

JOSE RAMON CARCELLER, PETITIONER, VS. COURT OF APPEALS AND STATE INVESTMENT HOUSES, INC., RESPONDENTS.

G.R. No. 124791. February 10, 1999

Ponente: QUISUMBING, J.

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QUISUMBING, J.:

Before us is a petition for review of the Decision[1] dated September 21, 1995 of the Court of Appeals[2] in CA - G. R. CV No. 37520, as well as its Resolution[3] dated April 25, 1996, denying both parties' motion for partial reconsideration or clarification. The assailed decision affirmed with modification the judgment[4] of the Regional Trial Court of Cebu City, Branch 5, in Civil Case No. CEB 4700, and disposed of the controversy as follows:

"However, We do not find it just that the appellee, in exercising his option to buy, should pay appellant SIHI only P1,800,000.00. In fairness to appellant SIHI, the purchase price must be based on the prevailing market price of real property in Bulacao, Cebu City." (Emphasis supplied)

The factual background of this case is quite simple.

Private respondent State Investment Houses, Inc. (SIHI) is the registered owner of two (2) parcels of land with a total area of 9,774 square meters, including all the improvements thereon, located at Bulacao, Cebu City, covered by Transfer Certificate of Titles Nos. T-89152 and T-89153 of the Registry of Deeds of Cebu City.

On January 10, 1985, petitioner and SIHI entered into a lease contract with option to purchase[5] over said two parcels of land, at a monthly rental of Ten Thousand (P10,000.00) pesos for a period of eighteen (18) months, beginning on August 1, 1984 until January 30, 1986. The pertinent portion of the lease contract subject of the dispute reads in part:

"4. As part of the consideration of this agreement, the LESSOR hereby grants unto the LESSEE the exclusive right, option and privilege to purchase, within the lease period, the leased premises thereon for the aggregate amount of P1,800,000.00 payable as follows:

- Upon the signing of the Deed of Sale, the LESSEE shall immediately pay P360,000.00.
- The balance of P1,440,000.00 shall be paid in equal installments of P41,425.87 over sixty (60) consecutive months computed with interest at 24% per annum on the diminishing balance; Provided, that the LESSEE shall have the right to accelerate payments at anytime in which event the stipulated interest for the remaining installments shall no longer be imposed.

x . . The option shall be exercised by a written notice to the LESSOR at anytime within the option period and the document of sale over the afore-described properties has to be consummated within the month immediately following the month when the LESSEE exercised his option under this contract." [6]

On January 7, 1986, or approximately three (3) weeks before the expiration of the lease contract, SIHI notified petitioner of the impending termination of the lease agreement, and of the short period of time left within which he could still validly exercise the option. It likewise requested petitioner to advise them of his decision on the

option, on or before January 20, 1986.[7]

In a letter dated January 15, 1986, which was received by SIHI on January 29, 1986, petitioner requested for a six-month extension of the lease contract, alleging that he needs ample time to raise sufficient funds in order to exercise the option. To support his request, petitioner averred that he had already made a substantial investment on the property, and had been punctual in paying his monthly rentals.[8]

On February 14, 1986, SIHI notified petitioner that his request was disapproved. Nevertheless, it offered to lease the same property to petitioner at the rate of Thirty Thousand (P30,000.00) pesos a month, for a period of one (1) year. It further informed the petitioner of its decision to offer for sale said leased property to the general public.[9]

On February 18, 1986, petitioner notified SIHI of his decision to exercise the option to purchase the property and at the same time he made arrangements for the payment of the downpayment thereon in the amount of Three Hundred Sixty Thousand (P360,000.00) pesos.[10]

On February 20, 1986, SIHI sent another letter to petitioner, reiterating its previous stand on the latter's offer, stressing that the period within which the option should have been exercised had already lapsed. SIHI asked petitioner to vacate the property within ten (10) days from notice, and to pay rental and penalty due.[11]

Hence, on February 28, 1986, a complaint for specific performance and damages[12] was filed by petitioner against SIHI before the Regional Trial Court of Cebu City, to compel the latter to honor its commitment and execute the corresponding deed of sale.

After trial, the court a quo promulgated its decision dated April 1, 1991, the dispositive portion of which reads:

"In the light of the foregoing considerations, the Court hereby renders judgment in Civil Case No. CEB 4700, ordering the defendant to execute a deed of sale in favor of the plaintiff, covering the parcels of land together with all the improvements thereon, covered by Transfer Certificates of Title Nos. 89152 and 89153 of the Registry of Deeds of Cebu City, in accordance with the lease contract executed on January 10, 1984 between the plaintiff and the defendant, but the purchase price may be by "one shot payment" of P1,800,000.00; and the defendant to pay attorney's fee of P20,000.00.

No damages awarded." [13]

Not satisfied with the judgment, SIHI elevated the case to the Court of Appeals by way of a petition for review.

On September 21, 1995, respondent court rendered its decision, affirming the trial court's judgment, but modified the basis for assessing the purchase price. While respondent court affirmed appellee's option to buy the property, it added that, "the purchase price must be based on the prevailing market price of real property in Bulacao, Cebu City." [14]

Baffled by the modification made by respondent court, both parties filed a motion for reconsideration and/or clarification, with petitioner, on one hand, praying that the prevailing market price be the value of the property in February 1986, the time when the sale would have been consummated. SIHI, on the other hand, prayed that the market price of the property be based on the prevailing price index at least 10 years later, that is, 1996.

Respondent court conducted further hearings to clarify the matter, but no agreement was reached by the parties. Thus, on April 25, 1996, respondent court promulgated the assailed resolution, which denied both parties' motions, and directed the trial court to conduct further hearings to ascertain the prevailing market value of real properties in Bulacao, Cebu City and fix the value of the property subject of the controversy.^{14a}

Hence, the instant petition for review.

The fundamental issue to be resolved is, should petitioner be allowed to exercise the option to purchase the leased property, despite the alleged delay in giving the required notice to private respondent?

An option is a preparatory contract in which one party grants to the other, for a fixed period and under specified conditions, the power to decide, whether or not to enter into a principal contract. It binds the party who has given the option, not to enter into the principal contract with any other person during the period designated, and, within that period, to enter into such contract with the one to whom the option was granted, if the latter should decide to use the option.[15] It is a separate agreement distinct from the contract which the parties may enter into upon the consummation of the option.[16]

Considering the circumstances in this case, we find no reason to disturb the findings of respondent court, that petitioner's letter to SIHI, dated January 15, 1986, was fair notice to the latter of the former's intent to exercise the option, despite the request for the extension of the lease contract. As stated in said letter to SIHI, petitioner was requesting for an extension (of the contract) for six months "to allow us to generate sufficient funds in order to exercise our option to buy the subject property".[17] The analysis by the Court of Appeals of the evidence on record and the process by which it arrived at its findings on the basis thereof, impel this Court's assent to said findings. They are consistent with the parties' primary intent, as hereafter discussed, when they executed the lease contract. As respondent court ruled:

"We hold that the appellee [herein petitioner] acted with honesty and good faith. Verily, We are in accord with the trial court that he should be allowed to exercise his option to purchase the lease property. In fact, SIHI will not be prejudiced. A contrary ruling, however, will definitely cause damage to the appellee, it appearing that he has introduced considerable improvements on the property and has borrowed huge loan from the Technology Resources Center."17a

The contracting parties' primary intent in entering into said lease contract with option to purchase confirms, in our view, the correctness of respondent court's ruling. Analysis and construction, however, should not be limited to the words used in the contract, as they may not accurately reflect the parties' true intent. The reasonableness of the result obtained, after said analysis, ought likewise to be carefully considered.

It is well-settled in both law and jurisprudence, that contracts are the law between the contracting parties and should be fulfilled, if their terms are clear and leave no room for doubt as to the intention of the contracting parties.[18] Further, it is well-settled that in construing a written agreement, the reason behind and the circumstances surrounding its execution are of paramount importance. Sound construction requires one to be placed mentally in the situation occupied by the parties concerned at the time the writing was executed. Thereby, the intention of the contracting parties could be made to prevail, because their agreement has the force of law between them.[19]

Moreover, to ascertain the intent of the parties in a contractual relationship, it is imperative that the various stipulations provided for in the contract be construed together, consistent with the parties' contemporaneous and subsequent acts as regards the execution of the contract.[20] And once the intention of the parties has been ascertained, that element is deemed as an integral part of the contract as though it has been originally expressed in unequivocal terms.

As sufficiently established during the trial, SIHI, prior to its negotiation with petitioner, was already beset with financial problems. SIHI was experiencing difficulty in meeting the claims of its creditors. Thus, in order to reprogram the company's financial investment plan and facilitate its rehabilitation and viability, SIHI, being a quasi-banking financial institution, had been placed under the supervision and control of the Central Bank (CB). It was in dire need of liquidating its assets, so to speak, in order to stay afloat financially.

Thus, SIHI was compelled to dispose some of its assets, among which is the subject leased property, to generate sufficient funds to augment its badly-depleted financial resources. This then brought about the execution of the lease contract with option to purchase between SIHI and the petitioner.

The lease contract provided that to exercise the option, petitioner had to send a letter to SIHI, manifesting his intent to exercise said option within the lease period ending January 30, 1986. However, what petitioner did was to request on January 15, 1986, for a six-month extension of the lease contract, for the alleged purpose of raising funds intended to purchase the property subject of the option. It was only after the request was denied on February 14, 1986, that petitioner notified SIHI of his desire to exercise the option formally. This was by letter dated February 18, 1986. In private respondent's view, there was already a delay of 18 days, fatal to petitioner's cause. But respondent court found the delay neither "substantial" nor "fundamental" and did not amount to a breach that would defeat the intention of the parties when they executed the lease contract with option to purchase.^{20a}

In allowing petitioner to exercise the option, however, both lower courts are in accord in their decision, rationalizing that a contrary ruling would definitely cause damage to the petitioner, as he had the whole place renovated to make the same suitable and conducive for the business he established there. Moreover, judging from the subsequent acts of the parties, it is undeniable that SIHI really intended to dispose of said leased property, which petitioner indubitably intended to buy.

SIHI's agreement to enter first into a lease contract with option to purchase with herein petitioner, is a clear proof of its intent to promptly dispose said property although the full financial returns may materialize only in a year's time. Furthermore, its letter dated January 7, 1986, reminding the petitioner of the short period of time left within which to consummate their agreement, clearly showed its desire to sell that property. Also, SIHI's letter dated February 14, 1986 supported the conclusion that it was bent on disposing said property. For this letter made mention of the fact that, "said property is now for sale to the general public".

Petitioner's determination to purchase said property is equally indubitable. He introduced permanent improvements on the leased property, demonstrating his intent to acquire dominion in a year's time. To increase his chances of acquiring the property, he secured an P8 Million loan from the Technology Resources Center (TRC), thereby augmenting his capital. He averred that he applied for a loan since he planned to pay the purchase price in one single payment, instead of paying in installment, which would entail the payment of additional interest at the rate of 24% per annum, compared to 7¾% per annum interest for the TRC loan. His letter earlier requesting extension was premised, in fact, on his need for time to secure the needed financing through a TRC loan.

In contractual relations, the law allows the parties reasonable leeway on the terms of their agreement, which is the law between them.^[21] Note that by contract SIHI had given petitioner 4 periods: (a) the option to purchase the property for P1,800,000.00 within the lease period, that is, until January 30, 1986; (b) the option to be exercised within the option period by written notice at anytime; (c) the "document of sale...to be consummated within the month immediately following the month" when petitioner exercises the option; and (d) the payment in equal installments of the purchase price over a period of 60 months. In our view, petitioner's letter of January 15, 1986 and his formal exercise of the option on February 18, 1986 were within a reasonable time-frame consistent with periods given and the known intent of the parties to the agreement dated January 10, 1985. A contrary view would be harsh and inequitable indeed.

In *Tuason, Jr., etc. vs. De Asis*,^[22] this Court opined that "in a contract of lease, if the lessor makes an offer to the lessee to purchase the property on or before the termination of the lease, and the lessee fails to accept or make the purchase on time, the lessee loses the right to buy the property later on the terms and conditions set in the

offer." Thus, on one hand, petitioner herein could not insist on buying the said property based on the price agreed upon in the lease agreement, even if his option to purchase it is recognized. On the other hand, SIHI could not take advantage of the situation to increase the selling price of said property by nearly 90% of the original price. Such leap in the price quoted would show an opportunistic intent to exploit the situation as SIHI knew for a fact that petitioner badly needed the property for his business and that he could afford to pay such higher amount after having secured an P8 Million loan from the TRC. If the courts were to allow SIHI to take advantage of the situation, the result would have been an injustice to petitioner, because SIHI would be unjustly enriched at his expense. Courts of law, being also courts of equity, may not countenance such grossly unfair results without doing violence to its solemn obligation to administer fair and equal justice for all.

WHEREFORE, the appealed decision of respondent court, insofar as it affirms the judgment of the trial court in granting petitioner the opportunity to exercise the option to purchase the subject property, is hereby **AFFIRMED**. However the purchase price should be based on the fair market value of real property in Bulacao, Cebu City, as of February 1986, when the contract would have been consummated. Further, petitioner is hereby ordered to pay private respondent SIHI legal interest on the said purchase price beginning February 1986 up to the time it is actually paid, as well as the taxes due on said property, considering that petitioner have enjoyed the beneficial use of said property. The case is hereby remanded to Regional Trial Court of Cebu, Branch 5, for further proceedings to determine promptly the fair market value of said real property as of February 1986, in Bulacao, Cebu City.

Costs against private respondent.

SO ORDERED.

Bellosillo, (Chairman), Puno, Mendoza, and Buena, JJ., concur.

[1] Rollo, pp. 18 - 28.

[2] Fifth Division, composed of Associate Justice Angelina Sandoval Gutierrez, ponente, with Associate Justices Pedro A. Ramirez (Chairman), and Conrado M. Vasquez, Jr., concurring.

[3] Rollo, pp. 35 - 36.

[4] Penned by Judge Celso M. Gimenez; CA Records, pp. 57 - 68.

[5] Annex "A", Complaint, RTC Records, pp. 9-15.

[6] Rollo, pp. 19-20.

[7] Annex "B", Complaint, RTC Records, pp. 16-17.

[8] Annex "C", Complaint, RTC Records, p. 18.

[9] Annex "D", Complaint, RTC Records, p. 19.

[10] Annex "E", Complaint, RTC Records, p. 20.

[11] Annex "F", Complaint, RTC Records, p. 21.

[12] RTC Records, pp. 1 - 8.

[13] CA Records, p. 68.

[14] Rollo, p. 27; Annex "A", Decision, p. 10.

14a Rollo, p. 36.

[15] Tolentino, Commentaries and Jurisprudence on the Civil Code of the Philippines (Vol. IV), 1991 ed., pp. 466 - 467.

[16] Enriquez de la Cavada v. Diaz, 37 Phil 982, 983 (1918).

[17] Rollo, p. 45; Comment of private respondent, p. 7.

17a Rollo, p. 27.

[18] Article 1370, Civil Code; Salvatierra v. CA, 261 SCRA 45 (1996); Abella v. CA, 257 SCRA 482 (1996).

[19] Cuizon v. CA, 260 SCRA 645 at 649 (1996).

[20] Article 1371, Civil Code.

20a Rollo, p. 26; Annex "A", Decision, p. 9.

[21] Cuizon v. CA, 260 SCRA 649 (1996), citing Vales v. Villa, 35 Phil 769.

[22] 107 Phil 131 (1960). (Underscoring supplied.)

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