

ANITA C. BUCE, PETITIONER, VS. THE HONORABLE COURT OF APPEALS, SPS. BERNARDO C. TIONGCO AND ARACELI TIONGCO, SPS. DIONISIO TIONGCO AND LUCILA TIONGCO, AND JOSE M. TIONGCO, RESPO...*G.R. No. 136913. May 12, 2000*

Ponente: DAVIDE JR., C.J.

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The basic issue in this petition is whether the parties intended an automatic renewal of the lease contract[1] when they agreed that the lease shall be for a period of fifteen years "subject to renewal for another ten (10) years."

Petitioner leased a 56-square meter parcel of land located at 2068 Quirino Avenue, Pandacan, Manila. The lease contract was for a period of fifteen years to commence on 1 June 1979 and to end on 1 June 1994 "subject to renewal for another ten (10) years, under the same terms and conditions." Petitioner then constructed a building and paid the required monthly rental of P200. Private respondents, through their administrator Jose Tiongco, later demanded a gradual increase in the rental until it reached P400 in 1985. For July and August 1991, petitioner paid private respondents P1,000 as monthly rental.[2]

On 6 December 1991, private respondents' counsel wrote petitioner informing her of the increase in the rent to P1,576.58 effective January 1992 pursuant to the provisions of the Rent Control Law.[3] Petitioner, however, tendered checks dated 5 October 1991,[4] 5 November 1991,[5] 5 December 1991,[6] 5 January 1992,[7] 31 May 1992,[8] and 2 January 1993[9] for only P400 each, payable to Jose Tiongco as administrator. As might be expected, private respondents refused to accept the same.

On 9 August 1993, petitioner filed with the Regional Trial Court of Manila a complaint for specific performance with prayer for consignation, which was docketed as Civil Case No. 93-67135. She prayed that private respondents be ordered to accept the rentals in accordance with the lease contract and to respect the lease of fifteen years, which was renewable for another ten years, at the rate of P200 a month.

In their Answer, private respondents countered that petitioner had already paid the monthly rent of P1,000 for July and August 1991. Under Republic Act No. 877, as amended, rental payments should already be P1,576.58[10] per month; hence, they were justified in refusing the checks for P400 that petitioner tendered. Moreover, the phrase in the lease contract authorizing renewal for another ten years does not mean automatic renewal; rather, it contemplates a mutual agreement between the parties.

During the pendency of the controversy, counsel for private respondents wrote petitioner reminding her that the contract expired on 1 June 1994 and demanding that she pay the rentals in arrears, which then amounted to P33,000.

On 29 August 1995, the RTC declared the lease contract automatically renewed for ten years and considered as evidence thereof (a) the stipulations in the contract giving the lessee the right to construct buildings and

improvements and (b) the filing by petitioner of the complaint almost one year before the expiration of the initial term of fifteen years. It then fixed the monthly rent at P400 from 1 June 1990 to 1 June 1994; P1,000 from 1 June 1994 until 1 June 1999; and P1,500 for the rest of the period or from 1 June 2000 to 1 June 2004, reasoning that the continuous increase of rent from P200 to P250 then P300, P400 and finally P1,000 caused "an inevitable novation of their contract." [11]

On appeal, the Court of Appeals reversed the decision of the RTC, and ordered petitioner to immediately vacate the leased premises on the ground that the contract expired on 1 June 1994 without being renewed and to pay the rental arrearages at the rate of P1,000 monthly. [12]

According to the Court of Appeals, the phrase in the contract "this lease shall be for a period of fifteen (15) years effective June 1, 1979, subject to renewal for another ten (10) years, under the same terms and conditions" is unclear as to who may exercise the option to renew. The stipulation allowing the construction of a building and other improvements and the fact that the complaint was filed a year before the expiration of the contract are not indicative of automatic renewal. It applied the ruling in *Fernandez v. Court of Appeals* [13] that without a stipulation that the option to renew the lease is solely for the benefit of one party any renewal of a lease contract must be upon the agreement of the parties. Since private respondents were not agreeable to an extension, the original term of the lease ended on 1 June 1994. Private respondents' refusal to accept petitioner's checks for P400 was justified because although the original contract specified a monthly rental of P200, the tender and acceptance of the increased rental of P1,000 novated the contract of lease; thus, petitioner was estopped from claiming that the monthly rental is otherwise.

The Court of Appeals denied petitioner's motion for reconsideration. Hence this petition.

Petitioner contends that by ordering her to vacate the premises, the Appellate Court went beyond the bounds of its authority because the case she filed before the RTC was for "Specific Performance" not unlawful detainer. The power to order the lessee to vacate the leased premises is lodged in another forum. Additionally, private respondents did not pray for the ejectment of petitioners from the leased premises in their Answer with Counterclaim; well-settled is the rule that a court cannot award relief not prayed for in the complaint or compulsory counterclaim.

Petitioner further maintains that the phrase "renewable for another ten years at the option of both parties" in the *Fernandez* case clearly indicated the intention of the parties to renew the contract only upon mutual agreement. Whereas in this case the contract states, "[T]his lease shall be for a period of fifteen (15) years effective June 1, 1979, subject to renewal for another ten (10) years, under the same terms and conditions," making this stipulation subject to interpretation with due regard to the contemporaneous and subsequent acts of the parties. The stipulation in the contract allowing the lessee to construct buildings and improvements; her filing of the complaint a year before the expiration of the initial 15-year term; and private respondents' acceptance of the increased rental are contemporaneous and subsequent acts that signify the intention of the parties to renew the contract.

On the other hand, private respondents aver that even if the original petition filed before the RTC was not for unlawful detainer, the order of the Court of Appeals requiring petitioner to vacate the premises is but a logical consequence of its finding that the lease contract had expired. To require another litigation would constitute multiplicity of suits; besides, petitioner has no other reason to stay in the premises. There is no basis why *Fernandez* should not be applied to the case at bar. Absent contrary stipulation in reciprocal contracts, the period of lease is deemed to be for the benefit of both parties.

Private respondents argue that the alleged contemporaneous and subsequent acts do not determine the real intention of the parties as regards renewal of the lease contract. Had they intended an automatic renewal of the

lease contract they would have agreed on a 25-year period instead. Correlatively, private respondents' letter reminding petitioner of the expiration of the contract on 1 June 1994 and demanding payment of the rentals in arrears signifies that they are no longer interested in renewing the contract. Also petitioner's refusal to pay the increased rental of P1,000 as early as 1991 and private respondents' refusal to accept the P400 tendered constituted a disagreement on the rate of rental; hence, any renewal is out of the question.

The basic issue, as agreed upon by the parties, is the correct interpretation of the contract provision "this lease shall be for a period of fifteen (15) years effective June 1, 1979, subject to renewal for another ten (10) years, under the same terms and conditions."

The literal meaning of the stipulations shall control if the terms of the contract are clear and leave no doubt upon the intention of the contracting parties.[14] However, if the terms of the agreement are ambiguous resort is made to contract interpretation which is the determination of the meaning attached to written or spoken words that make the contract.[15] Also, to ascertain the true intention of the parties, their actions, subsequent or contemporaneous, must be principally considered.[16]

The phrase "subject to renewal for another ten (10) years" is unclear on whether the parties contemplated an automatic renewal or extension of the term, or just an option to renew the contract; and if what exists is the latter, who may exercise the same or for whose benefit it was stipulated.

In this jurisdiction, a fine delineation exists between renewal of the contract and extension of its period. Generally, the renewal of a contract connotes the death of the old contract and the birth or emergence of a new one. A clause in a lease providing for an extension operates of its own force to create an additional term, but a clause providing for a renewal merely creates an obligation to execute a new lease contract for the additional term. As renewal of the contract contemplates the cessation of the old contract, then it is necessary that a new one be executed between the parties.[17]

There is nothing in the stipulations in the contract and the parties' actuation that shows that the parties intended an automatic renewal or extension of the term of the contract. Even the RTC conceded that the issue of automatic renewal is debatable. The fact that the lessee was allowed to introduce improvements on the property is not indicative of the intention of the lessors to automatically extend the contract. Considering the original 15-year duration of the contract, structures would have necessarily been constructed, added, or built on the property, which in its previous state was an idle 56-square meter lot in the heart of Manila. Petitioner leased the property for the purpose of turning it into a commercial establishment and to which it has been transformed as Anita's Grocery and Store. Neither the filing of the complaint a year before the expiration of the 15-year term nor private respondents' acceptance of the increased rentals has any bearing on the intention of the parties regarding renewal. It must be recalled that the filing of the complaint was even spawned by private respondents' refusal to accept the payment of monthly rental in the amount of only P400.

Now on the applicability of *Fernandez v. Court of Appeals* to the case at bar. Although the factual scenario in that case with regard to the renewal option is slightly off-tangent to the case under consideration because the intention of the parties therein for future mutual agreement was clearly discernible in their contract, we cannot completely disregard the pronouncement of this Court in that case; thus:

[I]n a reciprocal contract like a lease, the period must be deemed to have been agreed upon for the benefit of both parties, absent language showing that the term was deliberately set for the benefit of the lessee or lessor alone.[18] We are not aware of any presumption in law that the term was deliberately set for the benefit of the lessee alone. *Koh and Cruz* in effect rested upon such a presumption. But that presumption cannot reasonably be indulged in casually in an era of rapid economic change, marked by, among other things, volatile costs of

living and fluctuations in the value of domestic currency. The longer the period the more clearly unreasonable such a presumption would be. In an age like that we live in, very specific language is necessary to show an intent to grant a unilateral faculty to extend or renew a contract of lease to the lessee alone or to the lessor alone for that matter.[19]

In the case at bar, it was not specifically indicated who may exercise the option to renew, neither was it stated that the option was given for the benefit of herein petitioner. Thus, pursuant to the Fernandez ruling and Article 1196 of the Civil Code, the period of the lease contract is deemed to have been set for the benefit of both parties. Renewal of the contract may be had only upon their mutual agreement or at the will of both of them. Since the private respondents were not amenable to a renewal, they cannot be compelled to execute a new contract when the old contract terminated on 1 June 1994. It is the owner-lessor's prerogative to terminate the lease at its expiration.[20] The continuance, effectivity and fulfillment of a contract of lease cannot be made to depend exclusively upon the free and uncontrolled choice of the lessee between continuing the payment of the rentals or not, completely depriving the owner of any say in the matter. Mutuality does not obtain in such a contract of lease and no equality exists between the lessor and the lessee since the life of the contract would be dictated solely by the lessee.[21]

After the lease terminated on 1 June 1994 without any agreement for renewal being reached, petitioner became subject to ejectment from the premises.[22] It must be noted, however, that private respondents did not include in their Answer with Counterclaim a prayer for the restoration of possession of the leased premises. Neither did they file with the proper Metropolitan Trial Court an unlawful detainer suit[23] against petitioner after the expiration of the lease contract. Moreover, the issues agreed upon by the parties to be resolved during the pre-trial were the correct interpretation of the contract and the validity of private respondents' refusal to accept petitioner's payment of P400 as monthly rental.[24] They later limited the issue to the first, i.e., the correct interpretation of the contract.[25] The issue of possession of the leased premises was not among the issues agreed upon by the parties or threshed out before the court a quo. Neither was it raised by private respondents on appeal.

Accordingly, as correctly contended by the petitioner, the Court of Appeals went beyond the bounds of its authority[26] when after interpreting the questioned provision of the lease contract in favor of the private respondents it proceeded to order petitioner to vacate the subject premises.

WHEREFORE, the instant petition is partly GRANTED. The assailed decision of the Court of Appeals is REVERSED insofar as it ordered the petitioner to immediately vacate the leased premises, without prejudice, however, to the filing by the private respondents of an action for the recovery of possession of the subject property.

No costs.

SO ORDERED.

Puno, Kapunan, and Pardo, JJ., concur.

Ynares-Santiago, J., no part.

[1] Exhibit "A"; Original Record (OR), 26.

[2] Exhibits "2-A" and "2-B"; OR, 35.

[3] Exhibit "1"; Id., 34.

[4] Exhibit "F"; Id., 9.

[5] Exhibit "C"; Id., 6.

- [6] Exhibit "D"; Id., 7.
- [7] Exhibit "E"; Id., 8.
- [8] Exhibit "B"; Id., 5.
- [9] Exhibit "G"; Id., 11.
- [10] Private respondents computed the rental increase pursuant to the Rent Control Law, as follows: 1985: P400 + P40 (10%)= P440; 1986: P440 + P88 (20%) = P528; 1987: P528 + P105.60 (20%)= P633.60; 1988: P633.60 + 126.72 (20%) = P760.32; 1989: P760.32 + 152.06 (20%) = P912.38; 1990: P912.38 + 182.41 (20%) = P1,094.85; 1991: P1,094.85 + P218.97 (20%) = P1,313.82; 1992: P1,313.82 + 262.76 (20%) = P1,576.58; 1993: P1,576.58 + P315.31 (20%) = P1,891.89; 1994: P1,891.89 + P378.38 (20%) = P2,270.27.
- [11] Per Judge Eudoxia T. Gualberto. OR, 133-136.
- [12] Per Salas, B., J., with Yñares-Santiago, C., now a member of this Court, and Rivera, C., JJ., concurring. Rollo, 21-25.
- [13] 166 SCRA 577 (1988)
- [14] Article 1370, CIVIL CODE. See *Labasan v. Lacuesta*, 86 SCRA 16, 21 (1978); *Badayos v. Court of Appeals*, 207 SCRA 209, 216 (1992); *Intestate Estate of the Late Ricardo P. Presbitero, Sr. v. Court of Appeals*, 217 SCRA 372, 383 (1993)
- [15] *National Irrigation Administration v. Gamit*, 215 SCRA 436, 453-454 (1992)
- [16] Article 1371, CIVIL CODE.
- [17] See *Inter-Asia Services Corp. (International) v. Court of Appeals*, 263 SCRA 408, 418 (1996)
- [18] Citing Article 1196, CIVIL CODE.
- [19] *Supra* note 13, at 587.
- [20] *Vda. de Roxas v. Court of Appeals*, 63 SCRA 302, 303-304 (1975)
- [21] *Lao Lim v. Court of Appeals*, 191 SCRA 150, 155 (1990)
- [22] See *Chua v. Court of Appeals*, 301 SCRA 356, 362-363 (1999)
- [23] See *Pardo de Tavera v. Encarnacion*, 22 SCRA 632 (1968); *Rosales v. CFI of Lanao del Norte, Br. III*, 154 SCRA 153 (1987)
- [24] OR, 57-58.
- [25] Id., 118.
- [26] See *Abubakar v. Abubakar*, G.R. No. 134622, 22 October 1999.

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