the complaint) states that "after the lapse of seven and one-half ($7\frac{1}{2}$) therefrom, the former (Carmen Recairo) shall ipso facto, become a co-owner of one-half ($\frac{1}{2}$) undivided portion of the building until the expiration of the term or duration of this agreement. However, it does not state that after the lapse of seven and one-half ($7\frac{1}{2}$) years of the lease agreement, defendant will surrender to the plaintiff (Carmen Recario) possession of the one-half ($\frac{1}{2}$) undivided portion of the building. Precisely because the premises is "under lease." This is exemplified by paragraph no. 3 and no. 4 of the same agreement which fixed the duration of the term of lease for fifteen (15) years covering both the lot and the building.

WHEREFORE, for lack of cause of action the complaint against the defendants are hereby DISMISSED. The counterclaims are likewise dismissed it appearing that the complaint was not filed in bad faith.^[3]

Private respondents appealed to the Regional Trial Court, which reversed the decision of the Metropolitan Trial Court. The dispositive portion of the decision, dated May 21, 1996, of the Regional Trial Court, Branch 276, Muntinlupa City, stated:

Premises considered, this Court reverses on Appeal the DECISION by the Metropolitan Trial Court, Branch 80 of Muntinlupa City, and directs Defendants as follows:

1. To immediately vacate and remove themselves from the premises having violated the agreement which is now terminated;
2. To pay the unpaid rentals for the whole lot and the $\frac{1}{2}$ undivided portion of the building from September 1, 1994 up to the time of the filing of the complaint in the sum of P2,500.00 per month or a total of P22,500.00;
3. To pay damages in the form of reasonable monthly rentals for the use of the remaining one half part of the building which Defendant continued to occupy from March 2, 1994 up to the time of the filing of the complaint in the sum of P10,000.00 per month or a total amount of P150,000.00;