

Mercury Drug Corporation vs. Republic Surety and Insurance Company, Inc.

Facts:

- Contract Formation:** On January 27, 1995, Republic Surety and Insurance Company, Inc. (Surety) leased the ground floor of Franlour Koh Building at Padre Faura St., Manila, to Mercury Drug Corporation (Mercury) for 10 years. Mercury acknowledged the building's good and tenantable condition based on a certificate from Civil and Structural Engineer Serafin Policarpio.
- Building Condition Report:** Several months later, Mercury's architectural department found the building structurally unsound. On May 10, 1996, Mercury informed Surety of these findings. Surety responded that these findings were erroneous.
- Independent Engineer Findings:** Mercury consulted Engineer Fernando Enriquez, who identified various structural issues, including termite damage and defective connections, recommending extensive repairs.
- City Engineer's Involvement:** Mercury requested Engineer Policarpio, who initially certified the building's soundness, to reassess the premises. Policarpio corroborated Enriquez's findings and recommended the building's immediate demolition due to its dangerous condition.
- Suspension of Rent Payment:** On February 21, 1997, Mercury informed Surety it was suspending rental payments until necessary structural repairs were completed.
- Surety's Repair Attempts:** Surety repaired and remodeled the ground floor in September 1997 but failed to secure a certification from the City Engineer verifying the adequacy of these repairs. Consequently, Mercury continued withholding rent.
- Trial Court Case:** In response, Surety filed a complaint for a sum of money on September 3, 1998. During the pre-trial conference, both parties agreed the core issue was whether Mercury was justified in suspending rent payments.
- RTC Rulings:** The RTC, Branch 23, ruled on August 11, 2000, and February 27, 2001, that Mercury must pay unpaid rents and other costs, finding Surety had made the necessary structural repairs and Mercury was obliged to pay the stipulated rent.
- Appeal:** Mercury appealed to the Court of Appeals (CA), which affirmed the RTC's

decisions. The CA held that Mercury was estopped from claiming the building was not tenantable and was obligated under the lease terms to handle necessary repairs.

10. **SC Petition**: Mercury brought the case before the Supreme Court, challenging the CA's ruling, alleging misapprehension of facts, errors in holding the building tenantable, and abuse of discretion in awarding attorney's fees.

Issues:

1. Whether Mercury is estopped from questioning the good and tenantable condition of the leased premises.
2. Whether the lease contract was solely prepared by Mercury.
3. Whether the building was in poor condition, justifying the suspension of rent payments by Mercury.
4. Whether Mercury's suspension of rental payments was legal and justified.
5. Whether Surety violated the Building Code.
6. Whether the awarding of attorney's fees to Surety was proper.

Court's Decision:

1. **Estoppel**: The Supreme Court agreed that Mercury is estopped from claiming that the leased premises were not in a tenantable condition. Mercury acknowledged the premises' condition at the lease's start and continued to pay rent for 16 months before raising an issue.
2. **Lease Contract Preparation**: The Supreme Court found no substantial evidence indicating that the lease contract was solely prepared by Mercury.
3. **Building Condition**: The Court upheld the findings of the lower courts that, despite initial reports, the building was put in a tenantable condition after Surety's repairs and Mercury's claimed structural issues did not justify withholding rent payments.
4. **Suspension of Rent Payments**: The suspension was deemed unjustified since the lease contract explicitly stated that Mercury was responsible for repairs and maintenance. Hence, Mercury could not invoke Article 1658 of the Civil Code to justify non-payment.
5. **Building Code Violation**: There was no sufficient evidence indicating a violation of the Building Code by Surety.

6. **Attorney's Fees**: The Supreme Court found that the awarding of attorney's fees was proper due to Mercury's refusal to comply with its lease obligations, forcing Surety to initiate litigation.

Doctrine:

1. **Estoppel in Acknowledgment of Property Condition**: A lessee who acknowledges the condition of premises at the lease's start and continues to occupy without immediate complaint is estopped from later disputing the premises' condition.
2. **Lease Obligations and Repairs**: Under a lease, specific obligations assigned to one party (such as the lessee's responsibility for structural repairs) override general legal provisions like Article 1658 of the Civil Code.

Class Notes:

- **Estoppel**: Prevents parties from changing position if they previously accepted conditions or terms and acted upon them over an extended period.
- **Article 1658, Civil Code**: Used when a lessor fails in upkeep duties, but contract stipulations can override this provision.
- **Lease Contract Terms**: Parties' specific obligations, especially concerning repairs and maintenance, must be observed.

Historical Background:

This case underscores tenants' and landlords' respective responsibilities in lease agreements and reinforces contract laws where specific terms are agreed upon. It elucidates legal remedies and enforcement measures in civil disputes regarding property leases within the Philippines' legal landscape. The case exemplifies judicial tendencies to uphold written agreements and limit the invocation of broad civil code provisions when explicit contrary contracts exist.