

TRINIDAD DE LEON VDA. DE ROXAS, PETITIONER, VS. THE HON. COURT OF APPEALS AND CARLOS FAUSTINO, RESPONDENTS.*G.R. No. L-39146. March 25, 1975*

Ponente: TEEHANKEE, J.

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The Court sets aside the appealed decision of the Court of Appeals and in lieu thereof reinstates the judgment of the court of first instance of Rizal. The three-year lease of respondent had clearly not been renewed for another three years by petitioner-owner who had the sole option under the lease contract to grant or deny such renewal. The appellate court itself so ruled and therefore there is no valid justification for it — contrary to its own ruling — to set at naught the valid agreement between the parties for payment of an increased monthly rental of P3,000.00 (as against the P1,000. - monthly rental fixed for the three-year lease period) upon the expiration of the lease, much less to order petitioner to return or pay back the "excess" of P2,000.00 monthly which respondent had religiously paid for over two years without protest.

Absent any prohibitory or regulatory statute, it is the owner-lessor's prerogative to terminate the lease at its expiration and to demand a new rate of rental as it is the lessee's prerogative either to accept the new rent or to avoid paying the increased rent by vacating the premises. As to the further increase of the monthly rental to P5,000.00 as demanded by petitioner after the two years, the Court finds that the trial court correctly assessed that the evidence amply justified the increase. Respondent presented no evidence to discharge his burden of substantiating his gratuitous claim that the increase was exorbitant and unreasonable and the appellate court's reduction of the monthly rental to P2,000.00 (P1,000.00 less per month than what respondent had been paying for the previous two years) was untenable and arbitrary.

The case concerns petitioner's action for illegal detainer against private respondent Carlos Faustino (as owner-operator of the Hi-Ball Night Club established by him on petitioner's 1,032-square meter corner lot at Roxas Boulevard) and for the payment of monthly rentals of P5,000.00 from April 1, 1968 until restoration of the premises, with P2,000. — attorney's fees and costs, as originally filed by petitioner on August 23, 1968 in the Municipal Court of Parañaque, Rizal.

There is no dispute as to the material facts (with the parties having submitted a stipulation of facts in the court of first instance besides entering trial),^[1] which may be briefly restated as follows:

Sometime in May, 1963, petitioner and respondent entered into a written contract of lease on petitioner's above-mentioned parcel of land with the building constructed thereon, for a term of three years from the execution of said contract, "renewable for another three (3) years at the option of the LESSOR and under such other terms and conditions as she may impose." The lease contract thus provided as to the period and rentals as follows:

"1. That the term of this lease shall be for a period of three (3) years, renewable for another three (3) years, at the option of the LESSOR, and under such other terms and conditions she may impose;

"2. That the rentals for the period beginning March 1, 1963 until December 31, 1963, shall be at the rate of Six

Hundred (P600.00) Pesos, monthly, and thereafter until the termination of the three (3) year period of the lease, the rental payments shall be One Thousand (P1,000.00) Pesos, monthly, and that said rental price shall be payable in advance on or before the 15th day of each month, at the residence of the Lessor, Provided, however, that if the Lessor after the first day of March, 1965 will construct a residential house on the said property then the period of this lease contract shall terminate and the Lessee and/or Sub-lessee shall return the property to the Lessor, otherwise, the lease period as contained in the document shall prevail. (Exh. 1)."[2]

From March 1, 1963 to December 31, 1963, respondent paid petitioner the monthly rentals of P600.00 as stipulated. Likewise for the remainder of the fixed three-year period of the lease contract from January 1, 1964 to May 31, 1966, respondent paid the monthly rentals of P1,000.00 as stipulated.

After the expiration of the fixed contractual three-year period of the lease, petitioner exercised her contractual option not to renew the lease for another three years, notwithstanding respondent's request for renewal. Petitioner however allowed respondent to continue occupying the leased premises on the basis of his agreement to pay an increased rental on a monthly basis of P3,000.00 per month, beginning June, 1966.

Respondent according to his own brief in the appellate court "grudgingly and involuntarily paid P3,000.00 as monthly rental to [petitioner]. The P3,000.00 as monthly rental was paid by [him] from July 4, 1966 to August 16, 1968 (par. 8, Stipulation of Facts, pp. 37-39, R.A.). He feared to be ejected because his investment — P150,000.00 has already been defrayed for the construction, remodelling and building of a supper club in said leased premises."[3] Under paragraph 3 of the lease contract, it had been expressly agreed that "such construction and improvements shall belong to the LESSOR upon termination of the lease, without any obligation, whatsoever, on her part to reimburse the LESSEE for such constructions or improvements."[4]

From June, 1966 to March, 1968, respondent duly paid the monthly sum of P3,000.00 as rental for the leased property to petitioner. On March 17, 1968 and on two other occasions in April, 1968, petitioner through counsel wrote respondent and demanded an increase in the monthly rental from P3,000.00 to P5,000.00 beginning April, 1968. Respondent refused to pay the increased rental nor to vacate the leased premises as demanded. Respondent, however, continued to remit to petitioner the sum of P3,000.00 monthly from April to August, 1968 and petitioner applied the payments totalling P15,000.00 as payment for three months' rentals corresponding to the months of April, May and June, 1968 at the monthly rate of P5,000.00.

In August, 1968, petitioner filed her suit for ejectment and recovery of rentals in the Parañaque municipal court.

Both parties appealed to the Rizal court of first instance the inconclusive judgment of the Parañaque municipal court of February 20, 1969, which favored more the respondent, as it dismissed the complaint and ordered petitioner to return an alleged rental overpayment of P13,000.00.

Upon a stipulation of facts and after trial, the Rizal court found from petitioner's testimony that she "simply refused to exercise her option under said contract. She did not want to renew the contract for another three years,"[5] that the fixed 3-year lease period therefore terminated in May, 1966, and thereafter respondent occupied the leased premises on a month-to-month basis under Article 1687 of the Civil Code for which he agreed to pay an increased monthly rental of P3,000.00 and that "there is not the least competent, sufficient and credible evidence" to support respondent's counter-claim of rental overpayment and that such increased P3,000. rental "was forced upon him by (petitioner)."[6] The trial court found also "based on the evidence, enough justification for the increased monthly rental of P5,000.00" and thus rendered its judgment of August 3, 1970 in favor of petitioner, as follows:

"(1) Ordering Defendant and all persons claiming title under him to vacate the subject premises and to surrender complete possession thereof to Plaintiff, with all the permanent improvements introduced thereon by

Defendant;

“(2) Ordering Defendant to pay Plaintiff the monthly rental of P5,000.00 from April 1, 1968, until possession of the premises is restored to Plaintiff, with legal interest thereon until fully paid;

“(3) Ordering Defendant to pay Plaintiff the amount of P2,000.00 as reasonable attorney's fees;

“(4) Ordering Defendant to pay the costs of the suit;

“(5) Ordering Plaintiff to allow Defendant such reasonable time for said Defendant to remove from the subject premises all the personal properties mentioned in paragraph 4 of the 'LEASE CONTRACT' (Exhibit 'B' for Plaintiff, Exhibit 'I' for Defendant); and

“(6) Dismissing Defendant's Counterclaim.”

Respondent appealed to the Court of Appeals.[7] In its judgment of May 16, 1974, the appellate court expressly upheld the trial court's finding of termination of the lease after three years and "overruled the contention of [respondent-appellant] that the lease was impliedly extended by [petitioner] for another three years." Yet, it found contradictorily that "until March 31, 1968 the defendant was only liable to pay a monthly rental of P1,000.00 in accordance with the contract of lease which was impliedly extended." And despite the lack of legal and factual bases, it preferred the Parañaque municipal court's determination fixing the amount of rental at P2,000.00 monthly rather than that of P5,000.00 monthly fixed by the Rizal court of first instance as "just and reasonable under the circumstances," and rendered its judgment reversing the trial court's judgment, as follows:

"WHEREFORE, the decision appealed from is hereby set aside and the plaintiff is ordered to return to the defendant the amount he paid in excess of P1,000.00 from July 4, 1966 up to March 31, 1968 and said defendant is declared liable to pay plaintiff a monthly rental of P2,000.00 from April 1, 1968 until he vacated the premises in question, the amounts due to be determined by the trial court, without pronouncement as to costs."

It appears undisputed that as noted by the appellate court in its decision, respondent had vacated the leased premises in August, 1970.[8] Hence, the principal question in this present petition is the correctness of the appellate court's judgment reversing that of the trial court and instead ordering petitioner "to return to [respondent] the amount he paid in excess of P1,000.00 from July 4, 1966 up to March 31, 1968" and declaring said respondent liable to pay plaintiff only "a monthly rental of P2,000.00 from April 1, 1968 until he vacated the premises in question."

The Court resolved per its resolution of November 8, 1974 to treat the present appeal by way of review on certiorari as a special civil action in view of the simple issues involved and to avoid the unnecessary expense and delay of filing briefs.

The appeal is meritorious and must be sustained.

I. On the question of the monthly rental of P3,000.00 from the expiration on May 31, 1966 of the fixed three-year period of the lease contract: — The only basis on which respondent could claim to continue being liable only for a monthly rental of P1,000.00 after May 31, 1966 notwithstanding the expiration of the fixed three-year period of the lease instead of the monthly rental of P3,000.00 that he admittedly paid thereafter is in case his tenuous contention that petitioner had acquiesced to an implied renewal or extension of the lease contract for another three years at the same rental of P1,000.00 should be factually and legally upheld.

But such is clearly not the case.

The trial court expressly found that under the express contractual stipulation which is the law between the parties,

the renewal of the lease for another three years depended upon the sole option of petitioner as lessor and she had flatly re-fused to grant such renewal. The trial court thus ruled that "the 'lease contract' ... terminated three years from May, 1963, that is to say, the lease terminated in May, 1966." [9] This is but in consonance with the specific provisions of Article 1669, Civil Code that "(I)f the lease was made for a determinate time, it ceases upon the day fixed, without the need of a demand."

The appellate court expressly upheld this finding of the trial court thus: "we overrule the contention of the appellant [respondent] that the lease was impliedly extended by plaintiff [petitioner] for another three years."

It is evident, then, as the record amply shows, that upon the expiration of the fixed three-year period of the lease, petitioner allowed or acquiesced to respondent's continuance on the premises on a month-to-month basis as provided in Articles 1670 and 1687, Civil Code, on the basis of respondent's agreement to pay an increased rental at a monthly rate of P3,000.00 beginning June, 1966. Respondent religiously paid such monthly rental of P3,000.00 for over two years "from July 4, 1966 up to and including August 16, 1968" as per paragraph 8 of the parties' stipulation of facts. [10]

In respondent's own brief filed in the appellate court as cited in its decision, [11] respondent admitted that "after the three-year period expired, defendant Carlos Faustino continued staying or occupying the property (t.s.n. p. 22, deposition) but paid the monthly rental of P3,000.00 (id.)."

There is therefore no valid justification for the appellate court's judgment setting at naught and disregarding the perfectly valid agreement between the parties for the payment of an increased monthly rental of P3,000.00 upon the expiration of the fixed three-year lease period, much less to tie down petitioner to the original P1,000.00 monthly rental (notwithstanding its own express ruling that there was no implied extension or renewal of the lease) and to order petitioner to return or pay back the "excess".

The parties' agreement for payment of an increased monthly rental of P3,000.00 not being contrary to prohibitory laws, public order, public policy or morals is the law between the parties and cannot be simply set aside. Petitioner was but exercising her prerogative as owner to terminate the lease at its expiration and to demand a new rate of rental. Respondent on the other hand as the occupant whose lease had expired had the option either to accept the new rent (which he did, although "grudgingly" to use his own expression) or avoid paying the increased rental by vacating the premises. [12]

Respondent's contention that his agreement to pay the increased monthly rentals of P3,000.00 "was vitiated with fear" because he had disbursed P150,000.00 for the remodelling and improvements of the premises is manifestly untenable. This was a matter of a business decision on his part. He was as free to agree (which he did) beginning June 1966 to pay an increased monthly rental of P3,000.00 for his continued occupancy of the premises on a month-to-month basis as he was also free to agree or refuse (as he did refuse) to pay the further increased monthly rental of P5,000.00 beginning April 1968 as fixed and demanded by petitioner and in lieu thereof to vacate the premises.

II. On the question of the increased monthly rental of P5,000.00 demanded by petitioner beginning April, 1968: — The appellate court found that "After March 31, 1968 (which it erroneously considered the expiration of the implied new lease for another three years in contradiction to its own express ruling that there was no such implied extension for another three years), the plaintiff [petitioner] as lessor, had the right to increase the rental." [13] It however rejected the increased monthly rental of P5,000.00 as fixed by petitioner and found to be fair and reasonable by the trial court and adopted the much lesser monthly rental of P2,000.00 fixed by the Parañaque municipal court notwithstanding that for over two years up to March 1968 respondent had agreed to paying a higher monthly rental of P3,000.00, rationalizing that "(W)e find the amount fixed by the Municipal Court of

Parañaque as just and reasonable under the circumstances. The plaintiff acquired the leased premises for only P15,151.81 on April 26, 1950. And when the lease contract commenced on March 1, 1963 the monthly rental was only P600.00."[14]

The Court finds the appellate court's criterion and conclusion to be arbitrary and wholly untenable.

As correctly assessed by the trial court, "it cannot be seriously asserted that in fixing the present monthly rental, the amount of P15,151.81 paid 20 years ago should be made the basis to obtain a fair 10% return for an investment. Present prevailing values must be utilized." Petitioner cited the evidence of record that "(A)s of 1968, the market value of the leased premises was P800.00 per square meter, or a total of P825,600.00. In view thereof, the realty assessment and the corresponding realty tax thereon was likewise increased (t.s.n., pp. 18-19, October 29, 1969)," as well as the prevailing rentals on Roxas Boulevard, such as a 200 squaremeter lot of Mrs. Maria Aragon being rented for P2,000.00 monthly, and the Gabaldon property adjacent to petitioner's with a lesser area of 800 square meters being rented by Luau Restaurant for a monthly rental of P4,000.00 for the first five years and an increased monthly rental of P5,300.00 for the next five years.

Many other factors were correctly cited by the trial court in support of its conclusion "based on the evidence (as) enough justification for the increased monthly rental of P5,000.00. The area of the leased property, its original purchase price 20 years before, its classification as a 'corner property,' its present value, its location along Roxas Boulevard, the business to which it has been devoted by defendant, the length of time Defendant has already occupied it which is now already even beyond the period of the 'LEASE CONTRACT' if renewed — all these, considered together, justify the increase."[15]

Furthermore, as already indicated, it is the owner's prerogative to fix the rental for which he wishes to lease his property and the occupant or lessee has the option of accepting the rent as fixed or negotiating with the owner and in the event of failure to come to an agreement to leave the property so as not to be liable for the rental fixed and demanded by the owner.

Only where the rental demanded is clearly exorbitant or unreasonable would the courts intervene as a matter of fairness and equity. The burden of proof to show that the rental demanded is exorbitant and unreasonable rested upon respondent, and since respondent presented no evidence in substantiation of his claim other than the original cost to petitioner of the property, he has manifestly failed to discharge his burden.

An objective look at the figures suffices to show the fair-ness and reasonableness of the P5,000. monthly rental fixed by petitioner. While petitioner charged a low monthly rental of P1,000.00 for the fixed three-year period of the lease (with a grace rental of P600.00 for the first ten months of 1963), this was in consideration of respondent having defrayed the sum of P150,000.00 for remodelling and improvements on the premises, which under the lease contract were to revert to petitioner's ownership without right of reimbursement at the end of the three-year lease in May, 1966. This amounted to an additional monthly cost-rental of P4,166.00 on respondent's part (P150,000.00 divided by 36 months comprising the three-year lease period) or in effect a total monthly rental of P5,166.00 during the said three-year lease period. (Tax-wise, this provided respondent a corresponding advantage also, as he could deduct the entire P5,166.00 monthly as operating cost of his nightclub establishment and quickly write off the entire expense of P150,000.00 in the space of three years).

Upon expiration of the three-year lease period on May 31, 1966, notwithstanding that the remodelled building and improvements thereon had already passed to petitioner's ownership, the parties agreed on a P3,000.00 monthly rental, as already stated.

When petitioner fixed and demanded P5,000.00 as the monthly rental beginning April, 1968, she was in fact

merely going back to the previous level of a P5,000. - monthly rental-cost that respondent actually was paying during the three-year period of their lease contract (May, 1963 to May, 1966). Manifestly, then, the P5,000.00 monthly rental fixed by petitioner for the premises beginning April, 1968 could not be deemed exorbitant or unreasonable.

ACCORDINGLY, the appealed decision of the Court of Appeals is hereby set aside and in lieu thereof the judgment of the court of first instance of Rizal of August 3, 1970 is hereby reinstated. With costs in all instances against private respondent.

Makalintal, C.J., Makasiar, and Esguerra, JJ., concur.

Castro, J., concurs in the result.

[1] Rec. on Appeal, pp. 37-39.

[2] Emphasis supplied.

[3] Respondent's comment, Rollo, p. 69.

[4] Rec. on Appeal, p. 58.

[5] Rec. on Appeal, pp. 46-47.

[6] Idem, pp. 51-52.

[7] Tenth Division, composed of Fernandez, J. ponente, and Puno and Serrano, JJ., members.

[8] Rollo, p. 48.

[9] Rec. on Appeal, p. 49.

[10] Idem, p. 38.

[11] Rollo, p. 41.

[12] Cf. *Bulahan vs. Tuazon*, 108 Phil. 251; *Lim Si vs. Lim*, 98 Phil 868.

[13] Rollo, p. 47; note in parentheses supplied.

[14] Idem, pp. 47-48.

[15] Rec. on Appeal, p. 55.

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