



Republic of the Philippines  
Supreme Court  
Manila

**SECOND DIVISION**

**SPOUSES ALEJANDRO MANZANILLA  
AND REMEDIOS VELASCO,**  
*Petitioners,*

**G.R. No. 177484**

Present:

- versus -

CARPIO, *Chairperson,*  
BRION,  
DEL CASTILLO,  
PEREZ, *and*  
PERLAS-BERNABE, *JJ.*

**WATERFIELDS INDUSTRIES  
CORPORATION, represented by its  
President, ALIZA MA,**  
*Respondent.*

Promulgated:

JUL 18 2014 *Alonzo Cabalag*

X ----- X

**DECISION**

**DEL CASTILLO, J.:**

Assailed in this Petition for Review on *Certiorari* is the September 15, 2006 Decision<sup>1</sup> 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<sup>2</sup> 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<sup>3</sup> 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<sup>4</sup> denying the Motion for Reconsideration thereof. *Moc*

<sup>1</sup> CA rollo, pp. 223-228; penned by Associate Justice Edgardo P. Cruz and concurred in by Associate Justices Jose C. Reyes, Jr. and Enrico A. Lanzas.

<sup>2</sup> Id. at 35-38; penned by Judge Guillermo G. Purganan.

<sup>3</sup> Id. at 39-43; penned by Judge Leonardo P. Reyes.

<sup>4</sup> Id. at 254-256.

*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<sup>5</sup> 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 (₱18,000.00) 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 (₱216,000.00) 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.<sup>6</sup>

The parties executed on June 6, 1994 an Amendment to the Contract of Lease.<sup>7</sup> 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<sup>8</sup> 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

<sup>5</sup> Id. at 55-58.  
<sup>6</sup> Id. at 56; emphasis supplied.  
<sup>7</sup> Id. at 59-61.  
<sup>8</sup> Id. at 62-63.

10 July 97	18,000.00
check replacement	<u>8,000.00</u>
	₱70,000.00

by way of check payment dated July 15, 1997.

In addition to the aforementioned, I will give a check for the amount of ₱18,000, 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 10<sup>th</sup> 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<sup>9</sup>

On July 30, 1998, the spouses Manzanilla filed before the MTC a Complaint<sup>10</sup> 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.<sup>11</sup> 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 ₱18,000.00 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 ₱108,000.00. 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.<sup>12</sup> And since Waterfields still failed to comply with their final demand to pay and vacate,<sup>13</sup> 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 ₱108,000.00 as of May 1998, the succeeding rentals of ₱18,000.00 a month until the property is vacated, the interest due thereon, attorney's fees, and cost of suit.

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<sup>9</sup> Id.; emphasis supplied.

<sup>10</sup> Id. at 44-49.

<sup>11</sup> Id. at 45.

<sup>12</sup> Id. at 46.

<sup>13</sup> Per demand letter dated June [30], 1998 as alleged in p. 1 of the MTC Decision, id. at 39.

In its Answer,<sup>14</sup> 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 ₱7,000,000.00; and (4) it caused the installation in the said premises of an electrical system for ₱80,000.00 and water system for ₱150,000.00. 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 ₱216,000.00 (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 ₱10,000,000.00 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<sup>15</sup> 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

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1. vacate subject premises and surrender same peacefully to [the spouses Manzanilla];

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<sup>14</sup> Id. at 50-54.

<sup>15</sup> Id. at 39-43.

2. to pay [the spouses Manzanilla] the sum of ₱108,000.00 representing rental arrears from December, 1997 to May, 1998, and the sum of ₱18,000.00 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.”<sup>16</sup>

### ***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<sup>17</sup> 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.”<sup>18</sup>

### ***Ruling of the Court of Appeals***

The CA, however, had a different take. In its Decision<sup>19</sup> 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:

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<sup>16</sup> Id. at 43.

<sup>17</sup> Id. at 35-38.

<sup>18</sup> Id. at 38.

<sup>19</sup> Id. at 223-228.

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**.<sup>20</sup>

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 ₱216,000.00 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 ₱144,000.00 as unpaid rentals covering the period December 1997 to July 1998, while [the SpousesManzanilla] owed [Waterfields] the sum of ₱216,000.00 representing its rental deposit. Offsetting the ₱144,000.00 unpaid rentals against the ₱216,000.00 rental deposit, [Waterfields] emerges as the creditor to the tune of ₱72,000.00. In other words, as of the filing of the action, respondents were even overpaid in the sum of ₱72,000.00.<sup>21</sup>

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.<sup>22</sup>

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.<sup>23</sup>

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<sup>20</sup> Id. at 62; emphasis supplied.

<sup>21</sup> Id. at 227.

<sup>22</sup> Id.

<sup>23</sup> Id. at 227-228; emphasis in the original.

The spouses Manzanilla filed a Motion for Reconsideration,<sup>24</sup> which was denied by the CA in a Resolution<sup>25</sup> 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 PROVISIONS OF ARTICLE 1278 OF THE NEW CIVIL CODE WAS [SIC] APPLICABLE AND THAT COMPENSATION HAD TAKEN PLACE.

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 DISMISSED HEREIN PETITIONER[S'] ACTION FOR UNLAWFUL DETAINER.<sup>26</sup>

### *The Parties' Arguments*

The spouses Manzanilla contend that there can be no issue as to the due execution, effectivity and enforceability of Ma's July 9, 1997 letter since aside from the fact that Waterfields itself admitted in its Answer that the Contract of Lease was amended on July 9, 1997, the MTC and the RTC had uniformly ruled that the said letter operates as an amendment to the original contract. And as the rental deposit cannot be applied as payment for the monthly rentals pursuant to the amendment, Waterfields is considered in default in its payment thereof. Conversely, Waterfields has committed a violation of the Contract of Lease which gave rise to a cause of action for ejectment against it.

The spouses Manzanilla likewise question the CA's application of the principle of compensation. To them, compensation cannot take place in this case because (1) the parties are not principal creditors of each other; (2) the ₱216,000.00 rental deposit cannot be considered as debt; and (3) the said amount has not yet been liquidated.

Waterfields, for its part, continues to stress that Ma's letter of July 9, 1997 was merely in the latter's handwriting, unsigned by both parties, and unsubscribed before a notary public. Being so, it could not have the effect of amending Section 4 of the original contract. This therefore negates the spouses Manzanilla's claim that Waterfields was in default in its payment of the monthly rentals since the

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<sup>24</sup> Id. at 229-234.

<sup>25</sup> Id. at 254-256.

<sup>26</sup> *Rollo*, pp. 14-15.

rental deposit could very well be utilized for the same per the said Section 4. Besides, sustaining the rulings of the MTC and RTC will result in unjust enrichment considering that Waterfields will be constrained to hand over to the spouses Manzanilla the subject property for which it had spent almost ₱10,000,000.00 in improvements. Waterfields surmises that the CA must have seen this inequitable situation such that it reversed the rulings of the trial courts. Further, it concurs with the CA when it applied the principle of compensation.

### Our Ruling

There is merit in the Petition.

*The CA has confused itself in resolving the basic issue involved in this case.*

It is quite unfortunate that the CA has apparently confused itself in resolving the basic issue involved in this case.

As may be recalled, the spouses Manzanilla, on account of Waterfields' alleged violation of the contract of lease by non-payment of rentals, considered the contract terminated and demanded for the latter to pay its obligation and vacate the property. As demand proved futile, the said spouses filed the Complaint for ejectment [unlawful detainer].

In *Fideldia v. Sps. Mulato*,<sup>27</sup> the Court held that:

For the purpose of bringing an unlawful detainer suit, two requisites must concur: (1) **there must be failure to pay rent or comply with the conditions of the lease**, and (2) there must be demand both to pay or to comply and vacate. **The first requisite refers to the existence of the cause of action for unlawful detainer**, while the second refers to the jurisdictional requirement of demand in order that said cause of action may be pursued. Implied in the first requisite, which is needed to establish the cause of action of the plaintiff in an unlawful detainer suit, is the presentation of the contract of lease entered into by the plaintiff and the defendant, the same being needed to establish the lease conditions alleged to have been violated. Thus, in *Bachrach Corporation v. Court of Appeals*, the Court held that **the evidence needed to establish the cause of action in an unlawful detainer case is (1) a lease contract and (2) the violation of that lease by the defendant**.<sup>28</sup>

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<sup>27</sup> 586 Phil. 1 (2008).

<sup>28</sup> Id. at 14; emphasis supplied; citations omitted.



Here, there is no issue with respect to demand. What is in question is the presence of a cause of action. As mentioned above, courts, in order to ascertain whether there is cause of action for unlawful detainer, must inquire into (a) the existence of the lease contract and, (b) the violation of that lease by the lessee. Since in this case the existence of a lease contract between the parties is undisputed, the focus is on the supposed violation of the lease, that is, Waterfields' alleged non-payment of rent. The basic question that thus presents itself for determination is: *Did Waterfields fail to pay rent?* The answer to this is crucial as from the same will depend the existence of the cause of action. However, since Waterfields denies that it failed to pay rent and puts up the claim that it was utilizing the rental deposit as rental payment, a preliminary question emerges, viz: *May the rental deposit be utilized as rental payment?*

Accordingly, the MTC in resolving the case first determined if the July 9, 1997 letter operates as an amendment to the original contract. Finding in the affirmative, it declared that the rental deposit cannot be utilized as payment for the rentals in view of the said amendment. As things thus stood, the rental for the months of December 1997 to May 1998, as stated in the Complaint, remained unpaid. Clearly, there was failure on the part of Waterfields to pay rent and, consequently, it committed a violation of the lease. It is this violation which gave rise to a cause of action for unlawful detainer against Waterfields as well as to the right of the spouses Manzanilla to consider the contract terminated. And as the two requisites of an unlawful detainer suit are obtaining in this case, i.e., cause of action and demand, the MTC ultimately sustained the spouses Manzanilla's Complaint. Finding this in order, the RTC affirmed *in toto* the MTC's Decision.

Surprisingly, the CA in resolving the Petition for Review before it, veered from the incisive approach by which the trial courts determined if there exists a cause of action. It gave credit to the spouses Manzanilla's allegation in the Complaint that they terminated the contract of lease, viz:

Prior to the institution of the action, [the spouses Manzanilla] terminated the Contract. Thus, par. 8 of the complaint states that '(i)n view of [Waterfield's] aforesaid violations, the lease contract of the parties was terminated and/or rescinded' per [the spouses Manzanilla's] 'final letter terminating (the) subject lease contract.'<sup>29</sup>

Without first finding for itself whether there is a violation of the contract through non-payment of rent as to justify the alleged termination, the CA impliedly considered the contract validly terminated and based on this premise applied the following portion of Ma's July 9, 1997 letter:

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<sup>29</sup> CA rollo, p. 226.

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.

Accordingly, the CA ruled that the spouses Manzanilla should have returned the whole amount of the rental deposit to Waterfields upon the termination of the contract there being no allegation of unpaid utilities and expenses in the Complaint. Not having done so, it considered the spouses Manzanilla as debtors of Waterfields with respect to the rental deposit, and Waterfields, in turn, as debtor of the spouses Manzanilla anent the unpaid rentals for the months of December 1997 to July 1998.<sup>30</sup> Applying the principle of compensation, it then declared that the spouses Manzanilla have no cause of action against Waterfields since the rental deposit was sufficient to cover the unpaid rentals for the said months.

The Court, however, finds the CA disquisition flawed.

First, the CA should not have immediately assumed as true the spouses Manzanilla's allegation that the contract was already terminated. Aside from the fact that this termination was specifically denied by Waterfields in its Answer,<sup>31</sup> it is settled that a mere assumption cannot be made the basis of a decision in a case or in granting relief. A judgment must always be based on the court's factual findings.<sup>32</sup>

Second, it must be stressed that in this case, the violation of the lease through non-payment of rent is what constitutes the cause of action.<sup>33</sup> Hence, once the failure to pay rent is established, a cause of action for unlawful detainer arises. The CA should have therefore limited itself to the determination of whether Waterfields failed to pay rents for the months of December 1997 to May 1998 as complained of by the spouses Manzanilla. Upon coming up with an answer to this, the CA should have stopped there since at that point, it can already conclude whether there exists a cause of action for unlawful detainer, which as mentioned is the only contentious issue involved in this case.

The problem, however, is that the CA acted on its mistaken notion as to when a cause of action arises. It did not base its determination of the existence of the cause of action from the fact that Waterfields failed to pay rents from December 1997 to May 1998. To it, the cause of action in this case only arose

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<sup>30</sup> Although the Complaint alleged unpaid rentals for December 1997 to May 1998, the CA likewise considered the unpaid rents for the months of June to July 1998 since the Complaint was filed on July 30, 1998.

<sup>31</sup> CA *rollo*, p. 50; the termination of the contract was alleged by the spouses Manzanilla in paragraph 8 of their Complaint and this was specifically denied by Waterfields under paragraph 3 of its Answer.

<sup>32</sup> *Sps. Guidangen v. Wooden*, G.R. No. 174445, February 15, 2012, 666 SCRA 119, 133.

<sup>33</sup> *Fideldia v. Sps. Mulato*, *supra* note 27 at 114.

after the contract was terminated and the rental deposit was found sufficient to cover the unpaid rentals. This is erroneous since as already discussed, it is the failure to pay rent which gives rise to the cause of action. Prescinding from this, the CA's acknowledgement that Waterfields failed to pay rent, as shown by its declaration that the latter is the debtor of the spouses Manzanilla with respect to the unpaid rentals, is clearly inconsistent with the conclusion that no cause of action for ejectment exists against Waterfields.

Failure to pay the rent must precede termination of the contract due to non-payment of rent. It therefore follows that the cause of action for unlawful detainer in this case must necessarily arise before the termination of the contract and not the other way around as what the CA supposed. Indeed, in going beyond the termination of the contract, the CA went a bit too far in its resolution of this case.

In view of the foregoing, the Court need not belabor the parties' arguments respecting the principle of compensation, the same having been anchored by the CA on its mistaken premise as discussed above.

Be that as it may, this Court, in line with its bounden-duty, shall in the following discussion put things in their proper light.

*Waterfields cannot now contradict its judicial admission that the Contract of Lease was amended on July 9, 1997; the doctrine of estoppel likewise bars it from falsifying Ma's July 9, 1997 letter in this litigation.*

Section 4, Rule 129 of the Rules of Court provides:

SEC. 4. *Judicial admissions.* – An admission, verbal or written, made by a party in the course of the proceedings in the same case, does not require proof. The admission may be contradicted only by showing that it was made through palpable mistake or that no such admission was made.

“A party may make judicial admissions in (a) the pleadings, (b) during trial, either by verbal or written manifestations or stipulations, or (c) in other stages of the judicial proceeding.”<sup>34</sup>

Here, paragraph 5 of the Complaint alleges:

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<sup>34</sup> *Spouses Binarao v. Plus Builders, Inc.*, 524 Phil. 361, 365 (2006).

5. That, subsequently, the said Contract of Lease **was amended on** 06 June 1994 and on **09 July 1997** x x x.<sup>35</sup>

Whereas, paragraph 2 of Waterfields' Answer reads:

2. Paragraphs 4, **5**, and 6 of the Complaint are admitted.<sup>36</sup>

Clearly, Waterfields admitted in its Answer the truth of the material allegation that the Contract of Lease was amended on July 9, 1997. "It is well-settled that judicial admissions cannot be contradicted by the admitter who is the party [itself] and binds the person who makes the same, and absent any showing that this was made thru palpable mistake (as in this case), no amount of rationalization can offset it."<sup>37</sup>

Moreover, "[u]nder the doctrine of estoppel, an admission or representation is rendered conclusive upon the person making it, and cannot be denied or disproved as against the person relying thereon. A party may not go back on his own acts and representations to the prejudice of the other party who relied upon them. In the law of evidence, whenever a party has, by his own declaration, act, or omission, intentionally and deliberately led another to believe a particular thing [to be] true, and to act upon such belief, he cannot, in any litigation arising out of such declaration, act, or omission, be permitted to falsify it."<sup>38</sup>

In view of these, any effort on the part of Waterfields to impugn the July 9, 1997 letter is futile.

*Even without the above-mentioned admission of Waterfields, the contemporaneous and subsequent acts of the parties reveal their intention to amend the original Contract of Lease.*

Article 1371 of the Civil Code provides that "to judge the intention of the contracting parties, their contemporaneous and subsequent acts shall be principally considered." "[I]n doing so, the courts may consider the relations existing between the parties and the purpose of the contract."<sup>39</sup>

As aptly opined by the MTC, the intention of Waterfields in coming up with the July 9, 1997 letter is to repress its violation of the contract since at that

<sup>35</sup> CA rollo, p. 45. Emphasis supplied.

<sup>36</sup> Id. at 50. Emphasis supplied.

<sup>37</sup> *Sps. Binarao v. Plus Builders, Inc.*, supra note 33 at 366.

<sup>38</sup> *Caltex (Philippines), Inc. v. Court of Appeals*, G.R. No. 97753, August 10, 1992, 212 SCRA 448, 457.

<sup>39</sup> *Kuwait Airways Corporation v. Philippine Airlines, Inc.*, 605 Phil. 474, 488 (2009).

time it was already in default in the payment of rent since April 1997. Hence, aside from promising to pay its rental arrears from April 1997 to July 1997, Waterfields, in order to assuage the spouses Manzanilla, likewise pledged to pay rent in advance starting August 1997. More significantly, it undertook to amend the original contract by stating that the rental deposit shall be used exclusively for payment of unpaid utilities and incidental expenses. Clearly, Waterfields intended to give the spouses Manzanilla extra advantage by virtue of the said letter-amendment. This is considering that during those times, the said spouses may at any time opt to enforce their right to eject Waterfields from the premises since Waterfields was then admittedly in default. Obviously, Waterfields got what it wanted as it was not ejected from the premises and instead, its payment in arrears was accepted by the spouses Manzanilla. On the other hand, the spouses Manzanilla, by so doing, agreed to the amendment as contained in the July 9, 1997 letter and was supposed to enjoy the advantage of receiving advanced rental payment and of applying the rental deposit only against the unpaid utilities and incidental expenses. Plainly, both parties expected to benefit from the July 9, 1997 letter such that their intention to give effect to the same, including the part that amends the original contract which is the one in issue in this case, is evident.

*Waterfields' claim of unjust enrichment is unworthy of credence.*

Waterfields avers that sustaining the trial courts' ruling would amount to unjust enrichment since it would be constrained to hand over to the spouses Manzanilla, even before the expiration of the lease, the subject premises for which it had already spent substantial amounts in terms of improvements.

"The principle of unjust enrichment requires two conditions: (1) that a person is benefited without a valid basis or justification, and (2) that such benefit is derived at the expense of another."<sup>40</sup> It does not, however, apply in this case since any benefit that the spouses Manzanilla may obtain from the subject premises cannot be said to be without any valid basis or justification. It is well to remind Waterfields that they violated the contract of lease and that they failed to vacate the premises upon demand. Hence, the spouses Manzanilla are justified in recovering the physical possession thereof and consequently, in making use of the property. Besides, in violating the lease by failing to pay the rent, Waterfields took the risk of losing the improvements it introduced thereon in favor of the spouses Manzanilla. This is because despite the fact that the lease contract provides that in case of termination of the lease agreement all permanent improvements and structures found in the subject premises shall belong to the lessors,<sup>41</sup> it still violated the lease.

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<sup>40</sup> *Flores v. Lindo, Jr.*, G.R. No. 183984, April 13, 2011, 648 SCRA 772, 783.

<sup>41</sup> Paragraph 2, Section 8 of the Contract of Lease, *CA rollo*, p. 56.

All told, the Court sustains the RTC in affirming the MTC's grant of the spouses Manzanilla's Complaint for ejectment against Waterfields.

**WHEREFORE**, the Petition is **GRANTED**. The Decision dated September 15, 2006 and Resolution dated April 12, 2007 of the Court of Appeals in CA-G.R. SP No. 60010 are **REVERSED and SET ASIDE**. The Decision dated July 14, 2000 of the Regional Trial Court of Manila, Branch 42 in Civil Case No. 00-96228, which affirmed the Decision dated May 7, 1999 of the Metropolitan Trial Court of Manila, Branch 4 in Civil Case No. 160443-CV granting the Complaint, is **REINSTATED and AFFIRMED**.

**SO ORDERED.**

  
**MARIANO C. DEL CASTILLO**  
*Associate Justice*

WE CONCUR:

  
**ANTONIO T. CARPIO**  
*Associate Justice*  
*Chairperson*

  
**ARTURO D. BRION**  
*Associate Justice*

  
**JOSE PORTUGAL PEREZ**  
*Associate Justice*

  
**ESTELA M. PERLAS-BERNABE**  
*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.

**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*