

Title:

Nissan Car Lease Philippines, Inc. vs. Lica Management, Inc. and Proton Pilipinas, Inc.

Facts:

Lica Management, Inc. (LMI) owns a property in Makati City, which it leased to Nissan Car Lease Philippines, Inc. (NCLPI) on June 24, 1994, for ten years. With LMI's consent, NCLPI subleased part of the premises to its subsidiary. NCLPI became delinquent in rental payments, accumulating arrears of P1,741,520.85. An oral agreement in May 1996 converted the arrears into a debt covered by a promissory note and postdated checks. However, NCLPI failed to honor the checks and sign the note, prompting LMI to terminate the lease via registered mail on October 18, 1996, demanding payment and vacation of the premises.

Meanwhile, NCLPI allowed Proton Pilipinas, Inc. (Proton) to use the premises temporarily with a promise not to breach the lease agreement. Subsequently, NCLPI and Proton entered into a Memorandum of Agreement for renovation work before an official sublease, with Proton providing a check for three months' rent as consideration. LMI, unaware of this sublease consideration, terminated its contract with NCLPI and, on November 8, 1996, leased the property directly to Proton. Following these events, legal actions ensued between the parties, navigating through the Regional Trial Court and the Court of Appeals before reaching the Supreme Court for final arbitration.

Issues:

1. Whether a contract can be extrajudicially rescinded despite the absence of a specific contractual stipulation.
2. Whether the prevailing facts justify the dismissal of NCLPI's claims and uphold the awards to LMI and Proton.
3. The correct interest rate applicable for delayed release of a security deposit in a lease contract.

Court's Decision:

The Supreme Court denied NCLPI's petition, affirming the extrajudicial rescission by LMI due to NCLPI's substantive breaches, including non-payment of rents and unauthorized subleasing. The rescission was upheld under Article 1191 of the Civil Code, allowing extrajudicial actions to protect interests in reciprocal obligations. The decision also settled the amount of unpaid rentals and determined the proper interest rate on the security deposit. Furthermore, the Court held NCLPI in bad faith, affirming the award of exemplary

damages and attorney's fees in favor of LMI and Proton while denying NCLPI's claims for damages.

Doctrine:

The decision reiterates the intrinsic right under Article 1191 of the Civil Code for aggrieved parties in reciprocal obligations to extrajudicially rescind contracts in case of substantial breaches, without the need for a specific stipulation or prior court approval, albeit subject to potential judicial scrutiny.

Class Notes:

- **Article 1191 of the Civil Code**: Central to understanding the extrajudicial rescission of contracts in reciprocal obligations due to substantial breaches by one party.
- **Reciprocal Obligations**: Basic principles around obligations that are interdependent, where performance by one party is conditioned upon the performance by the other.
- **Interest Rates on Obligations**: An understanding of how interest is applied to monetary obligations, specifically in the context of rental arrearages and security deposits, emphasizing the 6% per annum rate as dictated in recent jurisprudence (*Nacar v. Gallery Frames*).
- **Exemplary Damages and Attorney's Fees**: Principles and conditions under which these can be awarded, particularly in cases involving bad faith or substantial breach of contract.

Historical Background:

The jurisprudential backdrop against which this case was decided includes evolving interpretations of Article 1191 of the Civil Code and the application of interest rates to financial obligations. This decision underscores the Supreme Court's stance on contractual breaches and its implications, demonstrating the balance between contractual obligations and remedial measures available to aggrieved parties.