

AMANDO LITAO, PLAINTIFF AND APPELLANT, VS. NATIONAL ASSOCIATION OF RETIRED CIVIL EMPLOYEES, REPRESENTED BY PRESIDENT LEON E. ANGELES, DEFENDANTS AND APPELLEES.

G.R. No. L-18998. July 31, 1963

Ponente: REYES, J.B.L., J.

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REYES, J.B.L., J.:

Appeal from a decision of the Court of First Instance of Zambales, the dispositive part of which reads:

"Wherefore, judgment is hereby rendered dismissing plaintiff's complaint for specific performance, with costs; and ordering the defendant to pay the plaintiff the amount of P6,463.95."

As gleaned from the records of this case, on 19 June 1958, plaintiff and defendant, the latter through its duly authorized representative, Leon K. Angeles, entered into a contract of lease over the ground floor of a two-story building of strong materials owned by the defendant and located at 253 Manila Avenue, Olongapo, Zambales, within the United States Naval Reservation.

The lease contract provided:

"1. That the LESSEE shall pay the LESSOR a monthly rental of the premises mentioned herein, ONE HUNDRED PESOS (P100.00) Philippine Currency, payable at every 5th day of each month;

2. That the LESSEE shall convert the ground floor into 5-door accessories and make other improvements thereon at his own expense, and the LESSOR shall in turn refund or reimburse the LESSEE for whatever expenses incurred on the building, including annual Reservation fees, annual fees in favor of the Republic of the Philippines (Government), real property taxes, and other fees pertinent to the building aforesaid, for ONE HUNDRED PESOS (P 100.00) Philippine Currency, until the total expenses incurred by the lessee, shall have been fully satisfied; and whatever improvement made by the lessee shall belong to the LESSOR;

3. That the duration of this lease contract shall be for a period of FIVE (5) YEARS from this date, subject however to further extension with respect to the terms and conditions No. 2, regarding to payment by the LESSOR of total expenses incurred by the LESSEE, which shall be fully satisfied;

4. That the LESSEE shall be permitted to sub-lease the premises to any person, with the knowledge of the LESSOR;

5. That in case of violation of either LESSOR or LESSEE on any of the terms and conditions of this agreement, as set forth herein, or otherwise fail to undertake some of the obligations as herein stipulated, or either party shall be forced to take court action to protect their interests and enforce their rights under this contract, either party shall be entitled to a reasonable attorney's fee in an amount not less than P40.00 aside from litigation expenses arising thereto."

On 28 July 1958, plaintiff Amando Litao filed a complaint in the Court of First Instance of Zambales against the Association of Retired Civil Employees, alleging in substance that pursuant to the contract of lease plaintiff made

improvements on the defendant's building at his expense, and with the knowledge of the defendant; that plaintiff subleased to the present occupants of the four-door accessoria; that the total expenses of plaintiff in his constructions amount to P15,014.54, including U.S. Naval Reservation and Philippine Government fees; that of this amount, only the sum of P6,000.00 has been reimbursed to plaintiff, leaving a balance of P9,014.54; that pursuant to the contract, defendant should extend the period or duration of the lease contract until plaintiff is fully reimbursed of P9,014.54; that instead of giving plaintiff the necessary extension of the lease aforementioned defendant decided not to extend the said lease to plaintiff, instead serving notice to the present occupants of the four-door accessoria, who were subleasing the same from plaintiff, to pay corresponding rentals to defendant instead of plaintiff, starting after midnight of 30 June 1958, and notified plaintiff himself to surrender the premises in question. Plaintiff prayed the court to order the defendant to extend the contract of lease until plaintiff is fully reimbursed of his unrepaid expenses in the amount of P9,014.54; that defendant pay plaintiff P70,000.00 as actual, moral, and compensatory damages; P5,000.00 as attorney's fees; and P1,000.00 as litigation expenses; and for a writ of preliminary injunction restraining the defendant from interfering in the contractual relations of the sub-lessees with plaintiff and from committing acts tending to dispossess and disturb the peaceful possession of plaintiff during the pendency of the litigation and until plaintiff is fully reimbursed of the amount of P9,014.54.

On 28 February 1958, defendant association answered admitting the execution of the contract of lease but alleging its expiration on 30 June 1958, as per notice of defendant to plaintiff on 24 March 1958 (marked Annex "I"); denying plaintiff's allegation regarding certain improvements; and alleging violation of the terms of the lease contract by the plaintiff. Defendant admitted that it had reimbursed plaintiff in the amount of P6,000.00, but denied that the balance is P9,014.34, because plaintiff failed to prove the amount in question in spite of requests by defendant to do so. Defendant denied that the contract should be extended until the sum of P9,014.54 should be paid, and also denied knowledge of any damage suffered by plaintiff by not extending the lease, and, as special defenses, alleged that plaintiff has no cause of action; that plaintiff did not follow the terms of the contract, particularly with respect to the construction of a 5-door accessoria on the ground floor; and that the sub-leases were made by plaintiff without the knowledge of the defendant.

As counterclaim, defendant claimed moral damages in the amount of P30,000.00; actual damages in the amount of P10,000.00; and prayed that plaintiff's complaint be dismissed; for award of damages of aforementioned; and other relief in the premises.

On 25 June 1959, after plaintiff filed his reply, the parties, without oral evidence, entered into a stipulation of facts, as follows:

"Agreed Stipulation of Facts"

"1. That the parties admit the genuineness authenticity and the existence of a contract of lease, document, marked as Exhibit "A" attached to the complaint;

2. The parties agree that of the total expenses of the plaintiff in the construction of the premises in question in the amount of P15,014.54 including payment of fees, etc., should be P14,783.95 and out of this total, plaintiff has recovered only the amount of P6,000.00, thus leaving a balance of P8,783.95, unrecovered;

3. The parties agree that the plaintiff, after the institution of this case has collected the amount of P2,020.00 from February, 1959, to May, 1959, and the defendant on their part, has collected from July, 1958, to January, 1959, the amount of P4,430.00 as rental from the sublessees in question;

4. The parties further agree that if the contract should be extended, the defendant shall reimburse to the plaintiff the amount they have collected (P4,430.00) aforementioned, minus the rental of P100.00 per month from July, 1958 to January, 1959, inclusive, and if the Honorable Court decides that the contract shall not be

extended, the plaintiff shall reimburse to the defendant the amount of P2,020.00 aforementioned;

5. The parties further agree that the status quo shall be maintained until the case is decided;

6. The parties agree that the appreciation of the amount of damages should be left to the sound discretion of the Honorable Court."

Thereafter, on 30 October 1959, the court rendered decision, the dispositive part of which had been quoted heretofore.

Motion for reconsideration having been denied, plaintiff appealed to the Court of Appeals on questions of law and jurisdiction.

In the meantime, defendant having taken possession of the leased premises just after it received copy of the decision, a motion for contempt was filed by plaintiff, but it was dismissed for being unmeritorious. A writ of preliminary injunction, however, was granted to compel defendant to maintain the status quo pending final termination of the case and desist from further collecting sub-rentals from the tenants of the premises until further orders of the court, and upon plaintiff's filing of a bond of P2,000.00.

On 10 August 1961, plaintiff-appellant filed a motion in the Court of Appeals, praying that the decision of the trial court be declared null and void for lack of jurisdiction, principally on the ground that the claim set forth by defendant is actually in the nature of an action for unlawful detainer, and is not within the jurisdiction of the Court of First Instance of Zambales to pass upon. The Court of Appeals, in certifying the case, here resolved that (1) the appeal hinges primarily on the interpretation of the terms of the lease contract; and (2) appellant's claim that the trial court erred in failing to consider the question of jurisdiction set up by defendant's defenses may not be inquired into because resolution thereof is not dependent on the evidence.

The main issue, therefore, raised in this appeal is the interpretation of the terms of the contract of lease, the question of jurisdiction being merely a corollary thereto.

We disagree with the court of first instance that the "further extension" mentioned in section 3 of the contract (v. ante, p. 2) refers to the term of repayment by the lessor of the amounts spent by the lessee for improvements, for the reason that no such extension would ever be required by the lessor. Under paragraph 2, the lessor was obliged to "fully" satisfy the total expenses incurred by the lessee; and the obvious import of the stipulation in paragraph 3 is that the lease is to be automatically extended beyond its original terms (if need be) until the lessee is repaid by the lessor, or until the accumulated fruits and income of the property since the expiration of the original period of lease should equal the unpaid balance due to the lessee.

However, it is likewise apparent that the extension of the lease term beyond that originally agreed upon was exclusively for the benefit of the lessor, in order to save it the trouble of reimbursing the lessee in cash; consequently, it was well within the lessor's discretion to terminate the lease upon expiration of the original period agreed upon, or at any other time thereafter, by tendering to the lessee, or consigning in court, the outstanding balance of his expenditures. But the lessor certainly could not terminate the lease, retake possession, and insist in delaying repayment to the lessee that would deprive the lessee of his stipulated security, or right of retention of the premises. For this reason, the judgment of the trial court requiring the lessee to turn over the premises upon payment by the lessor of the balance due him is substantially correct. The only modification that should be made therein is that the lessor should be given option to either reimburse the balance or demand that the lessee should account for, and credit the lessor for the fruits of the property, since the expiration of lease against the balance due to the lessee.

Wherefore, the judgment appealed from is modified by declaring that the lessor has the right to terminate the lease

by reimbursing the balance of the lessee's expenditures and demand from the lessee rentals and income of the property received by him after June 30, 1958, or alternatively to require that the lessee should apply the said rentals and income to the payment of the balance due, turning over any excess to the lessor. The records of this case are ordered remanded to the court of origin for accounting and further proceedings in accordance with , this opinion. No costs.

Padilla, C. J., Bautista Angelo, Labrador, Concepcion, Barrera, Paredes, Dizon, Regala and Makalintal, JJ. concur.

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