

Republic of the Philippines Supreme Court Manila

SECOND DIVISION

ANALITA P. INOCENCIO, substituting for RAMON INOCENCIO (Deceased), Petitioner.

- versus -

G.R. No. 201787

Present:

CARPIO, J., Chairperson, VELASCO, JR.,* PEREZ, PERLAS-BERNABE, and LEONEN,** JJ.

HOSPICIO DE SAN JOSE,	Promulgated:	ou i b Í
Respondent.	SEP 2 5 2013	HMPabalaphoreto
X ====================================		k ()

DECISION

CARPIO, J.:

The Case

This petition for review seeks to annul and set aside the Decision¹ dated 12 January 2012 and the Resolution² dated 9 May 2012 of the Court of Appeals (CA) in CA-G.R. SP No. 117009. The Decision dismissed Analita P. Inocencio's (Analita) petition for review and affirmed with modification the Decision³ dated 21 January 2009 of the Regional Trial Court of Pasay, Branch 119 (RTC- Pasay). The Resolution denied Analita's motion for reconsideration.

11

Designated additional member per Special Order No. 1543 dated 9 September 2013.

Designated additional member per Special Order No. 1560 dated 24 September 2013.

Rollo, pp. 15-25. Penned by Associate Justice Manuel M. Barrios, with Associate Justices Juan Q. Enriquez, Jr. and Apolinario D. Bruselas, Jr., concurring.

Id. at 27-28 Penned by Associate Justice Manuel M. Barrios, with Associate Justices Juan Q. Enriquez.
 Jr. and Apolinario D. Bruselas, Jr., concurring.

Id. at 146-152. Penned by Presiding Judge Pedro De Leon Gutierrez.

The Facts

On 1 March 1946, Hospicio de San Jose (HDSJ) leased a parcel of land located in Pasay City to German Inocencio (German).⁴ The lease contract was effective for a period of one year, and was renewed for one-year periods several times. The last written contract was executed on 31 May 1951.⁵ Section 6 of the lease contract provides:

Este contrato es intransferible, a menos que para ello se obtenga el consentimiento escrito del arrendador. (This contract is nontransferable unless prior consent of the lessor is obtained in writing.)⁶

In 1946, German constructed two buildings on the parcel of land⁷ which he subleased. He also designated his son Ramon Inocencio (Ramon) to administer the said property.⁸

On 21 September 1990, German received a letter from HDSJ informing him that the increased rentals shall take effect in November 1990 instead of August 1990, "to give [him] ample time to make the necessary rental adjustments with [his] sublessees."⁹

German passed away in 1997. Evidence on record shows that Ramon did not notify HDSJ of German's death. After German's passing, Ramon collected the rentals from the sublessees, and paid the rentals to HDSJ, and the taxes on the property. On 1 March 2001, HDSJ's property administrator, Five Star Multi-Services, Inc., notified Ramon that HDSJ is terminating the lease contract effective 31 March 2001:

We acknowledge the fact that Hospicio de San Jose has been accepting the payment of your rentals since the demise of Mr. [German] Inocencio. Hence, an implied contract of lease between the two of you exists. However, since there is no stipulation as to the period of the contract and you are paying a monthly rental to our client, the period for the lease is on a month-to-month basis (Art. 1687). Thus as of this date, your contract should expire on March 31, 2001.¹⁰

Ramon then sent a letter to HDSJ dated 12 March 2001, suggesting that the lease contract be renegotiated for the welfare of the sublessees occupying the parcel of land.¹¹ On 3 April 2001, HDSJ notified Ramon that the lease contract shall not be renewed because Ramon has "[continually] subleased the subject premises to about 20 families (in addition to a commercial establishment) x x x without the knowledge and consent of the

⁴ Id. at 236.

⁵ Id. at 180.

⁶ Id. at 237.
⁷ Id. at 240-241.

⁸ Id. at 34.

⁹ Id. at 261.

¹⁰ Id. at 990.

¹¹ Id. at 309.

lessor, [HDSJ]."¹² Thereafter, HDSJ refused to accept Ramon's tender of payment of rentals.¹³

On 3 March 2005, HDSJ sent a letter to Ramon: (1) reiterating its stand that the lease contract was terminated effective 31 March 2001; (2) demanding payment of $\mathbf{P756}$,449.26 as unrealized fruits; and (3) giving him 30 days to vacate the property.¹⁴ The sublessees were given written notices to vacate within 30 days.¹⁵ HDSJ also posted a *Patalastas* stating that it is willing to work out an amicable arrangement with the sublessees, although the latter are not considered as legal occupants or tenants of the property.¹⁶ Because of this, some of the sublessees refused to pay rentals to Ramon.¹⁷

HDSJ also entered into lease contracts with: (1) Harish Chetandas on 25 May 2005;¹⁸ (2) Enrique Negare on 12 April 2005;¹⁹ (3) Lamberto Estefa on 25 May 2005;²⁰ and (4) Sofronio Chavez, Jr. on 21 May 2005.²¹

On 28 June 2005, HDSJ filed a Complaint before Branch 48 of the Metropolitan Trial Court of Pasay (MeTC-Pasay) for unlawful detainer against Ramon and his sublessees.²² The complaint alleged that Ramon and his sublessees have been illegally occupying the leased premises since 31 March 2001. HDSJ sought the following damages:

- 17.1 Actual damages, in the amount of Php552,195.36, equivalent to the reasonable value of the use and occupation of the premises from the period of 31 March 2001 until the present [;] and
- 17.2 Attorney's fees in the amount of Php50,000.00, for defendants' refusal to vacate the property [and for compelling] [p]laintiff to incur expenses to protect its interest[s]. Furthermore, it is clear that defendants acted in gross and evident bad faith in refusing to satisfy [p]laintiff's plainly valid, just, and demandable claim.²³

In his Answer dated 1 August 2005,²⁴ Ramon claimed that:

(1) German was the owner of the two buildings constructed on the leased property as evidenced by the building permits obtained from the government agencies and the tax declarations covering the buildings;

¹² Id. at 181.

¹³ Id. at 255, 394.
¹⁴ Id. at 256.

¹⁵ Id. at 262-263, 265-266, 268-269, 271-272, 274-275, 277-278, 280-281, 283-284, 286-287, 289-290, 292-293, 295-296, 298-299, 301-302, 304-305, 307-308, 310-311, and 313-314.

¹⁶ Id. at 315.

¹⁷ Id. at 37.

¹⁸ Id. at 205-209.

¹⁹ Id. at 210-214.

²⁰ Id. at 215-219.

²¹ Id. at 220-224.

²² Id. at 716-721.

²³ Id. at 719-720.

²⁴ Id. at 723-730.

- (2) The Spanish lease contract, which was not translated into English or Filipino should not be admitted as evidence in view of Section 33 of Rule 133 of the Rules on Evidence;
- (3) HDSJ is estopped from raising the issue of nontransferability of the lease contract because it admitted in its letter to Ramon that there is an existing lease agreement between the parties, even after German's death:

Your Lease Contract with [HDSJ], which is an implied month-to-month contract, has to be terminated effective March 31, 2001, because by your own admission, you have continuously subleased the subject premises to about 20 families [including] a commercial establishment). This was done without the knowledge and consent of the lessor, [HDSJ], and is in violation of the Lease Contract your father signed with them.²⁵ x x x.

- (4) There is no prohibition against subleasing in the lease contract. Thus, under Article 1650 of the Civil Code, Ramon is permitted to sublease the premises; and
- (5) The letters sent by HDSJ to the Inocencios sometime in 1990 revealed that the former already knew that the premises were being subleased.

Ramon also claimed that HDSJ interfered with the contractual relations between him and his sublessees.²⁶

While the case was being tried before the MeTC-Pasay, Ramon passed away. In an Order dated 23 August 2006, the MeTC-Pasay allowed the substitution of Ramon by his wife, Analita.²⁷

The Ruling of the MeTC-Pasay

The MeTC-Pasay ruled in favor of HDSJ. In its Decision dated 22 May 2008, the MeTC-Pasay held that the lease contract could not be transmitted to Ramon as German's heir in view of the express stipulation found therein. Since there was "no lease contract between [HDSJ] and Ramon x x x the latter cannot sublease the property."²⁸ The dispositive portion of the MeTC-Pasay Decision reads:

Premises considered, judgment is hereby rendered in favor of plaintiff and against defendant as follows:

²⁵ Id. at 181.

²⁶ Id. at 728.

²⁷ Id. at 41.

²⁸ Id. at 167. Penned by Judge Catherine P. Manodon.

- 1. Ordering defendant Ramon Inocencio, substituted [by] Analita P. Inocencio, and Felipe Enar, and all persons claiming rights under them to immediately vacate the premises located at 61-C Sta. Escolastica cor. F.B. Harrison St., Pasay City and to peacefully turn over the same to plaintiff;
- 2. Ordering the defendants to pay plaintiff reasonable compensation of ₱552,195.36 for the use and occupation of the property from 01 April 2001 to 31 March 2005, and the amount of ₱10,512.00 a month from 01 April 2005 up to the present, plus twelve per cent [12%] interest per annum until the premises shall have been vacated;
- 3. Ordering the defendants to pay plaintiff the amount of ₱50,000.00 as attorney's fees and costs of suit.²⁹

Aggrieved, Analita filed an appeal before the RTC-Pasay.

The Ruling of the RTC-Pasay

On 21 January 2009, the RTC-Pasay dismissed Analita's appeal and affirmed *in toto* the decision of the MeTC-Pasay.³⁰ It held that "even before the termination of the contract, [Ramon] had no right to sublease the said property due to the [intransferability] clause in the contract."³¹

Analita moved for reconsideration, but it was denied in an Order dated 25 October 2010.³² Analita then filed a petition for review under Rule 42 of the Rules of Court before the CA.

The Ruling of the CA

The CA affirmed the decision of the RTC-Pasay but modified the award for damages. The dispositive portion of the Decision reads:

WHEREFORE, foregoing considered, the assailed Decision dated 21 January 2009 of the Regional Trial Court, Branch 119, Pasay City is AFFIRMED with the MODIFICATION that the award for reasonable compensation in paragraph 2 is pegged at Five Hundred Four Thousand Five Hundred Seventy Six Pesos (P504,576.00) representing the accumulated rentals for the period from 01 April 2001 up to 31 March 2005 with six percent (6%) interest per annum, plus the further amount of Ten Thousand Five Hundred Twelve Pesos (P10,512.00) per month from 01 April 2005 until possession is restored to respondent, also with six percent (6%) interest per annum, up to the finality of this Decision. Thereafter, the interest shall be twelve percent (12%) until the amount is fully paid.³³

²⁹ Id. at 169-170.

³⁰ Id. at 152.

³¹ Id.

³² Id. at 153-157.

³³ Id. at 24.

Hence, this petition.

The Issues

The petition questions the following rulings made by the CA:

(1) The sublease contracts were invalid;

(2) There was no tortious interference on the part of HDSJ;

- (3) Ramon did not own the buildings erected on the leased premises;
- (4) HDSJ is entitled to reasonable compensation in the amount of ₱504,576.00 and attorney's fees; and
- (5) HDSJ's action for unlawful detainer was not barred by prescription.

The Ruling of this Court

Article 1311 of the Civil Code provides:

Art. 1311. Contracts take effect only between the parties, their assigns and heirs, except in case where the rights and obligations arising from the contract are not transmissible by their nature, or by stipulation or by provision of law. The heir is not liable beyond the value of the property he received from the decedent.

хххх

We have previously ruled that lease contracts, by their nature, are not personal. The general rule, therefore, is lease contracts survive the death of the parties and continue to bind the heirs except if the contract states otherwise.³⁴ In *Sui Man Hui Chan v. Court of Appeals*,³⁵ we held that:

A lease contract is not essentially personal in character. Thus, the rights and obligations therein are transmissible to the heirs. The general rule, therefore, is that heirs are bound by contracts entered into by their predecessors-in-interest except when the rights and obligations arising therefrom are not transmissible by (1) their nature, (2) stipulation or (3) provision of law. In the subject Contract of Lease, not only were there no stipulations prohibiting any transmission of rights, but its very terms and conditions explicitly provided for the transmission of the rights of the lessor and of the lessee to their respective heirs and successors. The contract is the law between the parties. The death of a party does not excuse nonperformance of a contract, which involves a property right, and the rights and obligations thereunder pass to the successors or representatives of the deceased. Similarly, nonperformance is not excused

³⁴ Sui Man Hui Chan v. Court of Appeals, 468 Phil. 244 (2004); Heirs of Fausta Dimaculangan v. IAC, G.R. No. 68021, 20 February 1989, 170 SCRA 393, 399.

³⁵ Supra at 252.

by the death of the party when the other party has a property interest in the subject matter of the contract.

Section 6 of the lease contract provides that "[t]his contract is nontransferable unless prior consent of the lessor is obtained in writing."³⁶ Section 6 refers to transfers *inter vivos* and not transmissions *mortis causa*. What Section 6 seeks to avoid is for the lessee to substitute a third party in place of the lessee without the lessor's consent. This merely reiterates what Article 1649 of the Civil Code provides:

Art. 1649. The lessee cannot assign the lease without the consent of the lessor, unless there is a stipulation to the contrary.

In any case, HDSJ also acknowledged that Ramon is its month-tomonth lessee. Thus, the death of German did not terminate the lease contract executed with HDSJ, but instead continued with Ramon as the lessee. HDSJ recognized Ramon as its lessee in a letter dated 1 March 2001:

We acknowledge the fact that Hospicio de San Jose has been accepting the payment of your rentals since the demise of Mr. [German] Inocencio. Hence, an implied contract of lease between the two of you exists. However, since there is no stipulation as to the period of the contract and you are paying a monthly rental to our client, the period for the lease is on a month-to-month basis (Art. 1687). Thus as of this date, your contract should expire on March 31, 2001.³⁷

Section 6 of the lease contract requires written consent of the lessor before the lease may be assigned or transferred. In *Tamio v. Tecson*,³⁸ we explained the nature of an assignment of lease:

In the case of cession or assignment of lease rights on real property, there is a novation by the substitution of the person of one of the parties — the lessee. The personality of the lessee, who dissociates from the lease, disappears; only two persons remain in the juridical relation — the lessor and the assignee who is converted into the new lessee.³⁹

Assignment or transfer of lease, which is covered by Article 1649 of the Civil Code, is different from a sublease arrangement, which is governed by Article 1650 of the same Code. In a sublease, the lessee becomes in turn a lessor to a sublessee. The sublessee then becomes liable to pay rentals to the original lessee. However, the juridical relation between the lessor and lessee is not dissolved. The parties continue to be bound by the original lease contract. Thus, in a sublease arrangement, there are at least three parties and two distinct juridical relations.⁴⁰

³⁶ *Rollo*, p. 237.

³⁷ Id. at 990.

³⁸ 485 Phil. 434 (2004).

³⁹ Id. at 441-442.

⁴⁰ BPI-Family Savings Bank, Inc. v. Spouses Domingo, 538 Phil. 88 (2006).

Ramon had a right to sublease the premises since the lease contract did not contain any stipulation forbidding subleasing. Article 1650 of the Civil Code states:

Art. 1650. When in the contract of lease of things there is no express prohibition, the lessee may sublet the thing leased, in whole or in part, without prejudice to his responsibility for the performance of the contract toward the lessor.

Therefore, we hold that the sublease contracts executed by Ramon were valid.

We also find that HDSJ did not commit tortious interference. Article 1314 of the Civil Code states:

Art. 1314. Any third person who induces another to violate his contract shall be liable for damages to the other contracting party.

As correctly pointed out by the Inocencios, tortious interference has the following elements: (1) existence of a valid contract; (2) knowledge on the part of the third person of the existence of the contract; and (3) interference of the third person without legal justification or excuse.⁴¹

The facts of the instant case show that there were valid sublease contracts which were known to HDSJ. However, we find that the third element is lacking in this case.

In *So Ping Bun v. Court of Appeals*,⁴² we held that there was no tortious interference if the intrusion was impelled by purely economic motives. In *So Ping Bun*, we explained that:

Authorities debate on whether interference may be justified where the defendant acts for the sole purpose of furthering his own financial or economic interest. One view is that, as a general rule, justification for interfering with the business relations of another exists where the actor's motive is to benefit himself. Such justification does not exist where his sole motive is to cause harm to the other. Added to this, some authorities believe that it is not necessary that the interferer's interest outweighs that of the party whose rights are invaded, and that an individual acts under an economic interest that is substantial, not merely *de minimis*, such that wrongful and malicious motives are negatived, for he acts in selfprotection. Moreover, justification for protecting one's financial position should not be made to depend on a comparison of his economic interest in the subject matter with that of others. It is sufficient if the impetus of his conduct lies in a proper business interest rather than in wrongful motives.⁴³

The evidence shows that HDSJ entered into agreements with Ramon's former sublessees for purely economic reasons (payment of rentals). HDSJ had a right to collect the rentals from the sublessees upon termination of the

⁴¹ Lagon v. Court of Appeals, 493 Phil. 739 (2005).

⁴² 373 Phil. 532 (1999).

⁴³ Id. at 541.

Decision

lease contract. It does not appear that HDSJ was motivated by spite or ill will towards the Inocencios.

The Inocencios claim ownership over the buildings since these are separate and distinct from the land on which they are erected. Thus, as owners of the buildings, they have a right to lease the buildings to third persons, even after termination of the lease contract with HDSJ. To bolster their claim of ownership, the Inocencios presented the following evidence: (1) the building permit;⁴⁴ (2) the receipt for the payment of the permit fee;⁴⁵ (3) the Tax Declarations; and (4) the proof of payment of insurance.⁴⁶ The Inocencios also claimed that:

[a]s the Inocencios owned the Subject Buildings, it is respectfully submitted, and it should be clear that when they entered into lease contracts with tenants for the lease of portions of the said buildings, these contracts were independent contracts of lease over their own building and not sub-leases of the parcel of land which they leased from Respondent. It is Respondent's inaccurate characterization of the leasing by the Inocencios of portions of their own building that has obfuscated the legal issues in this case and partially led to the incorrect decisions of the courts *a quo.*⁴⁷

We do not agree. In *Duellome v. Gotico*⁴⁸ and *Caleon v. Agus Development Corporation*,⁴⁹ we held that the lease of a building includes the lease of the lot and consequently, the rentals of the building include the rentals of the lot. As correctly pointed out by HDSJ in its Comment:⁵⁰

x x x [W]hen [the Inocencios] leased the buildings to third parties, [they] also "leased" to the third parties the plot of land on which the buildings stood — either by implied transfer of the lease covering the plot of the land, or by sublease. Either way, x x x [the Inocencios themselves] must have a valid lease contract with [HDSJ] over the land. However, when the lease contract x x x [with HDSJ] ended on 31 March 2001, [Ramon] lost his status as lessee of the land, and therefore, had no authority to transfer the lease or sublease the land. x x x.⁵¹

However, we find that the CA erred in not applying Article 1678 of the Civil Code which provides:

Art. 1678. If the lessee makes, in good faith, useful improvements which are suitable to the use for which the lease is intended, without altering the form or substance of the property leased, the lessor upon the termination of the lease shall pay the lessee one-

⁴⁴ *Rollo*, p. 240.

⁴⁵ Id. at 241.

⁴⁶ Id. at 242-247.

⁴⁷ Id. at 43-44.

⁴⁸ No. L-17846, 29 April 1963, 7 SCRA 841.

⁴⁹ G.R. No. 77365, 7 April 1992, 207 SCRA 748.

⁵⁰ *Rollo*, pp. 769-888.

⁵¹ Id. at 777.

half of the value of the improvements at that time. Should the lessor refuse to reimburse said amount, the lessee may remove the improvements, even though the principal thing may suffer damage thereby. He shall not, however, cause any more impairment upon the property leased than is necessary.

With regard to ornamental expenses, the lessee shall not be entitled to any reimbursement, but he may remove the ornamental objects, provided no damage is caused to the principal thing, and the lessor does not choose to retain them by paying their value at the time the lease is extinguished.

The foregoing provision applies if the improvements were: (1) introduced in good faith; (2) useful; and (3) suitable to the use for which the lease is intended, without altering the form and substance.⁵²

We find that the aforementioned requisites are satisfied in this case. The buildings were constructed before German's demise, during the subsistence of a valid contract of lease. It does not appear that HDSJ prohibited German from constructing the buildings. Thus, HDSJ should have reimbursed German (or his estate) half of the value of the improvements as of 2001. If HDSJ is not willing to reimburse the Inocencios, then the latter should be allowed to demolish the buildings.

We also find that the action for unlawful detainer was not barred by prescription. Section 1, Rule 70 of the Rules of Court provides that actions for unlawful detainer must be filed "within one (1) year after such unlawful deprivation or withholding of possession." In interpreting the foregoing provision, this Court, in *Republic v. Sunvar Realty Development Corporation*, ⁵³ held that:

[T]he one-year period to file an unlawful detainer case is not counted from the expiration of the lease contract on 31 December 2002. Indeed, the last demand for petitioners to vacate is the reckoning period for determining the one-year period in an action for unlawful detainer. "Such one year period should be counted from the date of plaintiff's last demand on defendant to vacate the real property, because only upon the lapse of that period does the possession become unlawful."⁵⁴

HDSJ's last demand was made on 3 March 2005, and it filed the complaint for unlawful detainer on 28 June 2005. Thus, the complaint was filed within the period provided under the Rules of Court.

WHEREFORE, the petition is **PARTLY GRANTED**. The Decision dated 12 January 2012 of the Court of Appeals in CA-G.R. SP No. 117009

⁵² Arturo Tolentino, The Civil Code of the Philippines, Vol. V, p. 254 citing *Imperial Insurance, Inc. v. Simon*, No. L-20796, 31 July 1965, 14 SCRA 855; *Spouses Guzman v. Court of Appeals*, 258 Phil. 410 (1989).

⁵³ G.R. No. 194880, 20 June 2012, 674 SCRA 320.

⁵⁴ Id. at 343, citing *Estate of Soledad Manantan v. Somera*, G.R. No. 145867, 7 April 2009, 584 SCRA 81, 90.

is AFFIRMED with modification. The case is hereby **REMANDED** to the Metropolitan Trial Court of Pasay, Branch 48, for determination of the value of the improvements to be paid to the Inocencios, if Hospicio de San Jose desires to keep the improvements. Otherwise, the Inocencios shall be allowed to demolish the buildings at their expense.

SO ORDERED.

ANTONIO T. CARPIO Associate Justice

WE CONCUR:

PRESBITERO J. VELASCO, JR. Associate Justice

REZ JOSE ssociate Justice

-BERNABE ESTELA N Associate Justice

- MARVIC MARIO VICTOR F. LEONEN Associate Justice is **AFFIRMED** with modification. The case is hereby **REMANDED** to the Metropolitan Trial Court of Pasay, Branch 48, for determination of the value of the improvements to be paid to the Inocencios, if Hospicio de San Jose desires to keep the improvements. Otherwise, the Inocencios shall be allowed to demolish the buildings at their expense.

SO ORDERED.

ANTONIO T. CARPIO Associate Justice

WE CONCUR:

PRESBITERO J. VELASCO, JR. Associate Justice

REZ JOSE ssociate Justice

-BERNABE ESTELA N Associate Justice

- MARVIC MARIO VICTOR F. LEONEN Associate Justice

ATTESTATION

I attest that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.

The Rape of

ANTONIO T. CARPIO Associate Justice Chairperson

CERTIFICATION

Pursuant to Section 13, Article VIII of the Constitution, and the Division Chairperson's Attestation, I certify that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.

MARIA LOURDES P. A. SERENO Chief Justice