



SUPREME COURT OF THE PHILIPPINES
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Republic of the Philippines
Supreme Court
Manila

SECOND DIVISION

JOCELYN MODOMO and DR.
ROMY MODOMO,
Petitioners,

G.R. No. 197722

Present:

- versus -

CARPIO, J.,* *Chairperson,*
CAGUIOA,**
J. REYES, JR.,
LAZARO-JAVIER, and
ZALAMEDA, JJ.

SPOUSES MOISES P. LAYUG,
JR. and FELISARIN* E. LAYUG;
MOISES P. LAYUG, JR.,
substituted by his heirs, namely: his
wife, FELISARIN E. LAYUG, and
children, MA. CELESTE LAYUG
CO, EUGENE ESPINOSA
LAYUG, FRANCIS ESPINOSA
LAYUG and SHERYL ESPINOSA
LAYUG,

Promulgated:

14 AUG 2019

H. M. Caguioa

Respondents.

X ----- X

DECISION

CAGUIOA, J.:

The Case

This is a petition for review on *certiorari*¹ (Petition) filed under Rule 45 of the Rules of Court against the Decision² dated March 22, 2011 (assailed Decision) and Resolution³ dated July 20, 2011 (assailed Resolution) in CA-G.R. SP No. 113807 rendered by the Court of Appeals (CA).

* Also stated as "Feiy" in some parts of the *rollo*.

** On official leave.

** Designated Acting Chairperson per Special Order No. 2688 dated July 30, 2019.

¹ *Rollo*, pp. 10-40, excluding Annexes.

² Id. at 106-114. Penned by Associate Justice Juan Q. Enriquez, Jr., with Associate Justices Ramon M. Bato, Jr. and Florito S. Macalino concurring.

³ Id. at 116-117.

The assailed Decision and Resolution affirm the lower courts' uniform rulings which ordered petitioners Dr. Romy Modomo and Jocelyn Modomo (collectively, Spouses Modomo) to immediately surrender possession of a certain parcel of land covered by Transfer Certificate of Title (TCT) No. 208683 registered in the name of respondents Moises P. Layug, Jr. and Felisarin E. Layug (collectively, Spouses Layug).⁴

The Facts

The facts, as narrated by the Metropolitan Trial Court (MeTC) of Makati City, Branch 64, and subsequently adopted by the CA, are as follows:

[Spouses Layug filed] a complaint for [e]jectment x x x before the [MeTC], Branch 65 of Makati on July 23, 2008 which was raffled off to [Branch 64] after a failed Mediation and Judicial Dispute Resolution (JDR) x x x.

x x x x

[Spouses Layug] alleged among others that[:] they are the registered owner[s] and legal possessors of a parcel of land located at No. 1038 A.P. Reyes Street corner Cristobal Street, Barangay Tejeros, Makati City covered by [Transfer Certificate of Title (TCT)] No. 208683. Aforesaid property was leased to [Spouses Modomo] for a period of seven (7) years. Pursuant to the [Contract of Lease⁵ dated February 11, 2005 (Contract of Lease), Spouses Modomo agreed to] pay the amount of **Php170,000.00** as monthly rentals subject to an escalation of 10% for the second and third year, 15% on the fourth and fifth year and 20% on the sixth and seventh year. **It was also agreed by the parties that real estate taxes on the property shall be paid by [Spouses Modomo].** In view of [these] stipulation[s], an Addendum to the Contract was executed by the parties [also] on February 11, 2005 regarding the terms and conditions of payment of rentals. **Subsequently, [Spouses Modomo] defaulted in the payment of the escalation of [rental fees] commencing from the year 2006 up to [the filing of the complaint for ejectment on July 23, 2008].** [Spouses Modomo] also failed to pay their rentals for the year 2008 which would have been paid in advance. [Spouses Layug] also alleged, that [Spouses Modomo] failed to pay the real estate taxes due on the property x x x which [Spouses Layug] paid in [Spouses Modomo's] behalf. [Spouses Layug sent a] letter x x x to [Spouses Modomo] [demanding that they] settle their unpaid monthly rentals x x x but to no avail. **Ultimately, [a] letter dated March 24, 2008 was sent to [Spouses Modomo] terminating the [C]ontract [of Lease] and containing therein a demand for [Spouses Modomo] to vacate the premises.** To thresh out the matter, the case was referred to the Barangay of Tejeros for conciliation but to no avail. Hence, a certification to file action was issued. **To protect [their] interest, [Spouses Layug] instituted the present suit claiming that [Spouses Modomo] should vacate the premises, x x x pay [Spouses Layug] rental arrearages, attorney's fees and costs of suit.**

⁴ See id. at 41, 44.

⁵ Id. at 125-131.



On the contrary[, Spouses Modomo] argued that[: the] parties originally agreed that [Spouses Modomo w]ould pay the amount of Php170,000.00 subject to an escalation of 10% for the second and third year, 15% on the fourth and fifth year and 20% on the sixth and seventh year. However, considering that [Jocelyn] Modomo [had] introduce[d] improvements thereon[,] she [asked] [Spouses Layug] to change certain provisions in the Contract of Lease. **Based on their conversation[,] [Spouses Layug] agreed to reduce the monthly rentals to Php150,000.00 and the non-imposition of the escalation clause and the real estate tax provision.** [Spouses Modomo] religiously paid the rentals strictly in accordance with their subsequent agreements. [Spouses Layug], **on the second year of the [C]ontract [of Lease], imposed the 10% escalation x x x. [Spouses Modomo] however, reminded [Spouses Layug] of their previous agreement regarding the non-imposition of the escalation clause and the real estate tax provision.** Thereafter, [Spouses Modomo] alleged that [Spouses Layug agreed not to] impose the escalation clause [in] the [C]ontract of [L]ease in view of the introduction of the improvements in the premises amounting to approximately Two Million pesos [Php2,000,000.00]. Again [i]n 2008[, Spouses Layug] [purportedly] renege[d] on their agreements by imposing the escalation clause. Therefore, [Spouses Modomo] pray[ed] that the case be dismissed because the [C]ontract of [L]ease dated February 11, 2005 ha[d] been amended by the subsequent oral agreements between the parties. [Spouses Modomo further claimed that Spouses Layug] are in estoppel *in pais*, [due to] their unconditional acceptance of the reduced x x x monthly [rental] x x x of Php150,000.00 instead of Php170,000.00. [Spouses Modomo] also alleged that the [C]ontract of [L]ease has been novated in view of the subsequent oral agreements of the parties. Hence, [Spouses Modomo] pray[ed] for the dismissal of the case and [that] they be [declared] entitled to their counterclaim.⁶ (Emphasis supplied)

MeTC Ruling

On July 20, 2009, the MeTC issued a Decision⁷ in favor of Spouses Layug, the dispositive portion of which reads:

WHEREFORE, the [MeTC] renders judgment ordering [Spouses Modomo] to immediately surrender the peaceful possession of the leased property with improvements thereon located at No. 1038 A.P. Reyes Street corner Cristobal Street, Barangay Tejeros, Makati City.

[Spouses Modomo] are likewise ordered to pay [Spouses Layug] the amount of Php3,119,200.00 as rental arrearages. The amount of Php208,725.00 per month as payment for the reasonable use and occupation of the property [is also imposed], computed from July 23, 2008 until [Spouses Modomo] actually [vacate] the premises.

[Spouses Modomo] are also ordered to pay [Spouses Layug] Php10,000.00 as attorney's fees. Costs against [Spouses Modomo].

⁶ Id. at 41-43; see also id. at 107-109.

⁷ Id. at 41-45. Penned by Judge Ronald B. Moreno.



The [MeTC] **DISMISSES** the counterclaim filed by [Spouses Modomo].

So Ordered.⁸ (Emphasis supplied)

RTC Proceedings

Spouses Modomo filed an appeal before the RTC⁹ *via* Rule 40 of the Rules of Court.

Therein, Spouses Modomo insisted that Spouses Layug failed to refute the existence of their subsequent oral agreement which caused the novation of the Contract of Lease, particularly the provisions: (i) fixing the rental fee at Php170,000.00; (ii) imposing annual escalation on rental fees; and (iii) requiring Spouses Layug to pay real estate tax during the lease term.¹⁰ Spouses Modomo further argued that Spouses Layug are estopped from denying the existence of such oral agreement, considering that they accepted their monthly rental payments at the reduced amount of Php150,000.00 without protest.¹¹

In its Decision¹² dated January 28, 2010, the RTC affirmed the findings of the MeTC *in toto*, disposing the case in these words:

After a careful consideration of the pleadings and the evidence on record, this Court finds that the court-a-quo did not commit an error in rendering judgment in favor of [Spouses Layug].

WHEREFORE, premises considered, the appealed decision is hereby AFFIRMED with costs against [Spouses Modomo].

SO ORDERED.¹³

Like the MeTC, the RTC also harped on the Parole Evidence Rule set forth in Rule 130 of the Rules of Court¹⁴ and held that if the parties' real intention was to "cancel" the original Contract of Lease, they should have executed a new Contract of Lease expressing "their intention to eliminate the stipulation[s] regarding the escalation clause and the provision on real estate tax."¹⁵

⁸ Id. at 44-45.

⁹ Regional Trial Court of Makati City, Branch 59.

¹⁰ *Rollo*, p. 47.

¹¹ Id.

¹² Id. at 46-48. Penned by Judge Winlove M. Dumayas.

¹³ Id. at 48.

¹⁴ Section 9 of Rule 130 states, in part:

SEC. 9. *Evidence of written agreements.* — When the terms of an agreement have been reduced to writing, it is considered as containing all the terms agreed upon and there can be, between the parties and their successors in interest, no evidence of such terms other than the contents of the written agreement.

¹⁵ *Rollo*, p. 47.



The RTC also noted that while Spouses Layug accepted Spouses Modomo's monthly rental payments in the reduced amount of Php150,000.00 without escalation, they did not do so unconditionally. As basis, the RTC cited Spouses Layug's letters dated December 7, 2006, February 6, 2007 and January 9, 2008 objecting to Spouses Modomo's deficient payments.¹⁶

Spouses Modomo filed a motion for reconsideration, which the RTC denied on April 6, 2010.¹⁷

CA Proceedings

Aggrieved, Spouses Modomo filed a petition for review before the CA, reiterating the arguments they raised before the RTC.

The CA denied said petition through the assailed Decision,¹⁸ the dispositive portion of which reads:

WHEREFORE, premises considered, the instant Petition for Review is hereby **DENIED DUE COURSE** and accordingly, **DISMISSED** for lack of merit. The assailed Decision dated January 28, 2010 and Order dated April 6, 2010, issued by the RTC, Branch 59, Makati, in Civil Case No. 09-981 are hereby **AFFIRMED** with **MODIFICATION** that petitioners are further **ORDERED** to pay [Spouses Layug] legal interest of twelve percent (12%) per annum on the back rentals [amounting to Php3,119,200.00] from the date of judicial demand on July 23, 2008 until fully paid.

SO ORDERED.¹⁹

The CA held that Spouses Modomo failed to establish the concurrence of the requisites necessary to extinguish or modify the Contract of Lease by way of novation.²⁰ As well, the CA affirmed the lower courts' findings regarding the inapplicability of the principle of estoppel.²¹

Finally, considering that Spouses Modomo vacated the leased premises on November 2009, the CA clarified that the monetary award of Php208,725.00 per month as payment for reasonable use and occupation of the leased premises shall run from the filing of the complaint for ejectment in July 2008, but only until the surrender of the leased premises in November 2009.²²

¹⁶ Id.

¹⁷ Id. at 49.

¹⁸ Id. at 106-114.

¹⁹ Id. at 113.

²⁰ Id. at 111.

²¹ Id. at 112.

²² Id. at 113.

Spouses Modomo's subsequent motion for reconsideration was also denied through the CA's assailed Resolution,²³ which the former received on July 26, 2011.²⁴

On August 5, 2011, Spouses Modomo filed a Motion for Extension of Time to File Petition for Review on Certiorari²⁵ (Motion for Extension), praying for an additional period of thirty (30) days, or until September 9, 2011, to file their Petition.

Finally, this Petition was filed on September 9, 2011, the last day of the additional period prayed for.

On October 3, 2011, the Court issued a Resolution²⁶ granting Spouses Modomo's Motion for Extension, and directing Spouses Layug to file their comment to the Petition.

It appears, however, that the RTC issued a Writ of Execution against Spouses Modomo for the satisfaction of the monetary award granted in Spouses Layug's favor. Hence, Spouses Modomo's real property covered by TCT No. T-130972 was made subject of a Notice of Sheriff's Sale on Execution of Real Property²⁷ scheduled on March 5 and 9 of the following year.²⁸ This prompted Spouses Modomo to file an Urgent Motion for the Issuance of a Temporary Restraining Order/Status Quo Order²⁹ (Urgent Motion) on February 21, 2012.

The Urgent Motion was opposed by Spouses Layug through their Comment (To Petitioners' Urgent Motion)³⁰ filed on June 25, 2012. Appended to this Comment is a copy of the RTC's Order³¹ dated March 2, 2012 granting the Urgent Motion to Defer Sale on Execution filed therein by Spouses Modomo. The Order states, in part:

In this case, considering that there is a pending *Urgent Motion for the Issuance of a Temporary Restraining Order/Status Quo* and *Petition for Review on Certiorari* under Rule 45 before the Honorable Supreme Court x x x [the RTC], which is a mere lower [c]ourt, deems it wise and appropriate to defer the scheduled auction sale on March 5 and 9, 2012, so as not to render the issues pending before the High Court moot and moribund. Moreover, the Court believes that the deferment of the auction sale will not prejudice nor cause irreparable damage against [Spouses Layug] considering that should the High Court rule on the pending issues therein, [the RTC] can promptly act accordingly.

²³ Id. at 116-117.

²⁴ Id. at 13.

²⁵ Id. at 3-8.

²⁶ Id. at 169.

²⁷ Id. at 202-203.

²⁸ Id. at 197.

²⁹ Id. at 197-201.

³⁰ Id. at 238-244. Denominated as "Comment (To Petitioner's Urgent Motion for the Issuance of a Temporary Restraining Order/Status Quo Order)."

³¹ Id. at 245-246.



WHEREFORE, in view of the foregoing, [Spouses Modomo's] Urgent Motion to Defer Sale on Execution is hereby GRANTED. Accordingly, the auction sale scheduled on March 5 and 9, 2012 is hereby deferred until further ordered.³² (Italics supplied)

According to Spouses Layug, the foregoing Order rendered Spouses Modomo's Urgent Motion before this Court moot and academic.³³

Spouses Layug's Comment on the Urgent Motion was noted by the Court through its Resolution³⁴ dated September 3, 2012.

Meanwhile, Spouses Layug filed their Comment³⁵ to the Petition on January 4, 2012, to which Spouses Modomo filed their Reply.³⁶

In this Petition, Spouses Modomo fault the CA for ruling that no novation of the Contract of Lease had taken place.³⁷ In this connection, Spouses Modomo also claim that the CA erred when it failed to apply the principle of estoppel *in pais* in the present case.³⁸

Finally, Spouses Modomo argue that the CA erred in failing to rule upon their claim for reimbursement for useful improvements under Article 1678 of the Civil Code.³⁹

The Issues

The issues submitted for the Court's resolution are:

1. Whether the provisions of the Contract of Lease governing rental fees, escalation and real estate tax payment have been partially novated by the parties' alleged subsequent verbal agreement;
2. Whether the principle of estoppel *in pais* applies so as to preclude Spouses Layug from denying the partial novation of the Contract of Lease; and
3. Whether Spouses Modomo are entitled to reimbursement for useful improvements made upon the leased property.

³² Id. at 246.

³³ Id. at 238.

³⁴ Id. at 258.

³⁵ Id. at 170-186. Denominated as "Comment (with Motion to Admit)."

³⁶ Id. at 215-229. Denominated as "Reply to Comment."

³⁷ Id. at 23-30.

³⁸ Id. at 31-35.

³⁹ Id. at 30-31.

The Court's Decision

The Petition is granted in part.

Partial Novation

Spouses Modomo adamantly insist that the terms of the Contract of Lease governing rental fees, escalation and real estate tax payments have been modified through a subsequent verbal agreement.

Spouses Modomo alludes to the existence of a partial novation, governed by Article 1291 of the Civil Code which states:

ART. 1291. Obligations may be modified by:

(1) Changing their object or principal conditions;

(2) Substituting the person of the debtor;

(3) Subrogating a third person in the rights of the creditor.
(Emphasis supplied)

Noted civilist Justice Eduardo P. Caguioa elucidated on the concept of modificatory novation as follows:

x x x Novation has been defined as the substitution or alteration of an obligation by a subsequent one that cancels or modifies the preceding one. Unlike other modes of extinction of obligations, novation is a juridical act of dual function, in that at the time it extinguishes an obligation, it creates a new one in lieu of the old. x x x **This is not to say however, that in every case of novation the old obligation is necessarily extinguished. Our Civil Code now admits of the so-called imperfect or modificatory novation where the original obligation is not extinguished but modified or changed in some of the principal conditions of the obligation. Thus, article 1291 provides that obligations may be *modified*.**⁴⁰ (Emphasis supplied)

While the Civil Code permits the subsequent modification of existing obligations, these obligations cannot be deemed modified in the absence of clear evidence to this effect. Novation is never presumed, and the *animus novandi*, whether total or partial, must appear by express agreement of the parties, or by their acts that are too clear and unequivocal to be mistaken.⁴¹

Accordingly, the burden to show the existence of novation lies on the party alleging the same.

⁴⁰ Eduardo P. Caguioa, COMMENTS AND CASES ON CIVIL LAW, CIVIL CODE OF THE PHILIPPINES, Vol. IV (1983 Rev. 2nd Ed.), pp. 410-411.

⁴¹ *Quinto v. People*, 365 Phil. 259, 267 (1999).



Applying the foregoing principles, the Court finds that while there has been a modificatory novation of the Contract of Lease through the parties' subsequent verbal agreement, such novation relates solely to the lowering of the monthly rental fee from Php170,000.00 to Php150,000.00.

The provisions governing escalation and real estate tax payment, as set forth under the Contract of Lease and modified by the subsequent written Addenda, stand.

The modification of the monthly rental fee through the parties' subsequent verbal agreement is confirmed by the evidence on record, and Spouses Layug's own submissions.

The records are replete with evidence confirming the modification of the monthly rental fee through the subsequent verbal agreement of the parties.

Foremost, the Spouses Layug served upon Spouses Modomo several Statements of Account⁴² reflecting the latter's unpaid balance. These statements show that Spouses Layug consistently computed Spouses Modomo's unpaid balance on the basis of the lowered monthly rental fee of Php150,000.00, instead of Php170,000.00.

In addition, Spouses Layug's Letter⁴³ dated March 24, 2008 (Final Demand) also reflects a computation of Spouses Modomo's unpaid balance on the basis of the lowered monthly rental fee.

Finally, any doubt as to the modification of the monthly rental fee is dispelled by the statements in Spouses Layug's Comment to the Petition which unequivocally confirm such modification:

x x x The alleged novation on the monthly rental rate of [Php]150,000.00 from [Php]170,000.00 would not in anyway novate an existing and valid contract whereby all its valid and enforceable stipulations would be put to naught.

x x x x

In fine, it may be true that the rental rate of [Php]170,000.00 was modified by the parties and a novation of the principal condition of the [C]ontract of [L]ease was thereby effected, nevertheless, such a modification did not render the [C]ontract of [L]ease as totally extinguished but rather[,] merely modified. In fine, all other conditions of the contract[,] including the escalation clause on the monthly rental rate

⁴² Statement of Account as of February 7, 2007, *rollo*, p. 250; Statement of Account as of January 9, 2008, *id.* at 251-252; Statement of Account as of May 2008, *id.* at 167-168.

⁴³ *Rollo*, pp. 253-254.



and the proportional payment of real property taxes and assessments by [Spouses Modomo] remain valid and subsisting.⁴⁴ (Emphasis supplied)

These statements, coupled with the computation in the Statements of Account and Final Demand, confirm the parties' subsequent verbal agreement to lower the monthly rental fee from Php170,000.00 to Php150,000.00. Notably, even the MeTC, RTC and CA appear to have computed Spouses Layug's award for rental arrearages based on the lowered rental fee,⁴⁵ despite the absence of an explicit recognition of the rental fee's modification in their respective judgments.

Spouses Modomo failed to establish that the provisions governing escalation and proportional payment of real estate tax payment have been similarly modified.

While the records bear sufficient evidence to show the subsequent modification of the monthly rental fee, no similar evidence exists on record to warrant the non-imposition of the provisions on annual escalation and proportional payment of real estate tax.

To note, the parties took pains to execute two *written* Addenda for the purpose of modifying the terms and conditions of the parties' Contract of Lease.

The first Addendum⁴⁶ dated February 11, 2005 sets forth a detailed schedule of payment of rentals for the entire seven (7)-year term of the lease.

The second Addendum⁴⁷ dated February 15, 2005 reflects the following modifications in relation to taxes and assessments, among others:

WHEREAS, the **LESSORS** and **LESSEE** thereat mutually further agree to incorporate the following corrections to and additional stipulations to form part of the Contract of Lease, to wit:

x x x x

TAXES AND ASSESSMENTS

For the entire duration of this contract, including any extension and renewal thereof, the parties agreed that the **LESSEE** shall pay all taxes and assessments due the government for the portion of the above-mentioned parcels of land occupied by the building constructed thereon by the **LESSEE** which is the subject of this lease. The parties agree to share

⁴⁴ Id. at 178-179.

⁴⁵ Computation set forth in the discussion below.

⁴⁶ Id. at 132-134.

⁴⁷ Id. at 135-138.



whatever assessment of taxes for every year during the term of this Contract on the following sharing basis, to wit:

	<u>Lessors</u>	<u>Lessee</u>
Lot	40%	60%
Building	25%	75% ⁴⁸

To be sure, neither the first nor second Addendum has the effect of: (i) waiving the imposition of escalation; or (ii) completely absolving Spouses Modomo from real estate tax liability. **On the contrary, these Addenda reinforce the parties' intention to: (i) impose annual escalation at the rates set forth under the Contract of Lease; and (ii) impose proportional payment of real estate tax during the subsistence of the lease.**

If the parties truly intended to further modify the Contract of Lease by deleting the provisions on escalation and proportional payment of real estate tax, they would have done so through *another* written document, as they have consistently done with all modifications relating to such matters. **It must be stressed that unlike the modification of the monthly rental fee which is supported by several pieces of documentary evidence and confirmed by Spouses Layug's own submissions, the modification of the provisions on annual escalation and proportional payment of real estate tax is supported solely by Spouses Modomo's own self-serving statements.**

Estoppel does not apply.

Spouses Modomo also insist that Spouses Layug should be precluded from denying the partial novation of the Contract of Lease since they accepted Spouses Modomo's monthly rental payments without escalation and proportional share in the real estate tax for three (3) years, starting on the second year of the lease term. As basis, Spouses Modomo harp on the principle of estoppel *in pais*.

Estoppel *in pais* arises when one, by his acts, representations or admissions, or by his own silence when he ought to speak out, intentionally or through culpable negligence, induces another to believe certain facts to exist and such other rightfully relies and acts on such belief, so that he will be prejudiced if the former is permitted to deny the existence of such facts.⁴⁹

For the principle of estoppel *in pais* to apply, there must be: (i) conduct amounting to false representation or concealment of material facts or at least calculated to convey the impression that the facts are otherwise than, and inconsistent with, those which the party subsequently attempts to assert; (ii) intent, or at least expectation that this conduct shall be acted upon,

⁴⁸ Id. at 135-136.

⁴⁹ *The City of Cebu v. Spouses Dedamo*, 431 Phil. 524, 534 (2002).

or at least influenced by the other party; and (iii) knowledge, actual or constructive, of the actual facts.⁵⁰

Based on the records, Spouses Layug served upon Spouses Modomo several letters dated December 7, 2006,⁵¹ February 6, 2007⁵² and January 9, 2008⁵³ expressing their objection to the latter's deficient payments.⁵⁴ These letters belie Spouses Modomo's imputation of silence and acquiescence on the part of Spouses Layug. It can hardly be said that Spouses Layug falsely conveyed their acquiescence to Spouses Modomo's deficient payments through silence, there being no "silence" to speak of.

Spouses Modomo are not entitled to reimbursement for the cost of improvements made on the leased property.

Finally, Spouses Modomo maintain that they are entitled to reimbursement under Article 1678 of the Civil Code, which reads:

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-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.

Suffice it to state that Spouses Modomo have, by their own acts, deprived the Spouses Layug of the option to appropriate the improvements made upon the leased premises by causing their demolition. Notably, Spouses Modomo did not dispute that they had "vacated the leased premises [and] left no single piece of wood or materials on the premises [and] demolished everything."⁵⁵ Hence, they are precluded from seeking reimbursement for improvements that are now inexistent.

The computation of rental arrearages and compensation for reasonable use of the leased premises, together with applicable interest, must be corrected.

The assailed Decision awards the following amounts in Spouses Layug's favor:

⁵⁰ *Pacific Mills, Inc. v. Court of Appeals*, 513 Phil. 534, 544-545 (2005).

⁵¹ *Rollo*, pp. 247-248.

⁵² *Id.* at 249.

⁵³ *Id.* at 251-252.

⁵⁴ See *id.* at 112.

⁵⁵ *Id.* at 185.



1. Rental arrearages amounting to **Php3,119,200.00**, with **12% interest** computed from the date of judicial demand (*i.e.*, filing of the complaint for ejectment on July 23, 2008);
2. Payment for reasonable use and occupation of the leased premises amounting to Php208,725.00 per month **from the filing of the complaint for ejectment in July 2008** to November 2009, when Spouses Modomo finally vacated the leased premises; and
3. Attorney's fees amounting to Php10,000.00.

The Court notes that the value of rental arrearages was arrived at by applying the escalation rates stipulated under the Contract of Lease, thus:

Unpaid rental on the second floor during construction	Php 56,500.00
Unpaid rental on the 10% increase for the year 2006 (Php165,000.00 ⁵⁶ - Php150,000.00 = Php15,000.00 x 12 months)	180,000.00
Unpaid rental on the 10% increase for the year 2007 (Php181,500.00 ⁵⁷ - Php150,000.00 = Php31,500 x 12 months)	378,000.00
Unpaid rental for the entire year of 2008 payable at the beginning of the year per first Addendum, plus 15% escalation (Php208,725.00 ⁵⁸ x 12 months)	2,504,700.00
Total	Php3,119,200.00⁵⁹

Considering that the provision on the proportional sharing of real estate tax liability remains effective, the Court deems it proper to award, in addition to rental arrearages, Spouses Modomo's unpaid share in real estate taxes amounting to Php27,539.80.⁶⁰

As well, the Court finds that the additional award for monthly payment for reasonable use and occupation of the leased premises should start to run *not* from the filing of the complaint for ejectment on July 23, 2008, but rather in January 2009, considering that the award for rental arrearages already includes unpaid rental fees for the entire year of 2008, that is, until December 2008.

⁵⁶ Base rental fee for year 2, after application of 10% escalation.

⁵⁷ Base rental fee for year 3, after application of 10% escalation.

⁵⁸ Base rental fee for year 4, after application of 15% escalation.

⁵⁹ See Final Demand Letter, *rollo*, pp. 253-254.

⁶⁰ See *rollo*, p. 254.

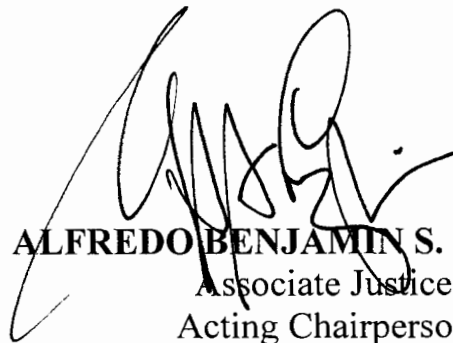
Finally, inasmuch as the rental arrearages and unpaid real estate taxes do not constitute a loan or forbearance of money,⁶¹ the proper interest applicable thereon is *not* 12%, but 6% per annum.

WHEREFORE, premises considered, the Petition is **GRANTED IN PART**. The Decision dated March 22, 2011 rendered by the Court of Appeals in CA-G.R. SP No. 113807 is **AFFIRMED WITH MODIFICATION**.

Petitioners Dr. Romy Modomo and Jocelyn Modomo are **ORDERED TO PAY** respondents Spouses Moises P. Layug, Jr. and Felisarin E. Layug the following amounts:

1. Rental arrearages and unpaid real estate taxes amounting to **Php3,146,739.80**, with **6% interest** per annum computed from the date of judicial demand (*i.e.*, filing of the complaint for ejectment on July 23, 2008) until finality of this Decision;
2. Payment for reasonable use and occupation of the leased premises at the rate of Php208,725.00 per month **from January 2009 until November 2009, when respondents surrendered possession of the leased premises in November 2009**, amounting to a total of Php2,295,975.00, with 6% interest per annum from December 1, 2009 until finality of this Decision;
3. Attorney's fees amounting to Php10,000.00; and
4. The sum of the amounts in paragraphs 1, 2 and 3 herein, with 6% interest per annum from finality of this Decision until full satisfaction.

SO ORDERED.





ALFREDO BENJAMIN S. CAGUIOA
Associate Justice
Acting Chairperson


⁶¹ See *New World Developers and Management, Inc. v. AMA Computer Learning Center, Inc.*, 754 Phil. 463, 477-478 (2015).

WE CONCUR:

(On official leave)
ANTONIO T. CARPIO
Associate Justice
Chairperson

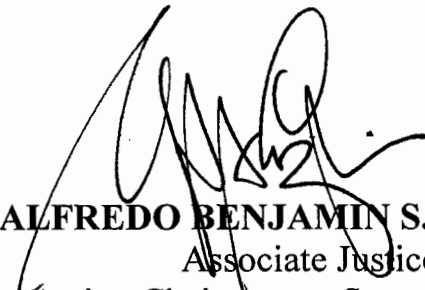

JOSE C. REYES, JR.
Associate Justice


AMY C. LAZARO-JAVIER
Associate Justice


RODIL V. ZALAMEDA
Associate Justice

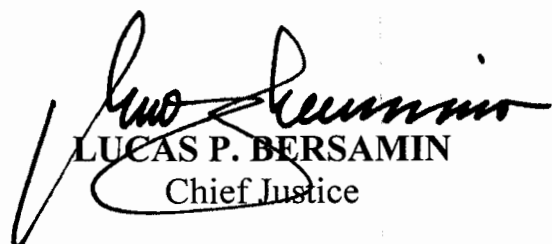
ATTESTATION

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.


ALFREDO BENJAMIN S. CAGUIOA
Associate Justice
Acting Chairperson, Second Division

CERTIFICATION

Pursuant to Section 13, Article VIII of the Constitution and the Division Acting 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.


LUCAS P. BERSAMIN
Chief Justice