



Republic of the Philippines  
Supreme Court  
Manila

THIRD DIVISION

DAKAK BEACH RESORT  
CORPORATION and ROMEO G.  
JALOSJOS,

Petitioners,

- versus -

SPOUSES JOSE MA. M.  
MENDEZONA and PILAR L.  
MENDEZONA\*,

Respondents.

G.R. No. 245461

Present:

CAGUIOA, J., *Chairperson*,  
INTING,  
GAERLAN,  
DIMAAMPAO, and  
SINGH, JJ.

Promulgated:

October 21, 2024

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DECISION

CAGUIOA, J.:

This is a Petition for Review on *Certiorari*<sup>1</sup> (Petition) assailing the Decision<sup>2</sup> dated June 28, 2018 of the Court of Appeals – Cagayan de Oro City (CA) Twenty-Second Division and Resolution<sup>3</sup> dated January 25, 2019 of the CA Former Twenty Second Division in CA-G.R. CV No. 04450-MIN which affirmed with modification the Decision<sup>4</sup> dated August 1, 2016 of Branch 8, Regional Trial Court of Dipolog City (RTC) in Civil Case No. 5812. The CA ordered petitioners Dakak Beach Resort Corporation (Dakak) and Romeo G. Jalosjos (Jalosjos) to vacate Lot No. 8771-A and to return to Spouses Jose Ma. M. Mendezona (Jose) and Pilar L. Mendezona (Pilar) (collectively, the Spouses Mendezona) the possession and enjoyment of the same within 30

\* Also referred as “Dakak Park and Beach Resort Corporation” in some parts of the record.

\*\* Also referred as “Ma. Pilar L. Mendezona” in some parts of the record.

<sup>1</sup> *Rollo*, pp. 49–74.

<sup>2</sup> *Id.* at 10–33. Penned by Associate Justice Perpetua T. Atal-Paño with Associate Justices Edgardo A. Camello and Walter S. Ong concurring.

<sup>3</sup> *Id.* at 34–35. Penned by Associate Justice Edgardo A. Camello with Associate Justices Walter S. Ong and Evalyn M. Arellano-Morales concurring.

<sup>4</sup> *Id.* at 176–198, 200. Penned by Presiding Judge Ric S. Bastasa.

days from finality of the decision. Likewise, Dakak and Jalosjos were ordered to pay unpaid rental as well as reasonable rent in favor of the Spouses Mendezona. The CA also declared that all improvements found on the said lot belong to the Spouses Mendezona pursuant to the lease contract.

### **The Facts and Antecedent Proceedings**

Lot No. 8771-A is a 1,602-square-meter property situated in Taguilon, Dapitan City (subject property) originally owned by Violeta Saguin de Luzuriaga (Violeta) under Original Certificate of Title (OCT) No. P-26943-26 by virtue of Free Patent No. (IX-8)2977.<sup>5</sup> On December 1, 1987, Violeta signed a lease contract with Dakak, represented by Jalosjos. The lease was for a period of 10 years commencing from January 1, 1988 until December 31, 1997 renewable for another five years upon mutual agreement of the parties.<sup>6</sup>

As stated in the lease contract, the monthly rental rate for the first two years is PHP 500.00, after which, the rent shall be increased by 20% every succeeding year, as follows: 3<sup>rd</sup> year – PHP 600.00/month; 4<sup>th</sup> year – PHP 720.00/month; 5<sup>th</sup> year – PHP 844.00/month; 6<sup>th</sup> year – PHP 1,012.80/month; 7<sup>th</sup> year – PHP 1,215.36/month; 8<sup>th</sup> year – PHP 1,458.54; 9<sup>th</sup> year – PHP 1,750.24/month; and 10<sup>th</sup> year – PHP 2000.00/month. Upon termination of the lease contract, all permanent and fixed improvements introduced by the lessee shall become the property of the lessor.<sup>7</sup>

As it happened, Violeta was not provided a copy of the lease contract despite her repeated demands from Jalosjos to send her a copy of the agreement.<sup>8</sup> In 1993, Violeta sent a letter to Jalosjos reminding him of numerous requests to send her a copy of the contract.<sup>9</sup> Believing that the lease contract had already expired, Violeta also returned a check amounting to PHP 4,220.00 representing rental payments for August 1992 to December 1992. Violeta did not receive any response.

In a letter dated May 24, 1994, Violeta demanded that Dakak and Jalosjos vacate her lot. This demand was also ignored. On April 13, 1998, due to the stress she experienced in dealing with Jalosjos, Violeta sold the subject property and all her rights over it to her daughter, herein respondent Pilar.<sup>10</sup>

In a letter dated August 16, 1999, Pilar demanded that Dakak vacate the subject property and turn over control and possession thereof.<sup>11</sup> Since the demand was ignored, the Spouses Mendezona filed a Complaint<sup>12</sup> for

<sup>5</sup> *Id.* at 214, 216–217. *See id.* at 213, Deed of Sale of A Real Property.

<sup>6</sup> *Id.* at 246–247.

<sup>7</sup> *Id.*

<sup>8</sup> *Id.* at 11, CA Decision.

<sup>9</sup> *Id.* at 226.

<sup>10</sup> *Id.* at 213, 226.

<sup>11</sup> *Id.* at 231.

<sup>12</sup> *Id.* at 10.



recovery of possession, specific performance, rentals, and damages against Dakak and Jalosjos on April 2, 2003.

In their Amended Answer,<sup>13</sup> Dakak and Jalosjos admitted that the lease with Violeta expired on December 31, 1997. Dakak occupied the subject property and introduced considerable improvements thereon since it is located inside the Dakak beach resort. Dakak claimed that it has complied with the terms and conditions of the lease contract and Violeta even enjoyed the facilities and accommodations of the resort. Dakak argued that it has a preferential right to acquire the subject property as against the Spouses Mendezona due to the multi-million investment of the corporation in the area. Under Articles 1621 and 1623 of the New Civil Code, Dakak has a right of redemption over the lot, which is a rural land adjacent to the land it owned and is exercising such right by consigning the amount paid by the Spouses Mendezona for the sale of the property. Given its business and considerable clientele, it had a right to continue using the property as lessee for a longer period to be fixed by the court. The sale by the lessor was done without the knowledge and consent of Dakak and Jalosjos, and considering that the corporation maintained the subject property, justice demands that it be notified of the transaction.<sup>14</sup>

During trial, Jalosjos testified that his family owns the lots adjoining the subject property. The previous owners of the said lots either sold the property to his family or accepted shares of the corporation in exchange of their lots except Violeta who insisted on a lease. Hence, Dakak entered into a long-term lease with her. He offered to pay Pilar PHP 2,500,000.00 for the lot but to no avail. He prayed that if the court ruled against Dakak, they be reimbursed for the cost of the cottages and their loss of revenue, including moral damages.<sup>15</sup>

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

In a Decision<sup>16</sup> dated August 1, 2016, the RTC ruled in favor of the Spouses Mendezona, *viz.*:

**WHEREFORE**, premises considered, judgment is hereby rendered as follows:

- (1) Defendants are ordered to vacate the said land and to return peacefully to Plaintiffs the possession and enjoyment of the same within thirty (30) days from the finality of this decision;
- (2) All the improvements found on the said lot pursuant to the lease contract shall now belong to the Plaintiffs;
- (3) Defendants shall pay to Plaintiffs the sum of [PHP]4,401,309.68 as unpaid rental bearing interest at 6% per annum until it is fully paid;

<sup>13</sup> *Id.* at 166–175.

<sup>14</sup> *Id.* at 168–173.

<sup>15</sup> *Id.* at 16, CA Decision.

<sup>16</sup> *Id.* at 176–198, 200. Penned by Presiding Judge Ric S. Bastasa.



- (4) After the finality of this decision, Defendants are ordered to pay the sum of [PHP ]50,000 per month as rental up to the time that the said property is finally returned to Plaintiffs;
- (5) Defendants are also ordered to pay the cost of suit.

**SO ORDERED.**<sup>17</sup>

The RTC found that the lease contract expressly provided that all permanent structures and improvements introduced by the lessee shall become the property of the lessor upon termination of the lease, hence, the structures found on the leased lot belong to the Spouses Mendezona when the lease contract expired. The RTC discussed Article 1678 of the New Civil Code in relation to the rights of a lessee to reimbursement of one-half of the value of any useful improvements introduced in the leased property when the lessor opts to appropriate the improvement, however, the said provision does not apply since the parties stipulated that the said improvements belong to the lessor upon termination of the lease. Moreover, the right of redemption under Articles 1621 and 1623 requires that the land sought to be redeemed and the adjacent property belonging to the person exercising the right of redemption must both be rural lands destined for agricultural exploitation. In this case, Lot No. 8771-A and the adjacent lots are used for commercial purposes, thus, the New Civil Code provisions cannot be applied to the case.<sup>18</sup>

Dakak and Jalosjos were also ordered to pay the Spouses Mendezona the amount of PHP 81,309.68 for unpaid rent from August 1992 until December 1997 in accordance with the lease. For the year 1998, which is no longer covered by the lease, the RTC fixed the monthly rental rate at PHP 4,000.00. The RTC also awarded a PHP 2,000.00 yearly increase in the monthly rental rate for the succeeding years. Dakak and Jalosjos were ordered to pay a total amount of unpaid rent of PHP 4,401,309.68 as of 2015. Further, the RTC fixed a rental rate of PHP 50,000.00 a month to be applied after finality of the decision and until Dakak and Jalosjos surrender the subject property to the Spouses Mendezona.<sup>19</sup>

Unrelenting, Dakak and Jalosjos appealed, raising for the first time that they are entitled to full reimbursement for improvements and the right of retention until payment which are granted to a builder in good faith under Article 448 in relation to Article 546 of the New Civil Code. If Dakak cannot be considered a builder in good faith, then it is entitled to reimbursement for one-half of the value of the improvements introduced on the subject property pursuant to Article 1678 of the New Civil Code.

***Ruling of the CA***

On June 28, 2018 the CA rendered the assailed Decision affirming with modification the RTC Decision, viz.:

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<sup>17</sup> *Id.* at 200.

<sup>18</sup> *Id.* at 191–194.

<sup>19</sup> *Id.* at 194–197.



WHEREFORE, the August 1, 2016 Decision of the Regional Trial Court, Branch 8, Dipolog City, in Civil Case No. 5812 is AFFIRMED with MODIFICATIONS, as follows:

1. Defendants-appellants are ordered to vacate the subject land and to return the same peacefully to plaintiffs-appellees within 30 days from finality of this decision;
2. All improvements found on the subject land are declared owned by the plaintiffs-appellees pursuant to their lease contract;
3. Defendants-appellants are ordered to pay plaintiffs-appellees [PHP ]5,865,309.68 in accordance with the computation as explained above until they surrender possession of the subject land;
4. The rentals due shall earn interest at 6% per annum from finality of this decision until fully paid;
5. Defendants-appellants are ordered to pay the cost of suit.

SO ORDERED.<sup>20</sup>

The CA found that the subject property's classification is agricultural, rather than commercial as determined by the RTC, since Violeta obtained the lot by virtue of a free patent. However, for land to be characterized as rural for purposes of redemption under Article 1621, the property should be used for agricultural purposes. Here, the land is used for commercial purposes.<sup>21</sup> Dakak and Jalosjos cannot claim for reimbursement and retention under Article 448 since the provision does not apply to a lessee. Meanwhile, Article 1678 does not apply considering that the contract expressly provides that the fixed and permanent improvements on the lot shall belong to the lessor after the termination of the lease.<sup>22</sup>

As regards the amounts awarded by the RTC, the CA affirmed the rental payments due for the period covering August 1992 to 1997. Moreover, the CA found reasonable the PHP 4,000.00 monthly rental rate for 1998 as well as the PHP 2,000.00 yearly increase in the monthly rental rate for the succeeding years. However, the PHP 50,000.00 monthly rental rate imposed by the RTC after the finality of the decision was struck down as the same was without any basis. Instead, the CA ruled that the yearly increase of PHP 2,000.00 should continue to apply until Dakak and Jalosjos surrendered possession of the subject property.<sup>23</sup> The CA provided the computation, as follows:

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<sup>20</sup> *Id.* at 31–32, CA Decision.

<sup>21</sup> *Id.* at 21–24.

<sup>22</sup> *Id.* at 25–29.

<sup>23</sup> *Id.* at 29–31.



| Year                                   | Monthly Rent<br>(in PHP) | Annual Rent<br>(in PHP) |
|----------------------------------------|--------------------------|-------------------------|
| 1992 to 1997                           |                          | 81,309.68               |
| 1998                                   | 4,000.00                 | 48,000.00               |
| 1999                                   | 6,000.00                 | 72,000.00               |
| 2000                                   | 8,000.00                 | 96,000.00               |
| 2001                                   | 10,000.00                | 120,000.00              |
| 2002                                   | 12,000.00                | 144,000.00              |
| 2003                                   | 14,000.00                | 168,000.00              |
| 2004                                   | 16,000.00                | 192,000.00              |
| 2005                                   | 18,000.00                | 216,000.00              |
| 2006                                   | 20,000.00                | 240,000.00              |
| 2007                                   | 22,000.00                | 264,000.00              |
| 2008                                   | 24,000.00                | 288,000.00              |
| 2009                                   | 26,000.00                | 312,000.00              |
| 2010                                   | 28,000.00                | 336,000.00              |
| 2011                                   | 30,000.00                | 360,000.00              |
| 2012                                   | 32,000.00                | 384,000.00              |
| 2013                                   | 34,000.00                | 408,000.00              |
| 2014                                   | 36,000.00                | 432,000.00              |
| 2015                                   | 38,000.00                | 456,000.00              |
| 2016                                   | 40,000.00                | 480,000.00              |
| 2017                                   | 42,000.00                | 504,000.00              |
| June 2018                              | 44,000.00                | 264,000.00              |
| Total Rent Due<br>from 1997 until 2018 |                          | 5,865,309.68            |

Dakak and Jalosjos sought reconsideration before the CA, but the same was denied in the assailed Resolution dated January 25, 2019.

Hence this Petition. The Spouses Mendezona filed their Comment<sup>24</sup> to the Petition. Thereafter, Dakak and Jalosjos filed a Reply.<sup>25</sup>

*The Issue*

The following issues are raised for resolution of the Court: (1) whether the total rent awarded by the CA is unconscionable and contrary to law; (2) whether the contract of lease was validly terminated; (3) whether Dakak is a builder in good faith and entitled to retain the property until reimbursement; (4) whether the Spouses Mendezona shall pay Dakak and Jalosjos, as lessees, one-half of the value of the improvements they introduced within lot No. 8771-A upon the termination of the lease; and (5) whether being the owners of the adjoining rural lands, Dakak and Jalosjos have the right of redemption over Lot No. 8771-A when it was sold by Violeta on April 13, 1998 in favor of the Spouses Mendezona.

<sup>24</sup> *Id.* at 261–295.  
<sup>25</sup> *Id.* at 310–340.



### *The Court's Ruling*

The Court resolves to deny the Petition for lack of merit.

As a rule, only questions of law may be raised before the Court through a Petition for Review on *Certiorari* under Rule 45 because the Court is not a trier of facts. Although there are exceptions to this rule, the present Petition does not fall within any of them.

After a scrutiny of the issues and arguments raised in the Petition, the Court finds that Dakak and Jalosjos failed to raise any reversible error on the part of the CA in issuing the assailed Decision dated June 28, 2018 and Resolution dated January 25, 2019.

**The improvements introduced on Lot 8771-A belong to the Spouses Mendezona; Articles 448, 546, and 1678 of the New Civil Code are not applicable to the case**

Claiming to be builders in good faith under Articles 448<sup>26</sup> and 546<sup>27</sup> of the New Civil Code, Dakak and Jalosjos insist that they cannot be ordered to vacate the subject property until they are reimbursed for the cost of the two cottages built thereon.

A “builder in good faith” under Article 448 pertains to one who, not being the owner of the land, builds on that land believing himself or herself to be its owner and unaware of the defect in his or her title or mode of acquisition.<sup>28</sup> In order to be considered a “builder in good faith,” it is necessary that a person asserts title to the land on which he or she builds.<sup>29</sup> As a rule, Articles 448 and 546 are not applicable where, as here, there is a contractual relationship between the parties.<sup>30</sup>

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<sup>26</sup> NEW CIVIL CODE, art. 448 reads:

ARTICLE 448. The owner of the land on which anything has been built, sown or planted in good faith, shall have the right to appropriate as his [or her] own the works, sowing or planting, after payment of the indemnity provided for in Articles 546 and 548, or to oblige the one who built or planted to pay the price of the land, and the one who sowed, the proper rent. However, the builder or planter cannot be obliged to buy the land if its value is considerably more than that of the building or trees. In such case, he [or she] shall pay reasonable rent, if the owner of the land does not choose to appropriate the building or trees after proper indemnity. The parties shall agree upon the terms of the lease and in case of disagreement, the court shall fix the terms thereof.

<sup>27</sup> NEW CIVIL CODE, art. 546 reads:

ARTICLE 546. Necessary expenses shall be refunded to every possessor; but only the possessor in good faith may retain the thing until he [or she] has been reimbursed therefor.

Useful expenses shall be refunded only to the possessor in good faith with the same right of retention, the person who has defeated him [or her] in the possession having the option of refunding the amount of the expenses or of paying the increase in value which the thing may have acquired by reason thereof.

<sup>28</sup> *Spouses Aquino v. Spouses Aguilar*, 762 Phil. 52, 63 (2015) [Per C.J. Sereno, First Division].

<sup>29</sup> *Spouses Espinoza v. Spouses Mayandoc*, 812 Phil. 95, 102 (2017) [Per J. Peralta, Second Division].

<sup>30</sup> *Communities Cagayan, Inc. v. Spouses Arsenio*, 698 Phil. 648, 660 (2012) [Per J. Del Castillo, Second Division].

Dakak and Jalosjos claim that Articles 448 and 546 may be applied to their case citing *Spouses Macasaet v. Spouses Macasaet*<sup>31</sup> (*Macasaet*).

*Macasaet* involved parents who allowed their son and his wife to occupy two lots out of parental love and family solidarity. When the relationship soured, the parents filed an ejectment suit against their children. The Court ruled that the children lost their right to remain on the property but had the right to be reimbursed under Article 448 for the improvements introduced on the lots. The case is one of the few exceptional instances where the Court used Article 448 in determining good faith beyond the definition contemplated.<sup>32</sup>

**None of the factual circumstances in *Macasaet* are present in the instant case.** Certainly, no familial relations exist between the parties. In fact, *Macasaet* expressly provides that Article 448 does not apply when the interest of a builder on the land is merely that of a lessee.<sup>33</sup>

Dakak and Jalosjos also argue that in the event the Spouses Mendezona are deemed the owners of the improvements, Dakak and Jalosjos still have a right of reimbursement for one-half of the value thereof by virtue of Article 1678 of the New Civil Code.<sup>34</sup> This argument also fails.

Article 1678 deals with the useful improvements introduced by a lessee on the leased premises during the lease period, *viz.*:

ARTICLE 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 [or she] 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 [or she] 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.

Thus, the law gives to the lessor the option of choosing whether to appropriate the improvements the lessee made in good faith, and which are suitable for the use for which the lease is intended, and should not have altered the form and substance of the land. It is the lessor who has the choice to pay one-half of the value of the said improvement or to exercise the option of having the lessee remove the improvements even if the principal thing suffers

<sup>31</sup> 482 Phil. 853 (2004) [Per J. Panganiban, Third Division].

<sup>32</sup> *Id.* at 871–873.

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

<sup>34</sup> *Rollo*, pp. 70–72.



damage.<sup>35</sup> If the lessor refuses, the lessee cannot compel the lessor to pay.<sup>36</sup> Neither does the lessee have the right to retain the premises until reimbursement is made.<sup>37</sup>

Article 1678 does not apply to the present case. The lease contract between Violeta and Dakak shows that the latter expressly agreed that the fixed improvements found on the subject property shall belong to the lessor upon the contract's termination, *viz.*:

It is understood that all permanent and fixed improvements introduced by the LESSEE at LESSOR'S property shall become the property of the latter upon actual termination of the leasehold relationship.<sup>38</sup>

Under Article 1306 of the New Civil Code, the parties to a contract "may establish such stipulations, clauses, terms and conditions as they may deem convenient, provided they are not contrary to law, morals, good customs, public order, or public policy." The contract is the law between the parties and should be complied with in good faith.<sup>39</sup> Stipulations giving the lessor the improvements have long been considered valid:

The condition that ownership of the improvements constructed on the land leased shall pass to the lessor at the expiration of the contract of lease, or in case of violation of the terms thereof, is NOT IMMORAL and UNCONSCIONABLE. This kind of resolutory condition is quite common in lease contract, and there are two reasons given for the imposition of such conditions. *Firstly*, they serve as a *guaranty* to the lessors; they tend to compel the timely payment of rentals by the lessees who had chosen to enter into a long term lease contract. *Secondly*, the rentals are relatively low, and the lessees would, therefore, after a number of years, be able to obtain a fair return of their investment. (*Co Bun Kim v. C.A. and Tiongson, et. al.*, L-9617, Dec. 14, 1956).<sup>40</sup>

In *Philippine National Bank v. Court of First Instance*,<sup>41</sup> the Court declared that Article 1678 does not apply when the parties stipulated in the lease contract their own terms and conditions concerning the improvements introduced on the leased premises. Meanwhile, in *Hian v. CA*,<sup>42</sup> the Court upheld the contractual provisions in a lease agreement where the lessee bound himself to transfer to the lessor the building which he erected thereon. Likewise, in *Mislang v. Torres*,<sup>43</sup> the Court did not apply Article 1678 considering that the lease contract between the parties expressly provided that

<sup>35</sup> *Cheng v. Spouses Donini*, 608 Phil. 206, 218 [Per J. Corona, First Division]; *Bermon Marketing Communication Corporation v. Spouses Yaco*, G.R. No. 224552, March 3, 2021 [Per J. Carandang, First Division], available at <https://elibrary.judiciary.gov.ph/thebookshelf/showdocs/1/67347>.

<sup>36</sup> *Sulo sa Nayon, Inc. v. Philippine Village Hotel, Inc.*, G.R. No. 170923, January 20, 2009, 596 Phil. 715, 727 (2009) [Per J. Puno, First Division].

<sup>37</sup> *Spouses Lopez v. Sarabia*, 482 Phil. 228, 248 (2004) [Per J. Callejo, Sr., Second Division].

<sup>38</sup> *Rollo*, p. 247.

<sup>39</sup> *Teresita I. Buenaventura v. Metropolitan Bank and Trust Company*, 792 Phil. 237, 247 (2016) [Per J. Bersamin, First Division].

<sup>40</sup> 5 EDGARDO PARAS, CIVIL CODE OF THE PHILIPPINES: ANNOTATED, 431 (19<sup>th</sup> ed., 2021).

<sup>41</sup> 284-A Phil. 770, 782 (1992) [Per J. Medialdea, First Division].

<sup>42</sup> 218 Phil. 544 (1984) [Per J. Aquino, Second Division].

<sup>43</sup> G.R. No. 234542, November 18, 2020 [Notice, First Division].



all the improvements shall automatically belong to the lessor in case the lease period lasts for five years.

Thus, while Article 1678 mandates a right of reimbursement to the lessee, this does not prevent the parties in a lease contract to provide their own terms and conditions relating to the improvements built thereon by the lessee. The parties are free to determine how the improvements are to be treated after the expiration of the lease and such stipulation shall govern. In the present case, the clear provision of the lease contract clearly and unequivocally provided that all permanent improvements introduced on the leased premises shall become property of the lessor upon termination of the lease agreement. The stipulation did not require the lessor to pay or compensate Dakak for the value of the improvements. Incidentally, since Violeta, the lessor, sold the subject property and all her rights and interest therein to Pilar, then the said improvements now belong to the latter; and Dakak cannot claim any right of reimbursement.

Assuming *arguendo* that Article 1678 applies, Dakak's claim has already expired.

In *Cabangis v. Hon. Court of Appeals*,<sup>44</sup> the deceased lessee's daughter filed an action for indemnity of improvements against her father's lessors claiming reimbursement for the improvements (i.e., residential house) made by her father in the leased premises. The Court ruled that the improvements introduced by the lessee were done at his own risk. The right to reimbursement under Article 1678 exists only if the lessor opts to appropriate the improvements. The refusal to pay gives rise to the right to remove on the part of the lessee. However, there was nothing in the records which showed that a choice was made by the lessor. Thus, the lessee should have removed the improvements at the time when the lease expired. The Court deemed that the lessee's failure to do so constitutes a waiver of her right to remove the improvements. Moreover, she could no longer file the case for indemnity which was filed 16 years from the accrual of the cause of action under Article 1144, paragraph 2 of the New Civil Code.<sup>45</sup>

Applying the foregoing case law, Dakak and Jalosjos only raised claim for reimbursement under Article 1678 in their appeal before the CA or 13 years after the commencement of the action by the Spouses Mendezona and 20 years after the expiration of the lease contract. Neither was this claim raised in their Amended Answer with Counterclaim<sup>46</sup> filed on October 21, 2003. Verily, the Rules of Court require that the Answer shall set forth the defenses and the objections of the defendant including the compulsory counterclaim

<sup>44</sup> 277 Phil. 475, 484 (1991) [Per J. Sarmiento, Second Division].

<sup>45</sup> NEW CIVIL CODE, art. 1144 provides as follows:

ARTICLE 1144. The following actions must be brought within ten years from the time the right of action accrues:

(1) upon a written contract;  
(2) upon an obligation created by law;  
(3) upon a judgment.

<sup>46</sup> *Rollo*, pp. 166-175.



and crossclaim.<sup>47</sup> Dakak and Jalosjos failed to do so, thus the alleged right of reimbursement has prescribed.

**Dakak and Jalosjos do not have a right of redemption under Article 1621 since its own properties adjacent to Lot No. 8771-A are used for commercial purposes**

As aptly found by the CA, Lot No. 8771-A is agricultural land. Violeta's title over the lot is by virtue of a free patent granted in 1981.<sup>48</sup> One of the conditions for the grant of a free patent is that the land claimed is agricultural public land.<sup>49</sup> Here, the records are bereft of any evidence that the land was reclassified to commercial. Thus, its classification as agricultural land stands. In this connection, Dakak and Jalosjos insist on the right of redemption granted under Articles 1621<sup>50</sup> and 1623<sup>51</sup> of the New Civil Code.

The right of redemption in Article 1621 finds its origin from Article 1523 of the Spanish Civil Code of 1889.<sup>52</sup> In *Del Pilar v. Catindig*,<sup>53</sup> the Court, citing Manresa,<sup>54</sup> explained the purpose of the right of redemption provided by the law, viz.:

This right being limited in scope to rural lands not exceeding one hectare in extent, it is seen that the intention of the code in this respect is solely to favor the development of the ownership of land and agricultural interests. An estate of not more than a hectare in area does not, as a general

<sup>47</sup> RULES OF COURT, Rule 6, sec. 4 & Rule 9, secs. 1 and 2.

<sup>48</sup> *Rollo*, p. 214, OCT No. P-26943-2.

<sup>49</sup> *Republic v. Saromo*, 828 Phil. 11, 37 (2018) [Per J. Caguioa, Second Division].

<sup>50</sup> NEW CIVIL CODE, art. 1621 reads:

ARTICLE 1621. The owners of adjoining lands shall also have the right of redemption when a piece of rural land, the area of which does not exceed one hectare, is alienated, unless the grantee does not own any rural land.

This right is not applicable to adjacent lands which are separated by brooks, drains, ravines, roads and other apparent servitudes for the benefit of other estates.

If two or more adjoining owners desire to exercise the right of redemption at the same time, the owner of the adjoining land of smaller area shall be preferred; and should both lands have the same area, the one who first requested the redemption.

<sup>51</sup> NEW CIVIL CODE, art. 1623 reads:

ARTICLE 1623. The right of legal pre-emption or redemption shall not be exercised except within thirty days from the notice in writing by the prospective vendor, or by the vendor, as the case may be. The deed of sale shall not be recorded in the Registry of Property, unless accompanied by an affidavit of the vendor that he [or she] has given written notice thereof to all possible redemptioners.

The right of redemption of co-owners excludes that of adjoining owners.

<sup>52</sup> SPANISH CIVIL CODE OF 1889, art. 1523 reads:

ARTICLE 1523. The owners of the adjacent lands shall also have the right of redemption when the sale of a rural estate is involved the area of which does not exceed one hectare.

The right referred to in the preceding paragraph is not applicable to adjacent lands which are divided by brooks, drains, ravines, roads, and other apparent easements for the benefit of other estates.

If two or more adjacent owners should make use of the redemption at the same time, the one who is owner of the adjacent land of lesser area shall be preferred; and, should both be equal in area, the person who first requested it.

<sup>53</sup> 35 Phil. 263 (1916) [Per J. Araullo, *En Banc*].

<sup>54</sup> 10 MANRESA, COMMENTARIES ON THE CIVIL CODE 358 (2<sup>nd</sup> ed.).



rule, produce enough to keep one family; its cultivation cannot be accomplished economically, as the agricultural implements used have to be brought in across lands belonging to other owners, and the same may be said with regard to the gathering and transportation of the produce. All these difficulties disappear if, on the sale of the estate it is purchased by one of the adjacent owners, whereby the public interest is favored, because the production increases, the private interests of the redemptioner are respected and no ostensible harm is occasioned either the vendor or the purchaser.

....

The purpose of this article, as stated by the Code Commission in the revised edition of the Civil Code, was to furnish with the course of time some remedy for the excessive subdivision of real estate which offers an insuperable obstacle to the development of wealth.<sup>55</sup>

Thus, the law intends to foster the development of agricultural areas by allowing adjacent landowners to improve their own properties.<sup>56</sup> Moreover, in *Cortes v. Flores*,<sup>57</sup> the Court expounded that it is necessary that both the land sought to be redeemed and the adjoining land thereto must be rural lands since “the intention of the law in giving this right of redemption is to protect agriculture, by the union of small agricultural lands and those adjoining thereto under one single owner for their better exploitation.”<sup>58</sup>

In *Spouses Fabia v. Intermediate Appellate Court*,<sup>59</sup> the Court took the occasion to clarify the definition of rural lands covered by Article 1621, viz.:

In view of this legislative objective, the “use” of property for agricultural purpose is essential in order that the same be characterized as rural land for purposes of legal redemption under Article 1621 of the Civil Code. The consideration of the use and destination of the lands and that of the customs of each town will be the data that ought to be taken into account in order to decide fitly the cases where the qualification appears doubtful (10 Manresa 372). The small parcel of land one hectare or less in area, must be dedicated to agriculture before the owners of adjoining lands may claim a right of redemption under Article 1621 of the Civil Code.

Thus, rural lands are distinguished from urban tenements:

....

- (2) By its purpose or being for agricultural, fishing or timber exploitation, and not for dwelling, industry or commerce.<sup>60</sup>

Thus, for land to be considered rural in nature under Article 1621, it is essential to look into the **actual use** of the property. When the property sought to be redeemed and the adjacent lands thereto are used for residential,

<sup>55</sup> *Del Pilar v. Catindig*, *supra* note 53, at 266.

<sup>56</sup> *Spouses Fabia v. Intermediate Appellate Court, et al.*, 218 Phil. 334, 343 (1984) [Per J. Gutierrez, Jr., First Division]

<sup>57</sup> 47 Phil. 992 (1924) [Per J. Romualdez, *En Banc*].

<sup>58</sup> *Id.* at 993–994.

<sup>59</sup> *Supra* note 56.

<sup>60</sup> *Id.* at 343–344.

industrial, or commercial purposes, they cannot be classified as rural lands under Article 1621.

Applying case law, the insistence of Dakak and Jalosjos on a right of redemption fails. Lot 8771-A and the lands surrounding it are used for commercial purposes (i.e., the operation of Dakak beach resort). It follows then that Dakak and Jalosjos do not have a right of redemption under the law.

**The computation for unpaid rental for the lease term and reasonable rent for use and occupancy of the subject property after the termination of the lease contract is modified**

The lease contract expressly provides for the rental rates covering the years 1992 to 1997. Based on the findings of both the RTC and CA, Dakak stopped paying rent on August 1992 when Violeta refused to accept the latter's checks under the mistaken belief that the contract had already expired since Jalosjos ignored her requests for a copy thereof. The CA agreed with the RTC that the rent due for August 1992 to December 1997 should be PHP 81,309.68. However, the Court finds that the RTC's computation must be corrected since: 1) it failed to include the amount of unpaid rental corresponding to 1993; and 2) it improperly applied the monthly rate of PHP 1,012.80 for the year 1992.<sup>61</sup>

As a general rule, only matters assigned as errors in the appeal may be resolved. However, the rule admits of certain exceptions. The Court has considered grounds not raised or assigned as errors in the following instances: (1) grounds not assigned as errors but affecting jurisdiction over the subject matter; (2) matters not assigned as errors on appeal but are evidently plain or clerical errors within the contemplation of the law; (3) matters not assigned as errors on appeal, whose consideration is necessary in arriving at a just decision and complete resolution of the case or to serve the interest of justice or to avoid dispensing piecemeal justice; (4) matters not specifically assigned as errors on appeal but raised in the trial court and are matters of record having some bearing on the issue submitted which the parties failed to raise or which the lower court ignored; (5) matters not assigned as errors on appeal but are closely related to the assigned error/s; and (6) matters not assigned as errors on appeal, whose determination is necessary to rule on the question/s properly assigned as errors.<sup>62</sup> The present case, where the RTC made a simple computational error, falls under the second, third, and fourth exceptions.

As stated in the lease contract, the following monthly rental rates shall apply:

<sup>61</sup> *Rollo*, p. 196, RTC Decision.

<sup>62</sup> *Spouses Campos v. Republic*, 728 Phil. 450, 456 (2014) [Per J. Brion, Second Division].



| YEAR        | MONTHLY RENT<br>(in PHP) | UNPAID RENT<br>DUE<br>(in PHP) |
|-------------|--------------------------|--------------------------------|
| 1988        | 500.00                   | 0                              |
| 1989        | 500.00                   | 0                              |
| 1990        | 600.00                   | 0                              |
| 1991        | 720.00                   | 0                              |
| <b>1992</b> | <b>844.00</b>            | <b>4,220.00<sup>63</sup></b>   |
| <b>1993</b> | <b>1,012.80</b>          | <b>12,153.60</b>               |
| 1994        | 1,215.36                 | 14,584.32                      |
| 1995        | 1,458.54                 | 17,502.48                      |
| 1996        | 1,750.24                 | 21,002.88                      |
| 1997        | 2,000.00                 | 24,000.00                      |
| TOTAL       |                          | <b>PHP 93,463.28</b>           |

Consistent with the provisions of the lease contract, Dakak’s check payments covering the period August to December 1992 amounted to PHP 4,220.00. This confirms that the correct monthly rental rate for 1992 is, in fact, PHP 844.00. Thus, based on the applicable monthly rental rates as detailed in the lease contract, the unpaid rent due for August 1992 to December 1997 is **PHP 93,463.28**, and not PHP 81,309.68.

As regards the rent adjudged for 1998 and succeeding years, Dakak and Jalosjos cannot use as reference the 20% increase in the lease contract as basis to lower the rental rate. The lease contract expired on December 31, 1997 and no renewal, express or implied, was made. Although Article 1670<sup>64</sup> of the New Civil Code provides that an implied new lease is instituted if a lessee continues enjoying the leased premises for 15 days after the expiration of the contract, the law requires two other elements: 1) acquiescence of the lessor; and 2) no demand to vacate by the lessor has been made.<sup>65</sup> In this case, Violeta was clear in her desire to terminate the contract as soon as it expired. While she was mistaken in her belief that the contract ended in 1992 as she was never given a copy of the lease despite demands, this signified her intention to break the juridical tie between her and Dakak as soon as the contract ended. Pilar was likewise adamant that the subject property be returned to her. Dakak and Jalosjos ignored their lessor and her daughter resulting in their continued possession of the lot beyond the period of the contract.

The Court agrees with the CA’s findings that the monthly rate of PHP 4,000.00 for the year 1998 is proper. As well, the annual escalation of PHP 2,000.00 in the monthly rental rate for the succeeding years is fair and reasonable. Contrary to the insistence of Dakak and Jalosjos, the CA aptly

<sup>63</sup> August to December 1992.  
<sup>64</sup> NEW CIVIL CODE, art. 1670 reads:  
ARTICLE 1670 If at the end of the contract the lessee should continue enjoying the thing leased for fifteen days with the acquiescence of the lessor, and unless a notice to the contrary by either party has previously been given, it is understood that there is an implied new lease, not for the period of the original contract, but for the time established in Articles 1682 and 1687. The other terms of the original contract shall be revived.  
<sup>65</sup> *Buce v. Spouses Galeon*, 872 Phil. 68, 78 (2020) [Per J. J. Reyes, Jr., First Division].



adjudged the monthly rental rate to be applied after the expiration of the lease contract, viz.:

In *D.O. Plaza Management Corp. v. Heirs of Atega*, the Supreme Court has defined a fair rental value as the reasonable compensation for the use and occupation of the leased property. In that case, though the High Court emphasized that there is no hard and fast rule in determining the reasonableness of the rental charge, they sustained the CA in pegging the monthly rental based on the following considerations, among others: 1) that the old rate did not reflect the fair value of the property; 2) the structures that accrued to the lessor as provided in the lease contract and their fair market values; and 3) inflation.

In the case here, the monthly rent in 1988 started at [PHP ]500.00 and thereafter increased by 20% until it reached [PHP ]2,000.00 in 1997 or after ten years. Taking into account the land area of 1,602 sq.m., its present location, the structures thereon, and its market value of [PHP ]132,966 as of 1999 per its tax declaration, it can be gathered that the increase of monthly rent from [PHP ]2,000.00 to [PHP ]4,000.00 in 1998 can hardly be considered iniquitous and unreasonable. It is just enough compensation for a land that is used for commercial purposes considering the income that the defendants-appellants have been reaping therefrom by using the subject land as part of their well-known resort. Besides, the defendants-appellants failed to give any convincing argument to show that the rent pegged by the RTC is prejudicial to them. Well-settled is the rule that the burden of proving that the increased rental is unconscionable, rests on the lessee. Hence the annual increase of [PHP ]2,000.00 in the monthly rentals as fixed by the RTC is sustained.<sup>66</sup>

Indeed, Dakak and Jalosjos have been benefitting from the continued use and occupation of the subject property long after the leased contract expired. Their outright refusal to surrender possession to the Spouses Mendezona on the excuse that they are entitled to its ownership by reason of the significant improvements made on the subject property has no basis in law. The amount of reasonable rent adjudged compensates for the years that the Spouses Mendezona have been deprived of the possession of their property.

In addition, the Court deems it proper to impose moral and exemplary damages in favor of the Spouses Mendezona.

Moral damages may be awarded in case of breach of contract where the breach is due to fraud or bad faith:

Art. 2220. Willfull injury to property may be a legal ground for awarding moral damages if the court should find that, under the circumstances, such damages are justly due. The same rule applies to breach of contract where the defendant acted fraudulently or in bad faith.<sup>67</sup>

<sup>66</sup> *Rollo*, pp. 29–30, CA Decision.

<sup>67</sup> NEW CIVIL CODE, art. 2220.



Fraud and bad faith connote a deliberate or wanton wrongdoing, or such deliberate disregard of contractual obligations.<sup>68</sup> The breach must be wanton, reckless, malicious or in bad faith, and oppressive and abusive.<sup>69</sup> In awarding damages, the Court is clothed with authority to review matters, though unassigned or not raised as an issue, when their consideration is necessary to arrive at a just and fair resolution of the case.<sup>70</sup>

In the present case, both the RTC and CA overlooked awarding moral damages prayed for by the Spouses Mendezona in their Complaint. The Court deems it proper to correct this. Dakak and Jalosjos repeatedly ignored their lessor's request for a copy of the lease agreement. Dakak also completely stopped payment of the rent due to the lessor despite knowing the terms of the contract and refused to vacate the leased premises upon termination of the lease. When the Spouses Mendezona acquired the subject property, Dakak and Jalosjos refused to honor the rights of the new owners of the lot. Taking into consideration the wanton and malicious refusal to honor contractual obligations, the outright disregard of the rights of the new owners of the subject property as well as the considerable length of time that Dakak and Jalosjos have been unlawfully in possession of the subject property, the Court deems it proper to impose damages in the amount of PHP 500,000.00.<sup>71</sup>

Meanwhile, under the New Civil Code, "exemplary damages or corrective damages are imposed, by way of example or correction for the public good, in addition to the moral, temperate, liquidated or compensatory damages."<sup>72</sup> In cases involving contracts, the Court has the discretion to award exemplary damages if the defendant acted in a wanton, fraudulent, reckless, oppressive, or malevolent manner.<sup>73</sup> Determination of the amount of exemplary damages depends upon the amount of compensatory damages that may be awarded to the claimant.<sup>74</sup>

In *Disini v. Republic*,<sup>75</sup> a case involving the recovery of ill-gotten wealth filed by the Republic against Herminio T. Disini (Disini) in relation to the Bataan Nuclear Power Plant, the Sandiganbayan rendered a decision against Disini and ordered him to account for and reconvey to the Republic USD 50,562,500.00 he had received, but dismissed the claim for moral, temperate, nominal, and exemplary damages of the Republic. Disini questioned the Sandiganbayan's decision before the Court. In its decision, the Court partly granted Disini's petition and deleted the award of USD 50,562,500.00 for lack of sufficient proof and instead, directed Disini to pay PHP 1 billion to the Republic as temperate damages and PHP 1 million as exemplary damages. In awarding exemplary damages, the Court reasoned that

<sup>68</sup> *Darines v. Quinones*, 815 Phil. 345, 352 (2017) [Per J. Del Castillo, First Division].

<sup>69</sup> *Arco Pulp and Paper Co., Inc. v. Lim*, 737 Phil. 133, 147–148 (2014) [Per J. Leonen, Third Division].

<sup>70</sup> *Aliling v. Feliciano*, 686 Phil. 889, 903 (2012) [Per J. Velasco, Jr., Third Division].

<sup>71</sup> *See Ayson v. Fil-Estate Properties, Inc.*, 801 Phil. 680 (2016) [Per J. Perlas-Bernabe, First Division].

<sup>72</sup> NEW CIVIL CODE, art. 2229.

<sup>73</sup> NEW CIVIL CODE, art. 2232. *Sulpicio Lines, Inc. v. Karaan*, G.R. No. 208590, October 3 2018, 841 Phil. 239, 251 (2018) [Per J. Tijam, First Division].

<sup>74</sup> *Singson v. Aragon*, 92 Phil. 514, 518 (1953) [Per J. Bautista, *En Banc*].

<sup>75</sup> G.R. No. 205172, June 15, 2021 [Per J. Hernando, *En Banc*], available at <https://elibrary.judiciary.gov.ph/thebookshelf/showdocs/1/67468>.

exemplary damages are designed by “civil law to permit the courts to reshape behavior that is socially deleterious in its consequences by creating negative incentives or deterrents against such behavior.”<sup>76</sup> It serves as a deterrent to reprehensible wrongdoings and as a vindication of undue suffering and wanton invasion of the rights of an injured or a punishment for those guilty of outrageous conduct.

Another case in point is *Sulpicio Lines, Inc. v. Sesante*,<sup>77</sup> where the Court held Sulpicio Lines liable for damages due to the sinking of the M/V Princess of the Orient by reason of the gross negligence of its captain. In maintaining the CA’s award of exemplary damages in the amount of PHP 1 million to the passenger who survived the sinking, the Court reasoned that exemplary damages are intended in good measure to deter the wrongdoer and others like the latter from similar conduct in the future. Since Sulpicio Lines and its agents acted wantonly and in utter disregard of the rights of its passengers, it resulted in the sinking of the vessel.

The present case, which involves a simple and straightforward lease contract, has spanned more than two decades. Dakak has been using Lot 8771-A for its own financial gain for more than 20 years at the expense of its lawful owner. The non-payment of rent to Violeta and Spouses Mendezona, the outright refusal to vacate the property despite several demands and dragging of a simple lease contract for years smack of utter bad faith and wanton disregard of contractual obligations. The act of oppression of Dakak and Jalosjos against a small landowner cannot be left unpunished. Thus, the Court awards exemplary damages of PHP 1 million in favor of the Spouses Mendezona. Further, in order to ensure that Dakak and Jalosjos do not prolong their baseless claim further at the expense of the Spouses Mendezona, the Court deems it proper to have the decision immediately executory.

Finally, Dakak and Jalosjos are also liable to pay interest for both unpaid rent and reasonable rent for use and occupancy of Lot 8771-A. Since these do not constitute loans or forbearances of money, the proper interest applicable is 6% per annum.<sup>78</sup>

**ACCORDINGLY**, the present Petition is **DENIED**. The Decision dated June 28, 2018 of the Court of Appeals – Cagayan de Oro City Twenty-Second Division and Resolution dated January 25, 2019 of the Court of Appeals – Cagayan de Oro City Former Twenty Second Division in CA-G.R. CV No. 04450-MIN are **AFFIRMED with MODIFICATION**, as follows:

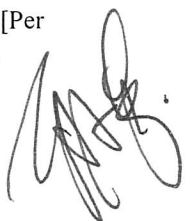
1. Petitioners Dakak Beach Resort Corporation and Romeo G. Jalosjos are ordered to vacate the subject land and to return the same peacefully to respondent Spouses Jose Ma. M.

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<sup>76</sup> *Id.*

<sup>77</sup> 791 Phil. 409 (2016) [Per J. Bersamin, First Division].

<sup>78</sup> *Lara’s Gift & Decors, Inc. v. Midtown Industrial Sales, Inc.*, G.R. No. 225433, September 20, 2022 [Per J. Leonen, *En Banc*], available at <https://elibrary.judiciary.gov.ph/thebookshelf/showdocs/1/68597>.



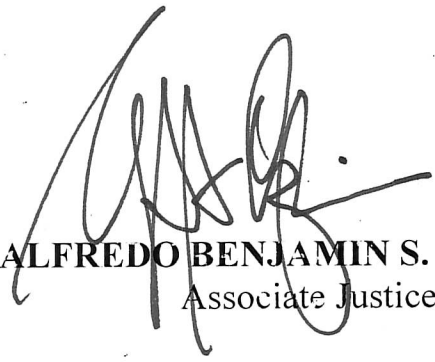
Mendezona and Pilar L. Mendezona within thirty (30) days from finality of this Decision;

2. The permanent and fixed improvements found on the subject property are declared owned by the Spouses Mendezona;
3. Petitioners are ordered to pay the Spouses Mendezona PHP 93,463.28, representing the unpaid rentals from August to December 1992 until December 31, 1997, with interest at the rate of six percent (6%) per annum from April 2, 2003 (i.e., filing of the Complaint) until fully paid;
4. Petitioners are ordered to pay the Spouses Mendezona reasonable rent of PHP 4,000.00 per month for 1998 and an annual escalation of PHP 2,000.00 in the monthly rental rate for the succeeding years until they vacate the property. The total amount shall earn interest at the rate of six percent (6%) per annum from April 2, 2003 (i.e., filing of the Complaint) until fully paid.
5. Petitioners are ordered to pay moral damages in the amount of PHP 500,000.00 and exemplary damages in the amount of PHP 1 million to the Spouses Mendezona.

The total sum of the amounts awarded herein shall further be subject to six percent (6%) legal interest, from the date of finality of this Decision until full satisfaction.

This Decision shall be immediately executory.

**SO ORDERED.**



**ALFREDO BENJAMIN S. CAGUIOA**  
Associate Justice

WE CONCUR:



**HENRI JEAN PAUL B. INTING**

Associate Justice



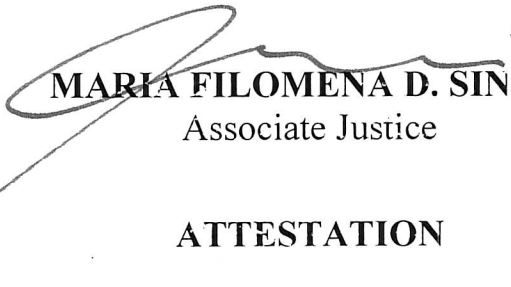
**SAMUEL H. GAERLAN**

Associate Justice



**JAPAR B. DIMAAMPAO**

Associate Justice

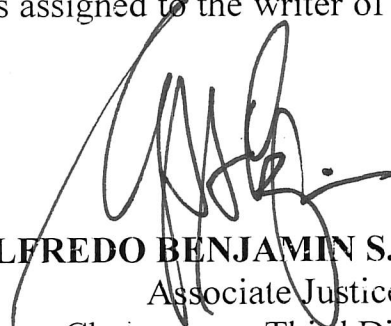


**MARIA FILOMENA D. SINGH**

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

Chairperson, Third Division

**CERTIFICATION**

Pursuant to Article VIII, Section 13 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.



**ALEXANDER G. GESMUNDO**

Chief Justice