



Republic of the Philippines  
**Supreme Court**  
 Manila

**SECOND DIVISION**

**HILLTOP MARKET FISH  
 VENDORS' ASSOCIATION, INC.,**  
 Petitioner,

**G.R. No. 188057**

Present:

- versus -

CARPIO, *J.*, Chairperson,  
 PERALTA,  
 MENDOZA,  
 LEONEN,\* and  
 MARTIRES, *JJ.*

**HON. BRAULIO YARANON,**  
 City Mayor, Baguio City,  
**HON. GALO WEYGAN,** City  
 Councilor and Chairman Anti-Vice  
 Coordinating Task Force, and the  
**CITY GOVERNMENT OF BAGUIO,**  
 Respondents.

Promulgated:

**12 JUL 2017**

*[Handwritten signature]*

x -----x

**DECISION**

**CARPIO, *J.*:**

**The Case**

This petition for review<sup>1</sup> assails the Decision<sup>2</sup> dated 27 November 2008 and the Resolution<sup>3</sup> dated 15 May 2009 of the Court of Appeals (CA) affirming the Decision<sup>4</sup> dated 28 September 2006 of the Regional Trial Court of Baguio City, Branch 3 (RTC) in Civil Case No. 5994-R.

**The Facts**

The facts, as culled from the records, are as follows:

\* On leave.  
<sup>1</sup> *Rollo*, pp. 9-32. Under Rule 45 of the 1997 Rules of Civil Procedure.  
<sup>2</sup> Id. at 36-45. Penned by Associate Justice Monina Arevalo-Zenarosa, with Associate Justices Regalado E. Maambong and Ramon R. Garcia concurring.  
<sup>3</sup> Id. at 54-55.  
<sup>4</sup> Id. at 188-196. Penned by Judge Fernando Vil Pamintuan.

*[Handwritten mark]*

On 22 June 1974, petitioner Hilltop Market Fish Vendors' Association, Inc. (Hilltop), represented by its president Gerardo Rillera (Rillera), and respondent City of Baguio, represented by its then Mayor Luis Lardizabal, entered into a Contract of Lease<sup>5</sup> over a lot owned by the City of Baguio, with an area of 568.80 square meters and located at the Hilltop Market, Baguio City.

The contract provided that the period of lease is 25 years, renewable for the same period at the option of both parties, and the annual lease rental is ₱25,000, with the first payment commencing upon the issuance by the City Engineer's Office of the Certificate of full occupancy (Certificate) of the building to be constructed by Hilltop on the lot. Before the Certificate is issued, the City of Baguio can continue collecting market fees from the vendors who are allowed to occupy any portion of the building. At the termination of the lease period, the City of Baguio will own the building without payment or reimbursement for Hilltop's costs.

Sometime in 1975, Hilltop constructed the building, thereafter known as the Rillera building, on the lot. Even though the City Engineer's Office did not issue a Certificate, Hilltop's members occupied the Rillera building and conducted business in it.

On 16 October 1980, the City Council of Baguio, through its then Mayor Ernesto Bueno, issued Resolution No. 74-80<sup>6</sup> rescinding the contract of lease with Hilltop, for its continued failure to comply with its obligation to complete the Rillera building. In Resolution Nos. 18-81<sup>7</sup> and 50-86,<sup>8</sup> the City Council of Baguio reiterated its resolution to rescind the contract and sought to undertake the completion of the building.

On 20 February 1990, then Mayor Jaime Bugnosen ordered the closure of the two upper floors of the Rillera building based on the City Council's Resolution No. 24, s. of 1990, that the Rillera building failed to comply with the minimum sanitary standards under Presidential Decree No. 856.<sup>9</sup>

In a Letter to the Building Official, City Administrator Leonardo dela Cruz stated that "Rillera and his officers would like to discuss x x x the possibility of completing the necessary requirements for the x x x permit to occupy the Rillera building."<sup>10</sup>

<sup>5</sup> Id. at 79-82.

<sup>6</sup> Id. at 105-106.

<sup>7</sup> Id. at 107. Dated 26 February 1981.

<sup>8</sup> Id. at 108. Dated 7 May 1986.

<sup>9</sup> Id. at 110.

<sup>10</sup> Id. at 177. Dated 14 March 1990.



Subsequently, the City Engineer's Office issued its finding that the two upper floors of the Rillera building were unsafe for occupancy.<sup>11</sup> Thereafter, it recommended to condemn the building.<sup>12</sup> Sometime in 2003, then Mayor Bernardo Vergara issued a notice to take over the Rillera building.<sup>13</sup>

On 28 February 2005, respondent then Mayor Braulio Yaranon (Yaranon) issued Administrative Order No. 030 S. 2005 (AO No. 30), ordering the City Building and Architects Office (CBAO) and Public Order and Safety Division to immediately close the Rillera building to have it cleaned, sanitized and enclosed; to prevent illegal activities in it; and for its completion and preparation for commercial use.<sup>14</sup>

On 7 March 2005, Hilltop filed with the RTC a Complaint with Very Urgent Application for Temporary Restraining Order and Writ of Preliminary Injunction<sup>15</sup> praying that the court issue an injunction against the implementation of AO No. 30 and order the concerned office to issue the Certificate to make the contract of lease effective.

In their Answer dated 13 April 2005,<sup>16</sup> Yaranon and respondent Galo Weygan alleged that the Certificate was not issued to Hilltop because the Rillera building was not completed, and there were no provisions for electrical and plumbing systems or facilities for conduct of regular business. In any case, they argued that the issuance of the Certificate shall only signal the start of payment of annual lease rental and not the effectivity of the contract. They further alleged that even without the Certificate, Hilltop's members occupied the building and conducted business in it; hence, Hilltop already waived the condition.

### **The Ruling of the RTC**

After trial, the RTC ruled in favor of the City of Baguio and dismissed the complaint. The dispositive portion of the Decision states:

WHEREFORE, the instant complaint is hereby DISMISSED.

The defendant, Baguio City Council Resolution giving rise to Administrative Order No. 030 s. 2005 is hereby found to be valid, and according to law.

IT IS SO ORDERED.<sup>17</sup>

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<sup>11</sup> Id. at 112.  
<sup>12</sup> Id. at 114.  
<sup>13</sup> Id. at 117.  
<sup>14</sup> Id. at 89.  
<sup>15</sup> Id. at 60-77.  
<sup>16</sup> Id. at 94-104.  
<sup>17</sup> Id. at 196.



The RTC found that the contract of lease automatically expired on 22 June 1999, because the lease period of 25 years was expressly provided in the contract of lease dated 22 June 1974. The RTC did not give weight to Hilltop's contention that the Certificate authorized it to occupy the lot because even without the Certificate, Hilltop already occupied the lot as early as 22 June 1974 up to the present, which is beyond the 25-year period provided in the contract of lease. The RTC further found the Rillera building unsanitary and dangerous to those occupying it.

### **The Ruling of the CA**

The CA affirmed the decision of the RTC and ruled that there was already a perfected contract of lease: the issuance of the Certificate was imposed only on the performance of the obligations contained in it. The CA held that Hilltop is estopped from claiming that the period of lease has not begun, since it already occupied the Rillera building and conducted business in it even without the Certificate.

In a Resolution dated 15 May 2009, the CA denied the motion for reconsideration.

Hence, this petition.

### **The Issues**

Hilltop raises the following issues for resolution:

THE COURT OF APPEALS ERRED IN FINDING THAT THE CONTRACT OF LEASE ENTERED INTO BY THE PARTIES WAS ALREADY PERFECTED CONTRARY TO EVIDENCE AND TO LAW.

THE COURT OF APPEALS ERRED IN RULING THAT THE PETITIONER IS ESTOPPED FROM CLAIMING THAT THE PERIOD OF LEASE HAS NOT YET BEGAN CONTRARY TO EVIDENCE AND TO LAW.

THE COURT OF APPEALS ERRED IN FINDING THAT RESPONDENTS PROPERLY WITHHELD THE ISSUANCE OF THE OCCUPATION PERMIT TO PETITIONER.

THE COURT OF APPEALS ERRED IN NOT RULING ON AND AWARDING THE DAMAGES PRAYED FOR BY PETITIONER CONTRARY TO EVIDENCE AND TO LAW.<sup>18</sup>



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<sup>18</sup> Id. at 17-18.

### The Ruling of the Court

We deny the petition.

In a contract of lease, one of the parties binds himself to give to another the enjoyment or use of a thing for a price certain, and for a period which may be definite or indefinite.<sup>19</sup> Being a consensual contract, a lease is perfected at the moment there is a meeting of the minds upon the thing and the cause or consideration which are to constitute the contract.<sup>20</sup> Thereafter, the lessor is obliged to deliver the thing which is the object of the contract in such a condition as to render it fit for the use intended, and the lessee is obliged to use the thing leased as a diligent father of a family, devoting it to the use stipulated or that which may be inferred from the nature of the thing leased.<sup>21</sup>

The relevant provisions of the contract of lease between Hilltop and the City of Baguio are:

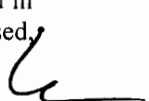
That the LESSOR leases unto the LESSEE, and the latter hereby accepts in lease from the former, that area of 568.80 square meters, as shown in the location plan prepared by the City Engineer's Office, the same being originally occupied by the fish vendors and where the construction of the proposed Fish Market Building is now being done, located at the Hilltop Market, Baguio City under the following terms and conditions, to wit:

1. That the above-referred to location plan prepared by the City Engineer's Office be made an integral part of this contract in order to properly delimit the area under lease;
2. That the period of the lease will be twenty-five (25) years renewable for the same period at the option of both parties, that is the City of Baguio which will be represented by the City Mayor and the Hilltop and Fish Vendors' Association, Inc.;
3. That the annual lease rental shall be ₱25,000.00 payable within the first 30 days of each and every year; the first payment to commence immediately upon issuance by the City Engineer's Office of the Certificate of full occupancy of the entire building to be constructed thereon, provided further, that before the certification of full occupancy of the entire building is issued by the City Engineer's Office, the City shall continue collecting market fees due from the vendors who would be allowed to occupy whether permanently or temporarily any portion/floor of said building, and said collection to belong to the City of Baguio;

<sup>19</sup> Civil Code, Article 1643.

<sup>20</sup> *Bugatti v. Court of Appeals*, 397 Phil. 376 (2000).

<sup>21</sup> Civil Code, Article 1654 provides: "The lessor is obliged: (1) To deliver the thing which is the object of the contract in such a condition as to render it fit for the use intended; (2) To make on the same during the lease all the necessary repairs in order to keep it suitable for the use to which it has been devoted, unless there is a stipulation to the contrary; (3) To maintain the lessee in the peaceful and adequate enjoyment of the lease for the entire duration of the contract." Article 1657 provides: "The lessee is obliged: (1) To pay the price of the lease according to the terms stipulated; (2) To use the thing leased as a diligent father of a family, devoting it to the use stipulated; and in the absence of stipulation, to that which may be inferred from the nature of the thing leased, according to the custom of the place; (3) To pay expenses for the deed of lease."



4. That the annual lease rental of ₱25,000.00 stipulated in paragraph (3) hereof, shall be for fifteen (15) years from date of effectivity of the contract and for the remaining ten (10) years thereafter, the parties herein shall determine another rate of rental that may be deemed equitable by the LESSOR taking into consideration the increase of commercial value of the premises, the aggregate improvements made and all the unearned increments that have accrued with the time, place and other circumstances affecting the value of the premises which is the subject matter of this contract;

5. That the building to be constructed by the Hilltop Market Vendors' Association, Inc., on the lot, subject of the lease, shall subsequently be owned by the City of Baguio at the termination of the lease period herein-before mentioned without payment or reimbursement for its costs;

x x x x

10. That the Hilltop Market and Fish Vendors' Association, Inc., shall maintain the cleanliness and sanitation of the building and its premises at its expense in accordance with existing ordinances and future ordinances and existing rules and regulations on cleanliness and sanitation;<sup>22</sup>

x x x x

In a contract of lease, the cause or essential purpose is the use and enjoyment of the thing.<sup>23</sup> The thing or subject matter of the contract in this case was clearly identified and agreed upon as the lot where the building would be constructed by Hilltop. The consideration were the annual lease rental and the ownership of the building upon the termination of the lease period. Considering that Hilltop and the City of Baguio agreed upon the essential elements of the contract, the contract of lease had been perfected.

From the moment that the contract is perfected, the parties are bound to fulfill what they have expressly stipulated.<sup>24</sup> Thus, the City of Baguio gave the use and enjoyment of its lot to Hilltop. Both the RTC and the CA found that upon the execution of the contract on 22 June 1974, Hilltop took possession of the lot and constructed the Rillera building on it. Thereafter, Hilltop's members occupied the Rillera building and conducted business in it up to the present. The findings of fact of the RTC and the CA are final and conclusive and cannot be reviewed on appeal by this Court.<sup>25</sup>

Since Hilltop exercised its right as lessee based on the contract of lease and the law, it has no basis in claiming that the contract of lease did not commence.

Contrary to Hilltop's contention, the issuance of the Certificate was not a suspensive condition which determines the perfection of the contract or its effectivity. The contract of lease specifically provides that: "x x x the annual lease rental shall be ₱25,000 payable within the first 30 days of each and every year; **the first payment to commence immediately upon issuance by the City Engineer's Office of the Certificate of full**

<sup>22</sup> Rollo, pp. 79-81.

<sup>23</sup> *Philippine National Construction Corporation v. Court of Appeals*, 338 Phil. 691 (1997).

<sup>24</sup> Civil Code, Article 1315.

<sup>25</sup> *R & M General Merchandise v. Court of Appeals*, 419 Phil. 131 (2001).

**occupancy** of the entire building to be constructed thereon x x x.”<sup>26</sup> Clearly, the issuance of the Certificate is only a condition that will make Hilltop start paying the annual lease rental to the City of Baguio. Because the Certificate was not issued, the payment of annual lease rental did not commence. A contract constitutes the law between the parties and they are, therefore, bound by its stipulations.<sup>27</sup> If the terms of a contract are clear and leave no doubt as to the intention of the contracting parties, the literal meaning of its stipulations shall control.<sup>28</sup>

Hilltop failed to distinguish between a condition imposed upon the perfection of the contract and a condition imposed on the performance of an obligation. Failure to comply with the first condition results in the failure of a contract, while the failure to comply with the second condition only gives the other party the option either to refuse to proceed or to waive the condition.<sup>29</sup> In this case, the condition, which is the issuance of the Certificate, was imposed only for the obligation to pay the rent to commence. Payment of the price, or the rent, in this case, goes into the performance of the contract and has nothing to do with the perfection of the contract.<sup>30</sup>

As further found by the CA:

x x x. Considering however that plaintiff-appellant has occupied the building and conducted therein business without the certificate, it is now estopped to claim that the period of lease has not yet began.

It would be incredible for plaintiff-appellant to assert that the certificate was a condition prior to its occupancy. Plaintiff-appellant raised no protest when it occupied [the] Rillera [b]uilding. Furthermore, it took no direct action to promptly disavow or disaffirm the alleged condition in the lease contract. As a matter of fact, it was only in 1999, when the term of the contract had expired, that plaintiff-appellant became persistent in trying to obtain the certificate from defendants-appellees.

By its continued silence, it has agreed that the issuance of the said certificate was not a condition to the perfection of the lease contract. The rule of acquiescence by silence has estopped plaintiff-appellant to deny the reality of the state of things which it made to appear to exist and upon

<sup>26</sup> *Rollo*, p. 79.

<sup>27</sup> *Id.*, Civil Code, Article 1159.

<sup>28</sup> *Id.*, citing Civil Code, Article 1370; *Baylon v. Court of Appeals*, 371 Phil. 435 (1999).

<sup>29</sup> *Laforteza v. Machuca*, 389 Phil. 167 (2000); Civil Code, Article 1653 provides: “The provisions governing warranty, contained in the Title on Sales, shall be applicable to the contract of lease. x x x.”

Civil Code, Article 1545 (Title on Sales, Section 3 on Conditions and Warranties) provides: “Where the obligation of either party to a contract of sale is subject to any condition which is not performed, such party may refuse to proceed with the contract or he may waive performance of the condition. If the other party has promised that the condition should happen or be performed, such first mentioned party may also treat the nonperformance of the condition as a breach of warranty. x x x.”

<sup>30</sup> *Sps. Buenaventura v. Court of Appeals*, 461 Phil. 761 (2003).



which others have been led to rely. Parties must take the consequences of the position they assume.<sup>31</sup>

Hilltop is also estopped from claiming that the contract of lease did not commence since it based its occupancy of the Rillera building on the contract of lease. In its petition, Hilltop alleged that “an examination of the provisions of the contract of lease would show that the terms and conditions for the possession and occupation of the building before the issuance of the occupancy permit by respondents has, likewise, been contemplated by the parties.”<sup>32</sup>

On Hilltop’s allegation that it completed the building as early as 1975, the records show that the City Council of Baguio issued Resolutions demanding for the rescission of the contract of lease for failure of Hilltop to complete the construction of the Rillera building. In reply, the Letter to the Building Official stated that “Rillera and his officers would like to discuss x x x the possibility of completing the necessary requirements for the x x x permit to occupy the Rillera building.”<sup>33</sup> Hilltop did not deny the authenticity of these documents. Hilltop also admitted in the Letter that it has not completed the requirements for the Certificate. Furthermore, the RTC found that:

Moreover, uncontroverted findings were made by the Baguio Health Department and the City Engineer’s Office, to the effect that the situation in the Rillera [b]uilding is unsanitary, and considering the structures were damaged by the July 16, 1990 killer earthquake, it has made the said building dangerous for those occupying it. The Anti-Vice Committee of the Department of Local Government made also the findings that inside the building were illegal activities like gambling and drinking.<sup>34</sup>

Undeniably, Hilltop failed to comply with its obligations under the contract of lease. It failed to complete the requirements for the issuance of the Certificate and maintain the sanitation of the Rillera building. The City Engineer’s Office did not issue the Certificate because of the fault of Hilltop. The party at fault, Hilltop, cannot use the non-issuance of the Certificate to its advantage because the non-issuance was due to its fault. In short, Hilltop cannot claim that the 25-year lease period has not yet commenced because of the non-issuance of the Certificate, since Hilltop itself was responsible for the non-issuance of the Certificate.

Parties who do not come to court with clean hands cannot be allowed to profit from their own wrongdoing.<sup>35</sup> The action (or inaction) of the party seeking equity must be “free from fault, and he must have done nothing to

<sup>31</sup> *Rollo*, pp. 42-43.

<sup>32</sup> *Id.* at 21.

<sup>33</sup> *Id.* at 177.

<sup>34</sup> *Id.* at 196.

<sup>35</sup> *Department of Public Works and Highways v. Quiwa*, 681 Phil. 485 (2012).



lull his adversary into repose, thereby obstructing and preventing vigilance on the part of the latter.”<sup>36</sup>

Since the contract of lease already commenced, Hilltop has been occupying the Rillera building even after the termination of the lease period. The contract of lease provides that the period of lease is 25 years and it is renewable for the same period at the option of both parties. Based on the findings of the RTC that Hilltop started occupying the lot in 1974 and 25 years have lapsed without the parties renewing the contract, the contract of lease is already terminated. Thus, the City of Baguio is justified in issuing AO No. 30, and in taking over the Rillera building being its owner under the contract of lease. There is no basis in granting damages to Hilltop.

In a reciprocal contract like a lease, the period must be deemed to have been agreed upon for the benefit of both parties, absent language showing that the term was deliberately set for the benefit of the lessee or lessor alone.<sup>37</sup> The continuance, effectivity, and fulfillment of a contract of lease cannot be made to depend exclusively upon the free and uncontrolled choice of the lessee.<sup>38</sup> Mutuality does not obtain in such a contract of lease and no equality exists between the lessor and the lessee since the life of the contract would be dictated solely by the lessee.<sup>39</sup>

**WHEREFORE**, we **DENY** the petition. We **AFFIRM** the Decision dated 27 November 2008 and the Resolution dated 15 May 2009 of the Court of Appeals in CA-G.R. CV No. 88472.

**SO ORDERED.**



**ANTONIO T. CARPIO**  
Associate Justice

<sup>36</sup> Id., citing *Kentland Coal & Coke Co. v. Elswick*, 167 Ky., 593; 181 S. W., 181, 182, 183.

<sup>37</sup> *Buce v. Court of Appeals*, 387 Phil. 897 (2000).

<sup>38</sup> Id.

<sup>39</sup> Id.

**WE CONCUR:**



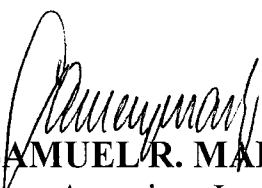
**DIOSDADO M. PERALTA**  
Associate Justice

*I certify that S. Leonen  
left his vote concurring with  
his pronouncement, Antonio Reyes*



**JOSE CATRAL MENDOZA**  
Associate Justice

**MARVIC M.V.F. LEONEN**  
Associate Justice



**SAMUEL R. MARTIRES**  
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