

VALGOSONS REALTY, INC. PETITIONER, VS. COURT OF APPEALS, URBAN DEVELOPMENT BANK AND PRUDENTIAL BANK, RESPONDENTS.

G.R. No. 126233. September 11, 1998

Ponente: MARTINEZ, J.

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MARTINEZ, J.:

For failure of petitioner to place respondent Urban Development Bank (UDB) in possession of the leased premises, the latter sued the former for rescission of their lease contract. Petitioner, in turn, alleged that it would have delivered the leased premises had the then lessee, respondent Prudential Bank (PB), vacated the premises upon the termination of its own lease contract. For a better grasp of the case, the facts as found by the Court of Appeals are as follows.[1]

"On October 2, 1984, a lease contract was executed by and between the plaintiff-appellee Urban Development Bank (UBD) and the defendant-third-party-plaintiff-appellant Valgosons Realty, Inc. (VRI), whereby the former leased from the latter a portion of the ground floor of the Valgosons Realty Building situated at 151 Pasong Tamo, Makati, Metro Manila (now Makati City), consisting of 252.14 square meters, more or less, at an escalating rental rate beginning at P60.00 per square meter per month. The lease was to take effect on December 1, 1984 and expire at midnight on November 30, 1994.

"As stipulated, upon the execution of the contract, UBD paid VRI the sum of P65,779.20, equivalent to six months rentals, as deposit and advance rentals.

"But despite repeated demands, VRI failed to place UBD in possession of the leased premises, thereby constraining the latter to rescind the contract on March 19, 1995, and asked for reimbursement and payment of damages. Thereafter, it commenced judicial action against VRI who x x x disclaimed any actionable fault or negligence on its part for the non-delivery of the leased space to UBD and, instead, heaped the blame on Prudential Bank (PB) against whom it filed a third-party complaint with prior leave of court.

"It appears that before leasing the space to UDB, VRI had leased it to PB for a term beginning October 1, 1981 up to midnight of September 30, 1986. However, the addendum to their contract provided, among others, that 'the LESSEE shall have the right to terminate this contract of lease at anytime before the end of the five-year period by giving notice in writing to the LESSOR at least six months in advance.'

"Under date of May 3, 1984, PB, through William Tioseco, its Vice-President, wrote VRI a letter of the following tenor:

"May 3, 1984
Elmer G. Valencia
President
Valgosons Realty, Incorporated
Makati

Dear Mr. Valencia,

Re: Lease Contract of Makati Branch

This refers to the Addendum of the Lease Contract of our Makati Branch which require the Lessee to give a six-months written notice for the termination of the said contract.

We would like to inform you that since our building in Pasong Tamo Street is almost completed, it is our plan to transfer the said branch to the new building.

Therefore, we would like to request that the said contract to be terminated by October, 1984.

Very truly yours,

(SGD.) WILLIAM TIOSIC

Vice-President

"Purportedly because of the letter, VRI entered into a contract with UDB for the lease to it of a portion of the premises occupied by PB beginning December 1, 1984 or two months after the announced termination of its (VRI's) contract with PB or in October 1984.

"But came October 1984, PB failed to vacate.

"Under date of December 6, 1985, VRI communicated with PB's William Tioseco, thus:

"December 6, 1984

MR. WILLIAM TIOSIC

Vice President

Prudential Bank
Ayala Avenue, Makati
Metro Manila

Dear Mr. Tiosic:

This is with reference to your letter of May 3, 1984 terminating your Contract of Lease with us effective October, 1984.

We have informed Mr. Bernie Lopez that a portion of the place is leased to Urban Development Bank effective December 1, 1984 and said bank will start the renovation on Saturday, December 8, 1984.

For your information.

Very truly yours,

VALGOSONS REALTY, INC.

(SGD.) PELAGIA B. DE GUZMAN

Adm/Finance Manager"

and followed it up on December 17, 1984, January 3, 1985, February 12, 1985 and March 22, 1985 with other letters reading:

"December 17, 1984

MR. WILLIAM TIOSIC

Vice President

Prudential Bank
Ayala Avenue, Makati
Metro Manila

Dear Mr. Tiosic:

On May 3, 1984 you wrote us a letter notifying us that your Contract of Lease will be terminated by October, 1984.

Subsequently, your Mr. Bernie Lopez requested our Mr. Valencia that you are extending the same up to November 30, 1984.

In the meanwhile because of the termination of your contract, we informed you that we entered into a Contract of Lease with Urban Development Bank to be effective December 1, 1984. Because you have no definite date of transfer, your Mr. Lopez assured us that he will make the necessary arrangement with the Urban Bank for the smooth turn over of the premises to the latter.

On December 6, 1984, we informed you that our new Lessee will start renovation on December 8, 1984.

Until now, you have not taken any action regarding the matter.

We urge you therefore to make the necessary arrangement with our new Lessee the Urban Development Bank regarding the delay of delivery of premises to them. Otherwise, we will hold you responsible for any possible claim against us by our new tenant.

Very truly yours,

VALGOSONS REALTY, INC.

(SGD.) PELAGIA B. DE GUZMAN

Adm./Finance Manager"

"January 3, 1985

PRUDENTIAL BANK
Ayala Avenue, Makati
Metro Manila
Attention: Mr. William Tiosic

Vice President

Gentlemen:

Further to our letter to you dated December 17, 1984. Please be informed that at anytime today, Urban Development Bank will start their renovation of the leased premises.

Because of your inaction despite our several reminders, we have no alternative except to inform you that we and Urban Development Bank are not responsible for any possible damage to you due to the repairs to be undertaken by the latter.

Very truly yours,

VALGOSONS REALTY, INC.

(SGD.) PELAGIA B. DE GUZMAN

Adm./Finance Manager"

"February 12, 1985

PRUDENTIAL BANK

Ayala Avenue, Makati

Metro Manila

Gentlemen:

Further to our letter to you dated December 17, 1984. Please be informed that on February 5, 1985, we are in receipt of a letter from Urban Development Bank demanding for payment for damages. Copy of said letter is hereby attached for your reference.

We previously informed you that we will hold you responsible for any claim for damages by our new tenant. We urged you therefore to take immediate steps regarding the matter in order to avoid legal complication.

Very truly yours,

VALGOSONS REALTY, INC.

(SGD.) PELAGIA B. DE GUZMAN

Adm./Finance Manager"

"March 22, 1985

PRUDENTIAL BANK

Ayala Avenue, Makati

Metro Manila

Attention: Mr. William Tiosic

Vice President

Gentlemen:

Please be informed that because of your continued failure to surrender the premises you leased from our building (Valgosons Realty Building) despite your termination of said contract and despite several reminder from us, our new tenant, URBAN DEVELOPMENT BANK rescinded the then contract with us and are demanding for damages, copy of the letter is hereby attached.

We therefore have no other alternative except to demand from you to answer for said damages as well as for the damages we have suffered because of your failure to turn over the possession of the subject premises.

We urge you therefore to attend to this matter immediately.

Very truly yours,

VALGOSONS REALTY, INC.

(SGD.) PELAGIA B. DE GUZMAN

Adm./Finance Manager."

"All the while, however, PB had been paying, and VRI had been accepting the monthly rentals from October 1984 to April 1985.

"PB left the premises in suit on April 29, 1985, after the Central Bank had granted its permit on April 2, 1985 to transfer its Pasong Tamo Branch from the Valgosons Realty Building to the Prudential Bank building located at 2192-2198 Pasong Tamo, Makati, M.M., although it had applied for such permit as early as June 1984.

"PB endeavored to parry off any liability by advancing the propositions that the May 3, 1984 letter of its Vice President, William Tioseco, could not have effected a valid termination of its lease contract with VRI because it was not signed by its President, Pio Pedrosa, the signatory to the said contract and its addendum and, besides, VRI never assented to such termination; and that since it is not privy to the contract of lease between VRI and UDB, it may not be held liable thereunder under the principle of *res inter alios acta alteri nocere non debet*."

After trial, the lower court adjudged (a) petitioner liable for damages to respondent UDB and (b) held respondent PB liable to petitioner for the difference in the amounts of rent paid and which should have been paid by respondent PB and UDB, respectively. The dispositive portion of the trial court's decision reads:

"WHEREFORE, and in consideration of the foregoing, the Court hereby rendered judgment in the above-entitled case as follows:

(1) Ordering defendant Valgosons Realty, Inc. to pay plaintiff Urban Development Bank the following:

(a) P65,799.20 - advance rental and deposit

P36,501.00 - rental payment from Jan. to April 1985

P10,236.16 - increase of rental due to extension

(Jan. to April 1985)

P41,800.00 - penalty fees imposed by contractor

P72,226.00 - cost of construction materials, grills, neon

signs, permits which were wasted/no longer usable

P250,000.00 - expenses/fees paid for relocation of branch premises

P476,542.36 - TOTAL

with interest thereon at the legal rate, from the date of default, until the entire amount is fully paid;

(b) Fifteen Thousand Pesos (P15,000.00) by way of attorney's fees; and

(c) costs of the suit.

(2) Ordering the third-party defendant, Prudential Bank, to pay the third-party plaintiff, Valgosons Realty, Inc., the difference between the amount of rental that plaintiff Urban Development Bank would have paid defendant Valgosons Realty, Inc. and what the third-party defendant Prudential Bank, had actually paid the former (third-party plaintiff) for the period from October 1984 to April 1985 with legal interest thereon from October 1, 1984 until the same is fully paid;

(3) Ordering the third-party defendant Prudential Bank to pay the third-party plaintiff Valgosons Realty, Inc. the amount of Five Thousand Pesos (P5,000.00) by way of attorney's fees; and

(4) Costs of the suit.

SO ORDERED."[2]

The trial court later issued an order deleting the award of advance rental and deposit.[3] Not satisfied with the judgment *a quo*, both petitioner and respondent PB separately appealed to the Court of Appeals (CA) which affirmed the trial court's findings except that it absolved respondent PB from liability, thus:[4]

"WHEREFORE, with the MODIFICATION that the third-party-defendant-appellant Prudential Bank is hereby absolved from any liability, the appealed decision is AFFIRMED, with costs against the defendant-third-party-plaintiff-appellant Valgosons Realty, Inc.

"SO ORDERED."[5]

In a petition for review to this Court, the primary issue to be resolved is whether a prior lessee's (respondent PB) continued occupation of the leased premises at the time when the new lessee (respondent UDB) was supposed to enter the property, can exculpate the lessor (petitioner) from its failure to deliver the premises to the new lessee in accordance with their lease contract. It is petitioner's argument that only respondent PB should be held liable because had the latter vacated the premises, the former would have no difficulty delivering the same to the new lessee. On the contrary, respondent PB contends that it has no obligation to vacate the area alleging that its lease contract with petitioner still subsists.

The petition must fail.

First, the first lease contract executed by petitioner with respondent PB is separate and distinct from its second lease contract with respondent UDB. As lessor, it was incumbent on petitioner to deliver the premises to the lessee (respondent UDB) in accordance with their agreement and should it become necessary, to eject any unlawful occupant therefrom.[6] Under Article 1654 of the New Civil Code, a lessor, like petitioner herein, is obliged "to deliver the thing which is the object of the contract in such a condition as to render it fit for the use intended." Failure to do so constitutes a wrong to which petitioner exposes itself to legal action including being held liable for damages.[7] The fact that respondent PB did not vacate the premises at the time the new lessee (respondent UDB) was supposed to enter therein cannot exculpate petitioner from its liability for the non-performance of its obligation towards respondent UDB. This is especially true considering that respondent PB still paid the rent which petitioner accepted. By virtue thereof, the former has a colorable title to continue its possession of the premises. Besides, a lessor's acquiescence, as in this case, of a lessee's continued possession of the leased premises is in effect a continuation of the contract under the concept of an implied lease on a month to month basis under Article 1670 of the Civil Code.[8]

Petitioner's acceptance of the amounts given by respondent UDB, regardless of whether it treated them either as rent or damages, is not a valid reason for the former not to comply with the prestation with which it bound itself under the second lease contract. When petitioner entered into the second lease contract at the time of the subsistence of the first lease contract, it knew that respondent PB is still occupying the premises. Thus, it took the risk that if it could not deliver the premises for whatever reason, it must answer to respondent UDB. Moreover, there is nothing from the numerous letters submitted by petitioner that is indicative of the fact that the latter clearly asked respondent UDB to vacate the premises and deliver possession thereof to respondent PB.[9] From the tenor of those letters, all that petitioner mentioned to respondent PB is that the former will hold the latter responsible against any possible claim for damages by the new lessee with respect to the repairs.[10] A demand for damages does not necessarily presuppose a demand to vacate, for a party may be willing to breach its obligation and be held liable for damages under the impression that it can pass the blame to another.

Second, assuming arguendo that respondent PB's refusal to leave the premises was the proximate cause of petitioner's failure to comply with its obligation to respondent UDB, still the latter, as second lessee, has no cause of action against the first lessee - respondent PB. It should be noted that there is no privity of contract between the two respondents-lessees. It was not also shown that respondent UDB, as lessee, assumed the obligation under the lease contract to eject any person who occupies the property. Neither does it appear that petitioner-lessor imposed such condition on respondent UDB. Thus, as earlier mentioned, it was incumbent upon the lessor to place the lessee in possession of the property and to defend the latter against other claims related to rightful possession.

Assuming further that the lease contract between petitioner and respondent PB no longer subsisted at the time the second lease contract with respondent UDB took effect, still petitioner cannot avoid liability for it failed to comply with what is incumbent upon it.

Finally, the petition raises factual issues. It is a time-honored precept that factual findings of the trial court are binding on this Court when supported by substantial evidence on record^[11] and carries more weight when affirmed by the Court of Appeals.^[12] Applying the foregoing principles to this case, no cogent reasons appear for the Court to depart from the findings of the CA and the RTC,^[13] which findings are final and conclusive. Besides, the Court finds no circumstance of weight or significance that would impair the correctness and validity of the findings of fact and conclusions of the trial court. No reversible error was committed by respondent court in affirming with modification the decision of the trial court.^[14]

WHEREFORE, the petition is

DENIED

for lack of merit and the assailed decision of the Court of Appeals is AFFIRMED in toto.

SO ORDERED.

Melo, Puno and Mendoza, JJ., concur.

Regalado, J., on official leave

[1] Court of Appeals decision promulgated on April 3, 1996, pp. 2-9; Rollo, pp. 32-39.

[2] Rollo, pp. 31-32.

[3] P65,779.20.

[4] Annex "A" of Petition.

[5] Rollo, p. 44.

[6] Article 1673, New Civil Code.

[7] Article 1659, New Civil Code provides: "If the lessor or the lessee should not comply with the obligations set forth in Articles 1654 and 1657, the aggrieved party may ask for the rescission of the contract and indemnification for damages, or only the latter, allowing the contract to remain in force.

[8] Manahan, Jr. v. CA, 255 SCRA 202; See also Article 1670, NCC which provides: "If at the end of the contract the lessee should continue enjoying the thing leased for fifteen days with the acquiescence of the lessor, and unless a notice to the contrary by either party has previously been given, it is understood that there is an implied new lease, not for the period of the original contract, but for the time established in Articles 1682 and 1687. The other terms of the original contract shall be revived."

[9] See the different letters of respondent Prudential Bank.

[10] Letters of Petitioner's Finance Manager dated December 17, 1984 and March 22, 1985 addressed to William Tioseco of Prudential Bank; Rollo, p. 36.

[11] Willex Plastic Ind. Corp. v. CA, et. al., 326 Phil. 489; Tan Chun Suy v. CA, 229 SCRA 151; Guinsatao v. CA, 218 SCRA 708.

[12] Catapusan v. CA, 264 SCRA 534; Meneses v. CA, 246 SCRA 162.

[13] Acebedo Optical Co., Inc. v. CA, 320 Phil. 506; Salvador v. CA, 313 Phil. 36.

[14] Komatsu Industries (Phil.), Inc. v. CA, 319 Phil. 480.

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