

Title:

Felicidad T. Martin, et al. v. DBS Bank Philippines, Inc., et al.

Facts:

1. **Lease Agreement**:

- On March 27, 1997, the Martin family (lessors) entered into a lease contract with DBS Bank Philippines, Inc. (lessee) covering a commercial warehouse and lots.
- The lease term was five years, from March 1, 1997, to March 1, 2002.
- Monthly rents were set at varying amounts, starting from P300,000.00 in the first year to P439,230.00 in the fifth year.
- DBS paid a deposit of P1,200,000.00 and advance rentals of P600,000.00.

2. **Flood Incident**:

- Heavy rains flooded the leased property on May 25 and August 13, 1997, submerging the DBS offices and 326 repossessed vehicles.
- DBS demanded repairs from the Martins to make the leased premises suitable for use as a parking yard.

3. **Failed Repairs**:

- The Martins filled the grounds with soil and rocks, which DBS claimed was insufficient since the ground was not leveled, and portions of the perimeter fence collapsed.
- DBS vacated the property in June 1998 but continued paying rent until September 1998.

4. **Rescission Demand**:

- On September 11, 1998, DBS made a final demand for repairs, failing which it would rescind the lease contract.
- On October 13, 1998, DBS rescinded the lease and demanded the return of its deposit of P1,200,000.00.
- The Martins refused to comply, insisting they had undertaken necessary repairs.

5. **RTC Proceedings**:

- DBS filed a complaint for rescission and damages on July 7, 1999, before the RTC of Makati City, Branch 141.
- The RTC in a decision dated November 12, 2001, dismissed DBS's complaint, holding that the premises remained tenantable and that the Martins had begun repairs.

6. **CA Proceedings**:

- On appeal, the CA reversed the RTC decision on April 26, 2006, finding the floods

rendered the premises untenable and ordering rescission of the lease.

- The CA instructed the Martins to return the deposit to DBS.

7. **Supreme Court Proceedings**:

- Both parties sought further review from the Supreme Court, which consolidated the cases G.R. 174632 and 174804.

Issues:

1. Whether the CA erred in holding that the Martins allowed the leased premises to remain untenable after the floods, justifying DBS's rescission of the lease agreement.

2. Whether the CA erred in holding that DBS was entitled to rescission only from July 7, 1999, the date it filed the action, rather than from October 13, 1998.

Court's Decision:

1. **Tenantability and Rescission**:

- The Court held that the terms of the lease contract allowed rescission if the premises became untenable due to natural causes.

- The Martins failed to effectively repair and restore the premises for DBS's intended use as stipulated in the contract.

- DBS rightfully rescinded the lease contract as the premises remained untenable after the floods and the Martins' repair efforts were inadequate.

2. **Effective Date of Rescission**:

- The Court ruled that the CA erred in setting July 7, 1999, as the effective date of rescission.

- DBS's final demand on September 11, 1998, set September 30, 1998, as the deadline for repairs. The Martins' failure to meet this deadline meant DBS's right to rescind took effect on September 30, 1998.

- Thus, DBS did not owe any rent post-September 1998 and was entitled to the full return of its deposit of P1,200,000.00 with interest.

Doctrine:

- A lease contract may allow for rescission if the premises become untenable due to natural causes unless the lessor effectively repairs and restores the premises to their intended use.

- Effective rescission occurs upon the lessor's failure to comply with repair demands within the stipulated timeframe, not upon filing the action for rescission.

Class Notes:

- **Elements for Rescission**:

1. **Tenantability of the Premises**: The suitability for the intended use as specified in the contract.
2. **Compliance with Repair Requirements**: Effective and timely repairs following natural damage.
3. **Contractual Stipulations**: Specific terms permitting rescission under particular conditions.

- **Cited Provisions**:

- **Philippine Civil Code**: Articles on lease (Lease Contract Rights and Obligations).
- **Application**: The terms of the contract (Paragraph VIII and X) allow rescission due to untenability caused by natural events, subject to repair conditions.

Historical Background:

- The case highlights the implications of natural disasters on lease agreements in the Philippines, emphasizing how contractual provisions can protect lessee rights in the context of unforeseen environmental damage. The case also underscores the landlord's obligations to maintain tenantable conditions despite natural adversities, a significant aspect in real estate and commercial law.