

Title: LL and Company Development and Agro-Industrial Corporation vs. Huang Chao Chun and Yang Tung Fa

Facts:

This case arose from an unlawful detainer case filed by LL and Company Development and Agro-Industrial Corporation (petitioner) against Huang Chao Chun and Yang Tung Fa (respondents) due to the latter's alleged violation of an amended lease contract pertaining to a lot in Quezon City. The controversy centered on the respondents' failure to pay monthly rentals amounting to P4,322,900.00 and their refusal to surrender possession of the leased property upon the expiration of the contract on September 16, 1996. The contract, executed in August 1991, underwent an amendment changing the leased lot and specifying a five-year term with "an option to renew." Subsequent legal proceedings led to the Metropolitan Trial Court (MeTC) dismissing the case, a decision affirmed by both the Regional Trial Court (RTC) and the Court of Appeals (CA). The focal issue was whether the lease could be unilaterally extended by the lessees based on "justice and equity."

Procedural Posture:

1. **MeTC:** Dismissed the ejectment case based on grounds of justice and equity, allowing lease extension.
2. **RTC:** Affirmed MeTC's decision, agreeing that the lease could be extended unilaterally by lessees until September 16, 2001.
3. **CA:** Upheld RTC's decision in toto, focusing on the ambiguity of the rental increase clause and dismissing the ejectment petition.

Issues:

1. **Whether a lease term can be extended post-expiration based on "justice and equity."**
2. **Whether failure to pay rentals justified ejectment despite the refusal of lessor to accept or collect rentals.**
3. **If the introduction of issues other than the elements of ejectment case was permissible by the court.**

Court's Decision:

The Supreme Court granted the petition, setting aside the CA's decision. The SC ruled that:

1. **Lease Extension:** Courts lack the authority to extend a lease post-expiration. The lease, having a determinate period, ended without the need for a demand, therefore making any post-term extension invalid.
2. **Non-Payment of Rentals:** The refusal of the lessor to collect or accept rental payments

does not justify non-payment by the lessee. Lessees should have deposited the rent with the judicial authorities or the bank.

3. The SC refrained from addressing the third issue due to its resolution of the first two.

****Doctrine:****

- ****Reciprocal Option to Renew:**** A stipulation in a lease contract providing “an option to renew” must be deemed reciprocal, requiring both parties’ consent for renewal or extension, absent explicit language indicating otherwise.

****Class Notes:****

- ****Contracts of Lease:**** Fixed-term leases end on the specified termination date without need for demand (Art. 1669, Civil Code).

- ****Ejectment on Expiry:**** Lessors can judicially eject lessees upon lease expiry (Art. 1673, Civil Code).

- ****Renewal of Lease:**** Unless expressly stipulated, an option to renew a lease is reciprocal and depends on mutual agreement (Fernandez v. CA doctrine).

- ****Non-Payment and Ejectment:**** Non-payment of agreed rentals justifies ejectment, but lessees must consign the rent if the lessor refuses acceptance (Art. 1256, Civil Code; Rental Reform Act of 2002).

- ****Lease Improvements:**** Improvements made by the lessee become the property of the lessor upon lease termination unless agreed otherwise.

****Historical Background:****

This case illustrates evolving interpretations of lease renewal options in Philippine jurisprudence. While earlier decisions like *Koh v. Ongsiaco* were overruled by *Fernandez v. CA*, the decision in *LL and Company Development* reaffirmed the principle that lease extensions and renewals require mutual agreement, signaling a protective measure for both lessors and lessees in property leasing arrangements.