

LL AND COMPANY DEVELOPMENT AND AGRO-INDUSTRIAL CORPORATION, PETITIONER, VS. HUANG CHAO CHUN AND YANG TUNG FA, RESPONDENTS.

G.R. No. 142378. March 07, 2002

Ponente: PANGANIBAN, J.

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PANGANIBAN, J.:

A stipulation in a lease contract stating that its five-year term is subject to “an option to renew” shall be interpreted to be reciprocal in character. Unless the language shows an intent to allow the lessee to exercise it unilaterally, such option shall be deemed to benefit both the lessor and the lessee who must both consent to the extension or renewal, as well as to its specific terms and conditions.

Statement of the Case

Before us is a Petition for Review under Rule 45 of the Rules of Court, assailing the October 29, 1999 Decision[1] and the March 9, 2000 Resolution[2] of the Court of Appeals[3] (CA) in CA-GR SP No. 50618. The decretal portion of the Decision reads as follows:

“WHEREFORE, the petition for review is hereby DISMISSED for lack of merit.”[4]

The assailed Resolution denied petitioner’s Motion for Reconsideration.

The CA sustained the Decision of the Regional Trial Court (RTC) of Quezon City (Branch 217), which had disposed as follows:

“WHEREFORE, premises considered, the Decision appealed from is AFFIRMED insofar as it dismissed the complaint and it extended the lease contract up to September 16, 2001; and is MODIFIED such that, defendants-appellees are ordered to pay plaintiff-appellant the amount of P444,800.00 less 5% as withholding tax, as their rentals on subject premises from July 16, 1994 to November 13, 1994.

“Costs against the plaintiff-appellant.”[5]

The Facts

The factual antecedents of the case are summarized by the Court of Appeals as follows:

“[The present case] originated from an unlawful detainer case filed by petitioner before the Metropolitan Trial Court of Quezon City on October 9, 1996 which was docketed as Civil Case No. 16349.

“In its Complaint, petitioner alleged that respondents Huang Chao Chun and Yang Tung Fa violated their amended lease contract over a 1,112 square meter lot it owns, designated as Lot No. 1-A-1, when they did not pay the monthly rentals thereon in the total amount of P4,322,900.00. It also alleged that the amended lease contract already expired on September 16, 1996 but respondents refused to surrender possession thereof plus the improvements made thereon, and pay the rental arrearages despite repeated demands.

“The amended lease contract was entered into by the parties sometime in August, 1991. [Exact day is not mentioned in amended contract]. The same amended the lease contract previously entered into by the parties on August 8, 1991. The amended contract contains the following provisions:

‘1. That the LESSOR agrees as by the[se] presents hereby agreed to change the lot from LOT 1-A-2 with an area of 1,091 sq. meters, to LOT 1-A-1 with an area of 1,112 sq. meters, covered by the same TCT No. 219417 and located at the same address at No. 2 Scout Chuatuco Street, Quezon City, Metro Manila.

‘2. The monthly rental shall be the same at P100.00 per square meters and/or P111,200.00 per month, Philippine Currency. All other terms and conditions are the same for strict compliance thereof’.

“The terms and conditions referred to in paragraph 2 above are the following:

‘1. x x x It is expressly agreed and understood that the payment of the rental herein stipulated shall be made without the necessity of express demand and without delay on any ground whatsoever.

‘2. The term of this lease is FIVE (5) YEARS from the effectivity of said lease, and with the option to renew, specifically shall commence from September 15, 1991 and shall expire on September 16, 1996, and maybe adjusted depending upon the ejection of tenants.

‘3. The LESSEES shall have the option to reconstruct and/or renovate the improvement found thereon at the expense of the LESSEES, and whatever improvement introduced therein by the LESSEES in the premises the ownership of it shall become the property of the LESSOR without extra compensation of the same.

‘4. Upon signing of this Contract of Lease, the LESSEES shall make a one (1) year deposit to be paid unto the LESSOR as follows:

‘50% percent upon signing of this Contract of Lease;

‘50% percent as payment in full of the one (1) year deposit. Payment of which shall be made unto the LESSOR on the day of the effectivity date of the Contract of Lease, said deposit shall be refundable 30 days prior to the termination of the same.

‘5. The monthly rental is subject to increase, said increase shall be based upon the imposition of Real Estate Tax for every two (2) years upon presentation of the increased real estate tax to the Le[ssees], but said increase shall not be less than 25% percent.

“x x x x x x x x

‘9. The parties agree as by these presents have agreed to strictly observe the terms and conditions of the Contract of Lease. Violation by the Lessees of any of the terms and condition of said contract is equivalent to forfeitures of the deposit in favor of the Lessor, furthermore the Lessees agreed to vacate the lease[d] premises for any violation of the terms and condition of said contract, without going to court.’

“Respondent were joined by the Tsai Chun International Resources Inc. in their answer to the Complaint, wherein they alleged that the actual lessee over Lot No. 1-A-1 is the corporation.

“Respondents and the corporation denied petitioner’s allegations, claiming instead that:

“1. The amended lease contract did not reflect the true intention of the parties because it did not contemplate an obsolete building that can no longer be renovated, such that petitioner did not become the owner of the new P24,000,000.00 two-storey building they introduced on Lot No. 1-A-1 when their contract expired.

“2. Their failure to pay the monthly rentals on the property was due to petitioner’s fault when it attempted to increase the amount of rent in violation of their contract; and

“3. They are entitled to a renewal of their contract in view of the provision therein providing for automatic

renewal, and also in view of the P24,000,000.00 worth of improvements they introduced on the leased premises.

“After the parties were accorded their respective rights to due process of law, Branch 32 of the MTC rendered decision on June 23, 1998, the decretal portion of which reads:

‘WHEREFORE, premises considered, the Court hereby orders the dismissal of this case, without pronouncement as to costs.

‘SO ORDERED.’

“The aforequoted decision was premised on the resolution of two issues:

‘(a) ‘Whether or not the Contract of Lease dated August 8, 1991 had expired;’ and

‘(b) ‘Did defendants and/or the corporation incur rental arrearages.’

“The MTC ruled that the contract entered into by the parties may be extended by the lessees for reasons of justice and equity, citing as its legal bases the case of ‘Legarda Koh v. Ongsi[a]co’ (36 Phil. [185]) and ‘Cruz v. Alberto’ (39 Phil. 991). It also ruled that the corporation’s failure to pay the monthly rentals as they fell due was justified by the fact that petitioner ‘refused to honor the basis of the rental increase as stated in their Lease Agreement.’[6] (Citations omitted)

Ruling of the Trial Court

The RTC affirmed the Decision of the Metropolitan Trial Court (MeTC) dismissing the unlawful detainer case. The RTC likewise agreed that the Contract of Lease entered into by the parties could be extended unilaterally by the lessees for another five years or until September 16, 2001, on the basis of justice and equity.

It also held that the parties had a reciprocal obligation: unless and until petitioner presented “the increased realty tax,” private respondents were not under any obligation to pay the increased monthly rental.[7]

In addition, the RTC ruled that petitioner was not entitled to legal interest, and that the 25 percent increase provided in the Contract of Lease should be based on the imposed real estate tax, not on the monthly rental.

Ruling of the Court of Appeals

The Court of Appeals affirmed in toto the RTC’s dismissal of the unlawful detainer case and extension of the lease period for another five years, holding that the errors raised had already been fully taken into account by the two courts below.

It also reasoned that “[t]he elliptical construction of paragraph 5 of the Lease Contract made it awkward to the point of being ambiguous.” There being no agreement on the “proven rent,” an ejectment suit based on “the non-payment of rents that were not agreed upon x x x will not lie.”

Hence, this Petition.[8]

Issues

In its Memorandum, petitioner raises the following issues for the Court’s consideration:

I

“Whether the court could still extend the term of the lease, after its expiration. Is expiration of the lease a proper ground in [a] case of unlawful detainer[?]

II

“Whether non-payment of rentals is a ground to eject, in an unlawful detainer. Is refusal of the lessor to accept or collect rentals a valid reason for non-payment of rentals[?]”

III

“May the court allow the introduction of issues other than the elements of a case for ejectment[?]”[9]

This Court’s Ruling

The Petition is meritorious.

First Issue:

Extension of Lease Period

Petitioner contends that because the Contract, as amended, had already expired, the MTC had no power to extend the lease period. We are convinced.

In general, the power of the courts to fix a longer term for a lease is discretionary. Such power is to be exercised only in accordance with the particular circumstances of a case: a longer term to be granted where equities demanding extension come into play; to be denied where none appear -- always with due deference to the parties’ freedom to contract.[10] Thus, courts are not bound to extend the lease.[11]

Article 1675 of the Civil Code excludes cases falling under Article 1673 from those under Article 1687. Article 1673 provides among others, that the lessor may judicially eject the lessee upon the expiration of “the period agreed upon or that which is fixed for the duration of the leases.” Where no period has been fixed by the parties,[12] the courts, pursuant to Article 1687, have the potestative authority to set a longer period of lease.[13]

In the case before us, the Contract of Lease provided for a fixed period of five (5) years -- “specifically” from September 16, 1991 to September 15, 1996. Because the lease period was for a determinate time, it ceased, by express provision of Article 1669 of the Civil Code, “on the day fixed, without need of a demand.”[14] Here, the five-year period expired on September 15, 1996, whereas the Complaint for ejectment was filed on October 6, 1996. Because there was no longer any lease that could be extended, the MeTC, in effect, made a new contract for the parties, a power it did not have.[15] Early on, in *Bacolod-Murcia Milling v. Banco Nacional Filipino*,[16] we said that a court could not supply material stipulations to a contract, as follows:

“It is not the province of the court to alter a contract by construction or to make a new contract for the parties; its duty is confined to the interpretation of the one which they have made for themselves, without regard to its wisdom or folly, as the court cannot supply material stipulations or read into contract words which it does not contain.”

Furthermore, the extension of a lease contract must be made before the term of the agreement expires, not after.[17] Upon the lapse of the stipulated period, courts cannot belatedly extend or make a new lease for the parties,[18] even on the basis of equity.[19] Because the Lease Contract ended on September 15, 1996, without the parties reaching any agreement for renewal, respondents can be ejected from the premises.[20]

On the other hand, respondents and the lower courts argue that the Contract of Lease provided for an automatic renewal of the lease period. We are not persuaded.

Citing *Koh v. Ongsiaco*[21] and *Cruz v. Alberto*,[22] the MeTC -- upheld by the RTC and the CA -- ruled that the stipulation in the Contract of Lease providing an option to renew should be construed in favor of and for the benefit of the lessee.[23] This ruling has however, been expressly reversed in *Fernandez v. CA*, from which we quote:[24]

“It is also important to bear in mind that in a reciprocal contract like a lease, the period of the lease 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. We are not aware of any presumption in law that the term of a lease is designed 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 the 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. We hold that the above-quoted rulings in Koh v. Ongsiaco and Cruz v. Alberto should be and are overruled.”[25]

The foregoing doctrine was recently reiterated in *Heirs of Amando Dalisay v. Court of Appeals*.^[26] Thus, pursuant to *Fernandez, Dalisay* and Article 1196^[27] of the Civil Code, the period of the lease contract is deemed to have been set for the benefit of both parties. Its renewal may be authorized only upon their mutual agreement or at their joint will.^[28] Its continuance, effectivity or fulfillment cannot be made to depend exclusively upon the free and uncontrolled choice of just one party. While the lessee has the option to continue or to stop paying the rentals, the lessor cannot be completely deprived of any say on the matter.^[29] Absent any contrary stipulation in a reciprocal contract, the period of lease is deemed to be for the benefit of both parties.^[30]

In the instant case, there was nothing in the aforesaid stipulation or in the actuation of the parties that showed that they intended an automatic renewal or extension of the term of the contract.^[31] First, demonstrating petitioner’s disinterest in renewing the contract was its letter^[32] dated August 23, 1996, demanding that respondents vacate the premises for failure to pay rentals since 1993. As a rule, the owner-lessor has the prerogative to terminate the lease upon its expiration.^[33] Second, in the present case, the disagreement of the parties over the increased rental rate and private respondents’ failure to pay it precluded the possibility of a mutual renewal. Third, the fact that the lessor allowed the lessee to introduce improvements on the property was indicative, not of the former’s intention to extend the contract automatically,^[34] but merely of its obedience to its express terms allowing the improvements. After all, at the expiration of the lease, those improvements were to “become its property.”

As to the contention that it is not fair to eject respondents from the premises after only five years, considering the value of the improvements they introduced therein, suffice it to say that they did so with the knowledge of the risk -- the contract had plainly provided for a five-year lease period.

Parties are free to enter into any contractual stipulation, provided it is not illegal or contrary to public morals. When such agreement, freely and voluntarily entered into, turns out to be disadvantageous to a party, the courts cannot rescue it without crossing the constitutional right to contract. They are not authorized to extricate parties from the necessary consequences of their acts, and the fact that the contractual stipulations may turn out to be financially disadvantageous will not relieve the latter of their obligations.^[35]

Second Issue:

Non-Payment of Rentals

Petitioner further argues that respondents should be ejected for nonpayment of the new rental rates. On the other hand, the latter counter that they did not agree to these new rates. True, mere failure to pay rentals does not make possession unlawful, but when a valid demand to vacate the premises is made by the lessor, the lessee’s continued withholding of possession becomes unlawful.^[36] Well-settled is the rule that the failure of the owners/lessors to collect or their refusal to accept the rentals is not a valid defense.^[37]

Respondents justify their nonpayment of rentals on the ground that petitioners refused to accept their payments. Article 1256 of the Civil Code, however, provides that “if the creditor to whom tender of payment has been made

refuses without just cause to accept it, the debtor shall be released from responsibility by the consignment of the thing or sum.” This provision is more explicit under the Rent Control Law,[38] the pertinent portions of which are similar to the prevailing law -- the Rental Reform Act of 2002[39] -- which we reproduce hereunder:

“Section 7. Grounds for Judicial Ejectment.-Ejectment shall be allowed on the following grounds:

“(a) Assignment of lease or subleasing of residential units in whole or in part, including the acceptance of boarders or bedspacers, without the written consent of the owner/lessor.

“(b) Arrears in payment of rent for a total of three (3) months: Provided, That in the case of refusal by the lessor to accept payment of the rental agreed upon, the lessee may either deposit, by way of consignment, the amount in court, or with the city or municipal treasurer, as the case may be, or in a bank in the name of and with notice to the lessor, within one month after the refusal of the lessor to accept payment.

“The lessee shall thereafter deposit the rental within ten days of every current month. Failure to deposit the rentals for three (3) months shall constitute a ground for ejectment. If an ejectment case is already pending, the court upon proper motion may order the lessee or any person or persons claiming under him to immediately vacate the leased premises without prejudice to the continuation of the ejectment proceedings. At any time, the lessor may, upon authority of the court, withdraw the rentals deposited.

“The lessor, upon authority of the court in case of consignment or upon joint affidavit by him and the lessee to be submitted to the city or municipal treasurer and to the bank where deposit was made, shall be allowed to withdraw the deposits.

x x x x x x x x

“(e) Expiration of the period of the lease contract.”[40]

On the other hand, the Civil Code provides as follows:

“Art. 1673. The lessor may judicially eject the lessee for any of the following causes:

“(1) When the period agreed upon, or that which is fixed for the duration of lease under Articles 1682 and 1687, has expired;

“(2) Lack of payment of the price stipulated;

“(3) Violation of any of the conditions agreed upon in the contract;

“(4) When the lessee devotes the thing leased to any use or service not stipulated which causes the deterioration thereof; or if he does not observe the requirement in No. 2 of Article 1657, as regards the use thereof.

“The ejectment of tenants of agricultural lands is governed by special laws.”

Based on the foregoing, respondents should have deposited in a bank or with judicial authorities the rent based on the previous rate.[41] In the instant case, respondents failed to pay the rent from October 1993 to March 1998 or for four (4) years and three (3) months. They should remember that Article 1658 of the Civil Code provides only two instances in which the lessee may suspend payment of rent; namely, in case the lessor fails to make the necessary repairs or to maintain the lessee in peaceful and adequate enjoyment of the property leased.[42] None of these is present in the case at bar.

Moreover, the mere subsequent payment of rentals by the lessee and the receipt thereof by the lessor does not, absent any other circumstance that may dictate a contrary conclusion, legitimize the unlawful character of the possession. The lessor may still pursue the demand for ejectment.[43]

Having said that, we cannot, on the other hand, authorize a unilateral increase in the rental rate, considering that (1) the option to renew is reciprocal and, thus, the terms and conditions thereof -- including the rental rate -- must likewise be reciprocal; and (2) the contracted clause authorizing an increase -- “upon presentation of the increased real estate tax to lessees” -- has not been complied with by petitioner.

Third Issue:

Issues on Ejectment

Petitioner proceeds to argue that the MeTC should not have allowed the intervention of the Tsai Chun International Resources, Inc., allegedly the real lessor of the leased premises. In view of our foregoing discussion, there is no more need to rule on this issue.

WHEREFORE, the Petition is GRANTED and the assailed Decision SET ASIDE. Respondents and all persons claiming rights under them are hereby ORDERED TO VACATE the subject premises and to restore peaceful possession thereof to petitioner. They are also DIRECTED TO PAY the accrued rentals (based on the stipulated rent) from October 1993 until such time that they vacate the subject property, with interest thereon at the legal rate. No pronouncement as to costs.

SO ORDERED.

Melo, (Chairman), Vitug, Sandoval-Gutierrez, and Carpio, JJ., concur.

[1] Rollo, pp. 17-45.

[2] Rollo, pp. 47-48.

[3] Twelfth Division. Written by J. Ramon A. Barcelona (Division chairman); concurred in by JJ Demetrio G. Demetria and Mercedes Gozo-Dadole (members).

[4] Assailed Decision, p. 29; rollo, p. 44.

[5] RTC Decision, p. 12; penned by Judge Lydia Querubin Layosa.

[6] CA Decision, pp. 2-6; rollo, pp. 18-22.

[7] CA Decision, 13; rollo, p. 29.

[8] The case was deemed submitted for decision on January 15, 2001, upon the Court’s receipt of respondent’s Opposition and Motion dated January 12, 2001. Petitioner’s Memorandum, filed on November 27, 2000, was signed by Atty. K. V. Faylona while respondents’ Memorandum, filed on December 12, 2000, was signed by Atty. Eduardo E. Francisco.

[9] Rollo, p. 105; original in upper case.

[10] La Jolla, Inc. v. Court of Appeals, GR No. 115851, June 20, 2001; Ferrer v. Court of Appeals, 274 SCRA 219, June 19, 1997; Roman Catholic Archbishop of Manila v. Court of Appeals, 269 SCRA 145, March 3, 1997; Divino v. Marcos, 4 SCRA 186, January 31, 1962.

[11] Heirs of Manuel T. Suico v. Court of Appeals, 266 SCRA 444, January 21, 1997.

[12] Chua v. Court of Appeals, supra, p. 363.

[13] Chua v. Court of Appeals, 301 SCRA 356, January 21, 1999.

[14] Art. 1669 of the Civil Code provides:

“If the lease was made for a determinate time, it ceases upon the day fixed, without the need of a demand.”

[15] *Henson v. Intermediate Appellate Court*, 148 SCRA 11, February 19, 1987.

[16] 74 Phil. 675, July 17 1944, per Ozaeta, J.

[17] *Martinez Leyba, Inc. v. Court of Appeals*, GR No. 140363, March 6, 2001, citing *Prieto v. Santos et al.*, 98 Phil. 509, February 29, 1956.

[18] *Gindoy v. Tapucar*, 75 SCRA 31, January 20, 1977.

[19] *Martinez Leyba, Inc. v. Court of Appeals*, *supra*

[20] *Chua v. Court of Appeals*, *supra*.

[21] 36 Phil. 185, January 27, 1917.

[22] 39 Phil 991, August 7, 1919.

[23] MeTC Decision, p. 6; CA rollo, p. 29.

[24] *Ibid.*, p. 587, per Feliciano, J.

[25] 166 SCRA 577, October 18, 1988.

[26] 201 SCRA 751, September 24, 1991.

[27] Article 1196, Civil Code. “Whenever in an obligation a period is designated, it is presumed to have been established for the benefit of both the creditor and the debtor, unless from the tenor of the same or other circumstances it should appear that the period has been established in favor of one or of the other.”

[28] *Buce v. Court of Appeals*, 332 SCRA 151, May 12, 2000.

[29] *Lao Lim v. Court of Appeals*, 191 SCRA 150, October 31, 1990.

[30] *Buce v. Court of Appeals*, *supra*, p. 160.

[31] *Ibid.*, p. 159.

[32] Annex “C,” as quoted in the Complaint.

[33] *Vda. de. Roxas v. Court of Appeals*, 63 SCRA 302, March 25, 1975.

[34] *Buce v. Court of Appeals*, *supra*, p. 159.

[35] *Torres v. Court of Appeals*, 320 SCRA 430, December 9, 1999.

[36] Vitug, *Compendium of Law and Jurisprudence* (1993 rev. ed.), p. 663.

[37] *Velez v. Avelino*, 127 SCRA 603, February 20, 1984.

[38] Batas Pambansa Blg. 877, “An Act Providing for the Stabilization and Regulation of Rentals of Certain Residential Units and for Other Purposes.” June 12, 1985. This was amended by Republic Act Nos. 6643, 6628, 7644 and 8437, extending its effectivity until December 31, 2001.

[39] Republic Act No. 9161, “An Act Establishing Reforms in the Regulation of Rentals of Certain Residential Units, Providing the Mechanisms Therefor and for Other Purposes.” January 1, 2002.

[40] Republic Act No. 9161.

[41] Uy v. Court of Appeals, 178 SCRA 671, October 25, 1989.

[42] Guzman v. Court of Appeals, 177 SCRA 604, September 15, 1989.

[43] Vitug, Compendium of Law and Jurisprudence (1993 rev. ed.), p. 663.

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