

ALFREDO C. YULO, PLAINTIFF AND APPELLANT, VS. CHAN PE, DEFENDANT AND APPELLEE.*G. R. No. 10061. April 22, 1957*

Ponente: CONCEPCION, J.

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On October 14, 1953, Alfredo C. Yulo filed with the municipal court of the City of Bacolod a complaint against Chan Pe: (a) alleging that, by virtue of a deed, copy of which was attached to said pleading as Exhibit A, executed in January, 1951, Yulo had leased to Pe door No. 11 of the Commercial Building at Bonifacio Street, Bacolod City, for a period of five (5) years, at a monthly rental of P450, payable in advance; that on March 1, 1952, Yulo had leased to Pe another specified door of the same building, at a monthly rental of P200, payable simultaneously with the rental of said door No. 11; and that Pe had failed to pay the rentals from May to October 1953, aggregating P3,900, and to vacate said two (2) doors, despite repeated demands; and (b) praying that Pe be sentenced to pay to Yulo said sum of P3,900, plus the rentals that may accrue thereafter, with interest thereon, and to vacate said premises, with attorney's fees and costs.

In due course, said court rendered judgment sentencing Pe to pay to Yulo the sum of P1,200, with interest thereon, plus P200, as attorney's fees, and costs. On appeal to the Court of First Instance of Negros Occidental, Pe filed an answer: (1) alleging that, upon the execution of Exhibit A, Pe had made an advance payment of P6,000, from which the sum of P100 was deducted on account of the rental for each one of the months of February, March and April, 1953, thereby leaving a balance of P5,700, as of May 1, 1953; that the rentals from May to October, 1953 had already been paid in advance, said rentals being deductible by Yulo from said sum of P5,700, thereby leaving, in favor of Pe, a balance of P1,800 at the end of October, 1953; and that Pe had accepted Yulo's "demand for the rescission of their lease contract on October 26, 1953 and * * * vacated the leased premises on the 31st of the same month of October, 1953"; and (2) praying that the complaint be dismissed and that Yulo be ordered to refund to Pe said sum of P1,800, as well as to pay attorney's fees and costs.

Subsequently, both parties agreed to submit the case for judgment on the pleadings, upon the filing of their respective memoranda, after which the Court of First Instance rendered a decision, the dispositive part of which reads:

"POR TODO LO expuesto, el Juzgado falla esta causa declarando al demandante con derecho de cobrar del demandado la suma de P3,900 en concepto de alquileres vencidos, cuya suma se deducirá de la cantidad de P5,700. Se condena al mismo demandante para que después de efectuada dicha deducción, pague al demandado la suma de P1,800 que representa el saldo de los P6,000 por dicho demandado entregados al demandante en concepto de alquileres pagados por adelantados, con intereses legales desde la interposición de la reconvencción hasta su completo pago. Las costas se tasarán en contra del demandante."

The case is now before us, upon the record on appeal filed by plaintiff Yulo, the only issue raised being one of law.

It appears that in January, 1951, the parties herein executed the deed Exhibit A, whereby Door No. 11 of the Commercial Building at Bonifacio Street, Eacolod City, was leased by Pe from Yulo under the following conditions, among others:

"1. That the Lease shall be for -a period of five years from the date hereof, at a monthly rental of FOUR HUNDRED FIFTY PESOS (P450) Philippine Currency, per door, payable as follows:

"(a) Advance payment by the Lessee of the sum of six thousand PESOS (F6,000) upon the execution of this contract;

"(b) That in paying the regular rental of F450 per door, per month, no discount from the advance payment above-mentioned for a period of Two Years, discount of F100 per month will be made only every month for the last three years;

"(c) That the monthly rental shall be paid every first day of the month, to be delivered at the office of the Lessor of Bacolod City.

"2. That the Lessee hereby agrees to pay 12 per cent interest per annum for the month due and unpaid for a period of 15 days from default, with the understanding that the said default automatically cancelled this contract and at the same time, a right of confiscation is granted to the Lessor of the latter's advance payment as damages after the said period, and also agreed to immediately vacate and peaceably surrender to the Lessor the possession of said premises.

* * * *

"5. That the right of the Lessee on the building hereby leased is transferable with the written consent of the Lessor for a period of Five Years, however if the Lessee could not finish the Five Years in accordance with this contract under any emergency or force majeure, such as war, etc., he further agrees that his advance payment be forfeited by the Lessor to answer for part of the damages, except when the premises is no; longer habitable or usable, then the balance of the advance payment is returnable to the Lessee.

* * * *

"11. And- that the Lessor hereby acknowledges the receipt in advance from the Lessee of the advance payment above-mentioned of SIX thousand pesos (P6,000) Philippine Currency."

Pe complied with the obligations under Exhibit A, up to February, 1952, inclusive. On March 1, 1952, he leased from Yulo the door of said Commercial Building, opposite the aforementioned Door No. 11 thereof, at a monthly rental of P200, payable at the same time as the rental for said Door No. 11. The aggregate monthly rental of P650 was, thereafter, seasonably paid up to January, 1953. From February to April, 1953, Pe paid only F550 each month, for the balance of P100 was, pursuant to subdivision 1 (b) of Exhibit A, deductible from the "advance payment" or deposit of P6,000 made upon the execution of said instrument. No further payments having been made since May, 1953, Yulo repeatedly demanded from Pe that he satisfy the rentals due and vacate the leased premises. As these demands were not heeded, Yulo commenced this action on October 14, 1953, and, soon thereafter, on October 31, 1953, Pe vacated said premises.

There is no dispute about the obligation of Pe to pay the rentals from May to October, 1953, aggregating P3,900. The issue is whether Yulo may collect said sum of P3,900, in addition to confiscating the balance of P5,700 outstanding, in favor of Pe, as of May 1, 1953, after deducting from his original deposit of P6,000, the sum of P100 for each of the months of February, March and April, 1953, as provided in paragraph 1(6) of Exhibit A. Said confiscation is provided in paragraph 2 of Exhibit A, reading:

"That the Lessee hereby agrees to pay 12 per cent interest per annum for the month due and unpaid for a period of 15 days from default, with the understanding that the said default automatically cancelled this contract and

at the same time, a right of confiscation is granted to the Lessor of the latter's advance, payment as damages after the said period, and also agreed to immediately vacate and peaceably surrender to the Lessor the possession of. said premises."

Pe contests said right of confiscation upon the ground: (1) that said right is premised upon default on his part, which, he claims, does not exist.; and (2) that said subdivision 2 of Exhibit A is null and void.

In support of the first ground, it is alleged in the answer that the rentals from May to October, 1953, "have already been paid * * * in advance" by Pe, for Yulo "can take the said rents from the P6,000 which the defendant paid to him in advance upon the execution of the contract of lease Exhibit A". This pretense is clearly untenable, for, pursuant to paragraph 1 of Exhibit A, the rental therein stipulated "shall be paid every first day of the month" and there shall be "no discount from the advance payment above mentioned for the period of TWO years", but a "discount of P100 per month will be made only every month for the last three years", or from February, 1953. Hence, Pe was in default in the payment of P550 each month, from May to October, 1953.

With respect to the second ground, the Court of First Instance, after quoting from *Ibarra vs. Aveyro* (37 Phil., 286), had the following to say:

"En el presnte asunto nos parecc igualmente inicua y no menos desmedida la facultad que al demandants, como arrendador, se le otorgara de declarar, deeomizada de un tiron la considerable suma de P6,000 por una simple demora en el pago de log alquileres, tanto mas si se tiene en cuenta que las partes habian convenido en que el ar-rendataria (demandado) pagaria un interes de 12 por ciento anual para el caso de que la mora excediera de los quince (15) primeros dias.

"Por las consideraciones expuestas, el Juzgado no titubea en declarar, como por la presente declara, nula y de ningun efecto legal aquella parte de la escritura de arrendamiento Exhibito 'A' por la cual el demandante se arrogo la facultad de declarar deeomizada la suma de P65000 que el demandado le entregara en concepto de pago por adelantado de los alquileres convenidos."

We cannot agree with this conclusion of the lower court. To begin with, said paragraph 2 of Exhibit A establishes, in effect, a penal clause, which, by nature, is not limited to actual or compensatory damages. Its purpose is usually to create an effective deterrent against breach of the obligations by making the consequences of such breach as onerous as it may be possible. Again, said paragraph may be regarded, also, as providing for the payment of either liquidated damages Or exemplary or corrective damages. Even if "iniquitous or unconcionable", liquidated damages are, however, not void, but subject merely to1 equitable reduction (Article 2227, Civil Code of the Philippines). So, too, "in contracts"—pursuant to Article 2232 of the same Code—"the court may award exemplary damages if the defendant acted in a wanton, fraudulent, reckless, oppressive or malevolent manner." In the case at bar, defendant simply refused, for six (6) months, without giving any reason therefor, to pay rentals, and to vacate the leased premises, in open violation of his undertaking, under said paragraph 2 of Exhibit A, to the effect that his default in the performance of his obligation shall "automatically cancel" his right of lease and that he shall "immediately vacate and peaceably surrender to the lessor the possession of said premises". The belated excuse—set up in his answer, but' not given when Yulo demanded compliance with said undertaking—that he had not been in default, because the rentals from May to October, 1953, can be taken from the advance deposit of P6,000—which is also contrary to the terms of Exhibit A—merely makes more manifest his wanton disregard of his contractual obligations.

Lastly, considering that the contract of lease in question was for a period of five (5) years,, and that the stipulated rental originally amounted to P5,400 a year, which—upon the leasing of an additional door—was subsequently increased to P7,800 a year, we do not believe that the stipulation under consideration and its enforcement under the circumstances obtaining in this case is contrary to morals, good customs, public order or public policy.

In view, however, of the fact that, even if the sum of P3,900 due by way of rentals, as of October 31, 1953, were deducted from the advance deposit then outstanding in favor of Pe, there would still be a balance of P1,800 in favor of Yulo, we hold, in the exercise of our authority, under said Articles 2227 and 2232 of the Civil Code of the Philippines, that said sum of P1,800 sufficiently compensates the plaintiff for such damages as he may have suffered by reason of the breach of obligation by defendant herein.

Wherefore, the decision appealed from is hereby modified, in the sense that plaintiff-appellant shall be entitled to retain said sum of P5,700, balance of the advance payment or deposit made by the defendant-appellee, and that the latter shall not recover anything from the former, with costs against said defendant-appellee. It is so ordered.

Bengzon, Padilla, Montemayor, Reyes, A., Bautista Angelo, Labrador, Reyes, J. B. L., Endencia, and Felix, J.J., concur.

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