

MALAYAN REALTY, INC. REPRESENTED BY ALBERTO C. DY., PETITIONER, VS. UY HAN YONG, RESPONDENT.

G.R. NO. 163763. November 10, 2006

Ponente: CARPIO MORALES, J.

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CARPIO MORALES, J.:

Malayan Realty, Inc. (Malayan), is the owner of an apartment unit known as 3013 Interior No. 90 (the property), located at Nagtahan Street, Sampaloc, Manila.

In 1958, Malayan entered into a verbal lease contract with Uy Han Yong (Uy) over the property at a monthly rental of P262.00.[1] The monthly rental was increased yearly[2] starting 1989, and by 2001, the monthly rental was P4,671.65.[3]

On July 17, 2001, Malayan sent Uy a written notice[4] informing him that the lease contract would no longer be renewed or extended upon its expiration on August 31, 2001, and asking him to vacate and turn over the possession of the property within five days from August 31, 2001, or on September 5, 2001.[5]

Despite Uy's receipt of the notice on June 18, 2001, he refused to vacate the property, prompting Malayan to file before the Metropolitan Trial Court (MeTC) of Manila a complaint for ejectment, docketed as Civil Case No. 171256, and was raffled to Branch 3 thereof.

In its complaint, Malayan prayed for the court to order Uy and all other persons claiming possession under him to vacate the property, to pay P9,000 as fair and reasonable monthly compensation for its use from September 1, 2001 until its possession is turned over to it, and to pay P20,000 as attorney's fees as well as costs of suit.[6]

The trial court, noting that there was no showing that the lease contract was on a monthly basis and that it was for a definite period, given that Uy has been occupying the leased property continuously for more than 40 years,[7] held that Uy could not be ejected on the ground of termination of the contract.[8] It accordingly dismissed[9] Malayan's complaint.

Aggrieved, Malayan appealed to the Regional Trial Court (RTC) which, by Decision[10] dated November 22, 2002, set aside the judgment of the MeTC. On the basis of Article 1687 of the New Civil Code,[11] the RTC extended the lease contract for a period of five years, taking into consideration the fact that Uy was 75 years old and had lived in the leased property for more than half of his life.[12] And the RTC, finding that Malayan acted arbitrarily and with vindictiveness in instituting the complaint, ordered Malayan to pay P100,000 as moral damages, P100,000 as exemplary damages, and P30,000 as attorney's fees.[13]

Malayan filed a motion for reconsideration,[14] arguing that since Uy did not appeal the MeTC decision, the RTC erred in granting him affirmative relief by extending the period of lease and awarding him damages and attorney's fees.

Acting on Malayan's Motion for Reconsideration, the RTC deleted the award of damages to Uy but retained its

ruling extending the lease period for five years.[15]

Still dissatisfied, Malayan elevated the case to the Court of Appeals (CA), before which it contended that the RTC had no legal or factual basis for extending the lease contract as the same was not pleaded by Uy in his counterclaim nor sought it as a relief.

By Decision[16] of February 19, 2004, the CA modified the RTC decision by shortening the extension of the lease contract to one year from the finality of the decision. And the CA increased the rental rate at 10% per annum starting September 6, 2002, viz:

x x x [P]etitioner also prayed that respondent herein be ordered to pay a rental of P9,000.00 a month. The court had authority to fix the reasonable value for such use and occupancy from the expiration of the contract of lease because it is settled that the rental stipulated in the contract of lease that has expired or terminated may no longer be the

reasonable value for the use and occupation of the premises as a result or by reason of change or rise in values (T & C Development Corp. vs. Court of Appeals, 317 SCRA 476). Taking into account that on September 18, 2001, the date when petitioner filed the complaint for ejectment, the applicable law are RA Nos. 7644 and 8437, which extended the period of rent control from 1993 to 1997 and then from 1998 to 2001, respectively.

x x x x

As the maximum increase allowed is 15%, we hold to grant an increase of 10% per annum, under the circumstances of this case. Hence, the increase should be as follows:

Sept. 6, 2001- Sept. 6, 2002

P5,138.82

Sept. 7, 2002 - Sept. 7, 2003

P5,652.70

Sept. 8, 2003 onwards

P6,217.95

Thus, we hereby grant the same, but only to the amount herein-above stated considering that the original rate is P4,671.65. x x x (Underscoring in the original)

Thus the dispositive portion of the CA decision read:

WHEREFORE, premises considered, the Decision dated November 22, 2002 and the Order dated January 24, 2003 of the Regional Trial Court of Manila, National Capital Judicial Region, Branch 40, in Civil Case No. 02-103958, are hereby MODIFIED, by shortening the extension of lease to a period of only one (1) year from finality of this decision and fixing the rental to the rate as herein-above provided, from the date of expiration of lease (5 days after August 31, 2001) on September 6, 2001. In all other respects, the petition is denied. No pronouncement as to costs.

The parties' respective motions for reconsideration were denied by the CA by Resolution[17] of May 28, 2004.

Malayan (hereafter petitioner) thereupon filed the present petition for review on certiorari, arguing that the CA erred in granting a one year extension of the lease reckoned from the finality of the decision.[18]

Petitioner asserts that an extension of the period of a lease may be sought by the tenant before, and not after the termination of the lease; and that Uy (hereafter respondent) had sufficient time to request for extension, given that

the notice of termination of the lease was served upon him more than 30 days before its effectivity, but that respondent did not so request even after the complaint was filed in court.[19]

Petitioner thus maintains that no "equitable reason" justifies respondent's continued possession of the property for more than four years from the time the complaint for ejectment was filed.[20]

Respondent, on the other hand, faults the CA to have erred in ruling that the lease was considered to be on a month to month basis, and that even if Article 1687 of the New Civil Code is applicable, the CA erred in shortening the extension of the lease to one year instead of five years as adjudged by the RTC.[21] And it faults the CA to have abused its discretion in increasing the rental at 10% per annum.[22]

Under Article 1687 of the New Civil Code which reads:

Article 1687. If the period for the lease has not been fixed, it is understood to be from year to year, if the rent agreed upon is annual; from month to month, if it is monthly; from week to week, if the rent is weekly; and from day to day, if the rent is to be paid daily. However, even though a monthly rent is paid, and no period for the lease has been set, the courts may fix a longer term for the lease after the lessee has occupied the premises for over one year. x x x,

if the period of a lease contract has not been specified by the parties, it is understood to be from month to month, if the rent agreed upon is monthly. The lease contract thus expires at the end of each month, unless prior thereto, the extension of said term has been sought by appropriate action and judgment is eventually rendered therein granting the relief.[23]

In the case at bar, the lease period was not agreed upon by the parties. Rental was paid monthly, and respondent has been occupying the premises since 1958. As earlier stated, a written notice was served upon respondent on January 17, 2001 terminating the lease effective August 31, 2001. As respondent was notified of the expiration of the lease, effectively his right to stay in the premises had come to an end on August 31, 2001.[24]

The 2nd paragraph of Article 1687 provides, however, that in the event that the lessee has occupied the leased premises for over a year, the courts may fix a longer term for the lease.

The power of the courts to establish a grace period is potestative or discretionary, depending on the particular circumstances of the case. Thus, a longer term may be granted where equities come into play, and may be denied where none appears, always with due deference to the parties' freedom to contract.[25]

Where a petitioner has been deprived of its possession over the leased premises for so long a time, and it is shown that, indeed, the respondent was the recipient of substantial benefits while the petitioner was unable to have the full use and enjoyment of a considerable portion of its property, such militates against further deprivation by fixing a period of extension.[26]

Thus, in *De Vera v. Court of Appeals*,[27] this Court found that the lessee's continued possession of the property for more than five years from the supposed expiration of the lease sufficed as an extension of the period.

In the present case, respondent has remained in possession of the property from the time the complaint for ejectment was filed on September 18, 2001 up to the present time. Effectively, respondent's lease has been extended for more than five years, which time is, under the circumstances, deemed sufficient as an extension and for him to find another place to stay.

As for respondent's assigned errors reflected above, his petition for review, which was docketed as G.R. No. 163652, having been dismissed and the reconsideration of the dismissal having been denied with finality by Resolution of November 8, 2004,[28] the decision of the Court of Appeals was, as to him, final and executory. At

all events, his contention that the CA erred in increasing the rental from September 6, 2001 onwards at 10% per annum is bereft of merit.

In *Limcay v. Court of Appeals*,^[29] which incidentally was a complaint for ejectment filed by herein petitioner against a lessee of one of its apartments located also in the same address as that of the property subject of this case, the Court upheld the RTC's authority to fix the reasonable value for the use and occupation of the premises from the expiration of the contract of lease.^[30]

That the rental stipulated in the contract of lease that has expired or terminated may no longer be the reasonable value for the use and occupation of the premises as a result or by the reason of the changes or rise in values is settled.^[31]

Respondent himself admitted in his Answer to the Complaint that the rental was increased yearly since 1989.^[32] He admitted too in his position paper that while petitioner only collected the amount of P4,671.65 as monthly rental, other tenants were constrained to pay P8,000 to P9,000 a month,^[33] which latter amount was the amount prayed for by petitioner in his complaint against respondent before the MeTC.

Given the circumstances attendant to this case, this Court finds that the CA's increase of the rental at 10% per annum is fair and just, and is a reasonable valuation of the compensation due petitioner for the use and occupation of its property from the expiration of the contract of lease until the turn over by respondent of its possession.

As the lease contract expired on August 30, 2001, petitioner is entitled to the 10% per annum increase in rentals since September 1, 2001, not on September 6, 2001 as held by the CA. Hence, the monthly rental of the property in the succeeding years should be as follows:

September 2001 to August 2002

P5,138.82

September 2002 to August 2003

P5,652.70

September 2003 to August 2004

P6,217.97

September 2004 to August 2005

P6,839.77

September 2005 to August 2006

P7,523.74

September 2006 onwards

P8,276.11

WHEREFORE, the petition is GRANTED. Respondent, Uy Han Yong, and all persons claiming rights under him are ORDERED to immediately vacate and surrender possession of 3013 Interior No. 90, Nagtahan, St., Sampaloc Manila, and to pay monthly rentals in the amount of P5,138.82 from September 2001 to August 2002; P5,652.70 from September 2002 to August 2003; P6,217.97 from September 2003 to August 2004; P6,839.77 from September 2004 to August 2005; P7,523.74 from September 2005 to August 2006; and P8,276.11 from September 2006 until respondent finally vacates and surrenders possession of the property to petitioner, Malayan

Realty, Inc.

Costs against respondent.

SO ORDERED.

Quisumbing, (Chairperson), Carpio, Tinga, and Velasco, Jr., JJ., concur.

[1] Records, p. 56.

[2] Id. at 11.

[3] Ibid.

[4] Id. at 7.

[5] Ibid.

[6] Id. at 4-5.

[7] Id. at 116.

[8] Ibid.

[9] Id. at 115-117.

[10] Id. at 177-181.

[11] Id. at 179-181.

[12] Id. at 178.

[13] Id. at 181.

[14] Id. at 183-202.

[15] Id. at 240.

[16] CA rollo, pp. 319-332. Penned by Associate Justice Mercedes Gozo-Dadole and concurred by Associate Justices Eugenio S. Labitoria and Rosmari D. Carandang.

[17] Id. at 352.

[18] Rollo, p. 14.

[19] Id. at 20.

[20] Id. at 172.

[21] Id. at 137.

[22] Id. at 142-143.

[23] Yap v. Court of Appeals, G.R. No. 140249, March 6, 2001, 353 SCRA 714, 720.

[24] De Vera v. Court of Appeals, 329 Phil. 175, 179 (1996); Dula v. Maravilla, G.R. No. 134267, May 9, 2005, 458 SCRA 249, 258.

[25] *La Jolla, Inc., v. Court of Appeals*, 411 Phil. 606, 614-615 (2001).

[26] *Id.* at 614.

[27] 329 Phil. 175, 181 (1996).

[28] *Rollo*, p. 154.

[29] G.R. No. 78161, October 21, 1992, 215 SCRA 1.

[30] *Id.* at 9.

[31] *Ibid.*

[32] *Records*, p. 11.

[33] *Id.* at 57.

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