

THIRD DIVISION

[G.R. No. 188467, March 29, 2017]

**RENATO MA. R. PERALTA, PETITIONER, VS. JOSE ROY RAVAL,
RESPONDENT.**

[G.R. No. 188764]

**JOSE ROY B. RAVAL, PETITIONER, VS. RENATO MA. R. PERALTA,
RESPONDENT.**

D E C I S I O N

REYES, J.:

Before the Court are consolidated petitions for review on *certiorari* under Rule 45 of the Rules of Court, docketed as G.R. No. 188764 and G.R. No. 188467 and filed by Jose Roy B. Raval (Raval) and Renato Ma. R. Peralta (Peralta), respectively. Subject of both petitions is the Decision^[1] dated October 8, 2008 of the Court of Appeals (CA) in CA-G.R. CV No. 85685, wherein the CA affirmed with modification the Decision^[2] dated May 17, 2005 of the Regional Trial Court (RTC) of Laoag City, Branch 14, in the action for rescission of lease agreement, docketed as Civil Case No. 11424-14, that was filed by Raval against Peralta.

The Antecedents

The controversy involves a lease agreement over two parcels of residential land, particularly Lot Nos. 9128-A and 9128-B, situated in San Jose, Laoag, Ilocos Norte and previously covered by Transfer Certificate of Title (TCT) Nos. T-2406^[3] and T-3538^[4] issued by the Register of Deeds for Ilocos Norte under the names of spouses Flaviano Arzaga, Sr. and Magdalena Agcaoili-Arzaga (Spouses Arzaga).^[5] Each lot measures 660 square meters, more or less.^[6]

On February 19, 1974, the Spouses Arzaga, as lessors, entered into a Contract of Lease^[7] with Peralta, as lessee, over the subject lots and the improvements thereon, more particularly described in their contract as follows:

B. x x x the whole of Lot No. 9128-A, with an area of 660 square meters; the northern portion of Lot No. 9128-B with an inclusive approximate area of 317 square meters; the first floor of the residential house found thereon with an approximate area of 160 square meters, consisting of a porch, a receiving room, three (3) bedrooms, a toilet and small room used as a bodega, the land area occupied by the garage and the driveway of. 157 square meters, more or less, specifically situated at the southern portion of Lot No. 9128-B, including the room above the

garage; a kitchen with an area of 18 square meters; and the water tank built thereon together with its accessories x x x.^[8]

Spouses Arzaga and Peralta agreed on a lease term of 40 years, for monthly rentals at the following rates: (a) P500.00 beginning May 1974; (b) P600.00 after the 10th year; (c) P700.00 after the 20th year; and (d) P800.00 after the 30th year and until the termination of the lease. Under the lease contract, Peralta was also to construct on the leased land a building that should become property of the Spouses Arzaga upon lease termination, to pay realty taxes for both lots, and to develop a water system for the use of both parties to the lease contract.^[9]

Sometime in May 1988, Flaviano Arzaga, Jr. (Flaviano Jr.), being an adopted son and heir of the Spouses Arzaga, filed with the RTC of Laoag City a complaint for annulment of lease contract, docketed as Civil Case No. 9121-16, against Peralta, who allegedly breached in his obligations under the contract of lease. The complaint was eventually dismissed by the RTC on December 10, 1990.^[10] The RTC decision was later affirmed by the CA in CA-G.R. CV No. 30396, while the CA ruling was no longer appealed by Flaviano Jr. to the Supreme Court.^[11]

Raval came into the picture after Flaviano Jr. assigned to him *via* a Deed of Assignment^[12] dated July 28, 1995 all his interests, rights and participation in the subject properties for a consideration of P500,000.00. Peralta refused to recognize the validity of the assignment to Raval, prompting him to still deposit his rental payments for the account of Flaviano Jr.,^[13] more specifically to bank accounts that were opened by Peralta's wife, Gloria Peralta, under the name "Gloria F. Peralta [in-trust-for] (ITF): Flaviano Arzaga, Jr."^[14]

Beginning August 1995, Raval demanded from Peralta compliance with the lease contract's terms and conditions.^[15] On October 2, 1995, Raval's father and counsel, Atty. Castor Raval (Castor), wrote a letter to Peralta demanding the removal of the structures that the latter built on a portion of Lot No. 9128-B, as he claimed that it was not covered by the lease agreement. This demand was reiterated by Castor in a letter dated November 4, 1995, by which he also sought access to the residential house's second floor and an updated accounting of rentals already paid.^[16] Peralta's refusal to heed to the demands of Castor prompted the latter to send several other demand letters and, eventually, to refer the matter to barangay for conciliation.^[17]

When the parties still failed to settle the issue, Castor sent another letter to Peralta on June 14, 1996, informing the latter that a lessee was to occupy the second storey of the house and demanding that the area be cleared for that purpose. On June 22, 1996, Castor again pointed out to Peralta the structures on Lot No. 9128-B that were allegedly not part of the lease agreement. He claimed that Peralta had become a builder in bad faith, such that the improvements made were to be already considered as properties of Raval.^[18]

After several more demands and another barangay conciliation, Raval eventually filed in 1998 the subject complaint^[19] for rescission of lease with the RTC of Laoag City against Peralta. He alleged that Peralta failed to comply with the terms of the lease contract and his demands as a lessor, particularly on the following matters:

- a. Refusal to render an accounting of the unpaid monthly rental[s] prior to 28 July 1995 and pay monthly rental[s] thereafter up to the present;
- b. Refusal to vacate the 2nd storey of the old house;
- c. Refusal to remove the improvements illegally constructed on areas not covered by [the Contract of Lease];
- d. Refusal to operate and provide a water system; [and]
- e. Refusal to refund the taxes paid by [Flaviano Jr.] as per decision in Civil Case No. 9121-16[.]^[20]

Raval's complaint ended with a prayer for the rescission of the lease agreement, an order upon Peralta to vacate the subject properties, payment of back rentals, and award of moral, exemplary and nominal damages, plus attorney's fees and costs of suit.^[21]

Peralta opposed the complaint and sought its dismissal, as he insisted that Raval was not his lessor, and thus was not a real party-in-interest to the case. The supposed assignment between Flaviano Jr. and Raval was allegedly void considering that he was not consulted thereon and his prior approval thereto was not obtained. Moreover, notwithstanding an assignment, Raval did not have the right, power and authority to seek the rescission of the contract of lease that was executed 24 years prior to the filing of the complaint. Peralta had also faithfully complied with his obligations under the lease.^[22]

By way of counterclaim, Peralta asked for P500,000.00 as moral damages, P50,000.00 as exemplary damages, and P30,000.00 as attorney's fees. Raval's complaint was allegedly filed to harass and put him in public ridicule and contempt.^[23] Its filing also caused him to "suffer social humiliation, besmirched reputation, mental anguish, wounded feelings, sleepless nights,"^[24] especially as he was a member of the *Sangguniang Panlalawigan*, the Provincial Administrator of Ilocos Norte, and had signified his intention to seek the vice-gubernatorial post in the province.^[25]

Ruling of the RTC

On May 17, 2005, the RTC of Laoag City, Branch 14, dismissed both Raval's complaint and Peralta's counterclaim. The dispositive portion of the RTC's decision^[26] reads:

WHEREFORE, in view of all the foregoing, the above-entitled case is hereby ordered dismissed. [Peralta's] counter-claim is likewise dismissed.

SO ORDERED.^[27]

Action for Rescission

In rejecting the claim against the validity of the deed of assignment, the RTC explained that an admission of Peralta's arguments thereon would result in a

collateral attack on the TCTs that were issued to Raval by reason of the assignment. Such collateral attack is precluded under settled jurisprudence.^[28]

In any case, the RTC ruled that rescission should be denied because Peralta had been, depositing his monthly rentals in the bank accounts that were opened "in trust for" Raval and specifically for the purpose of effecting the payments. Peralta, then, was not remiss in the payment of rentals. The money remained with the bank; it was incumbent upon Flaviano Jr. and Raval to come up with an arrangement as to how the money would be withdrawn.^[29]

Neither was there any other substantial breach nor a "blatant refusal" on Peralta's part to comply with his obligations as lessee.^[30] The lapses committed by Peralta, such as the alleged. unauthorized construction of structures, non-installation of water system on the second floor and failure to render an accounting, were merely minor or trivial.^[31]

Counterclaim

Peralta's counterclaim for damages was also dismissed. It was not proved that the institution of the rescission case was prompted by malice, fraud or bad faith. Prior to the filing of his complaint, Raval repeatedly tried to reach out to Peralta, through his counsel, for negotiations or an amicable settlement of the issue.^[32] The filing of the court action was only necessary for the protection of his rights and interests over the disputed properties. It could not be classified as a wrongful act.^[33]

Dissatisfied by the trial court's ruling, both Raval and Peralta moved to reconsider, but their respective motions were denied by the trial court.^[34] This prompted both parties to file their separate appeals with the CA. Raval insisted on a rescission of the lease agreement and an award of rentals from the date of the deed of assignment in 1995, until the time that the case for rescission was filed in 1998. For his part, Peralta maintained that he was entitled to damages, attorney's fees and litigation costs.^[35]

Ruling of the CA

Raval's appeal was granted in part. Although the appellate court still denied Raval's plea for rescission, it granted in his favor an award of unpaid rental payments.

The CA sustained the validity of the deed of assignment between Flaviano Jr. and Raval, after finding that Peralta failed to establish his claims against the notarized deed's validity and due execution. As an assignee of the interests over the subject properties, Raval was a proper party to institute the action for rescission. Considering, however, that Raval did not appear to be capable of returning to Peralta the rental payments that were paid prior to the assignment of rights, the CA declared a rescission unfeasible. Rescission creates the obligation to return the object of the contract; thus, it can be carried out only when the one who demands rescission can return whatever he may be obliged to restore.^[36] It would also be unjust to Peralta if rescission were allowed, considering that he had complied with his obligations as a lessee for more than 20 years.^[37]

Raval, nonetheless, had the right to go after Peralta for unpaid monthly rentals. Given the assignment of rights, Peralta's insistence to pay to Flaviano Jr. was erroneous.^[38] Raval was also declared entitled to moral damages, considering that Peralta's obstinate and unjustified refusal to pay Raval the rental payments amounted to bad faith and wanton attitude.^[39]

As regards Peralta's counterclaim, the RTC's dismissal thereof was sustained. For the CA, it was Peralta's unjustified refusal to comply with the terms of the lease agreement that led to the court action. He should then , bear any losses or damages sustained by reason of the filing of the action.^[40] Thus, the decretal portion, of the CA Decision dated October 8, 2008 reads:

WHEREFORE, [Raval's] Appeal is **GRANTED IN PART** and [Peralta's] Appeal is **DISMISSED**. The Decision, dated May 17, 2005, of the [RTC] of Laoag City, Branch 14, in Civil Case No. 11424-14, is **AFFIRMED with MODIFICATIONS** in that [Peralta] is ordered to pay [Raval] the rental payments from August 1998^[41] up to present, plus 12% interest, and Moral Damages of P10,000.00.

SO ORDERED.^[42]

Raval and Peralta filed their respective motions for partial reconsideration, but these were denied by the CA *via* a Resolution^[43] dated June 30, 2009. Hence, the present petitions for review on *certiorari*.

The Present Petitions

In G.R. No. 188467,^[44] Peralta assails the CA's ruling to dismiss his counterclaim for damages and attorney's fees. He insists that the deed of assignment, upon which Raval anchored his. right to seek the lease agreement's rescission, is null and void, such that Raval could not have obtained any rights and obligations therefrom. Peralta likewise contends that Raval violated the rule against forum shopping when he filed the action for rescission even after Flaviano Jr. has filed the action for cancellation of lease, albeit the latter was dismissed by the RTC. Finally, the action for rescission has prescribed when Raval filed it in 1998, as he cites Article 1389 of the New Civil Code (NCC) which provides that an action for rescission must be filed within four years.

In G.R. No. 188764,^[45] Raval insists on a rescission, resolution or cancellation of the lease agreement. He contends that Peralta has failed to comply with his obligations under the contract, which as a consequence, has given Raval the statutory right to rescind the lease agreement under Article 1191 of the NCC.

Ruling of the Court

Rights and Interests of Raval

It is crucial to determine, at the outset, the rights and interests of Raval over the disputed properties, specifically as he invokes the deed of assignment that was executed in his favor by Flaviano Jr.