

**FELSAN REALTY & DEVELOPMENT CORPORATION,
PETITIONER, VS. COMMONWEALTH OF AUSTRALIA, RESPONDENT.**

G.R. NO. 169656. October 11, 2007

Ponente: NACHURA, J.

Read online (full-text search, related cases, audio case brief): <https://batas.org/library/g-r-no-169656/>

NACHURA, J.:

This is a petition for review of the Decision[1] of the Court of Appeals (CA) in CA-G.R. CV No. 69475, dated December 2, 2004, and Resolution dated September 13, 2005 denying the motion for reconsideration of the said decision.

Petitioner Felsan Realty & Development Corporation is the owner of a three-storey duplex residential house located at San Lorenzo Village, Makati

City. On February 25, 1997, respondent Commonwealth of Australia entered into a contract of lease over the said property with the petitioner. The lease was for two years from February 22, 1997 until February 21, 1999, and the agreed monthly rental was P100,000.00. The respondent paid P200,000.00 as two months security deposit, and P2,400,000.00 as advance rentals for the entire duration of the lease.

On November 4, 1997, at around 2:30 a.m., fire broke out at the ground floor of the leased premises which destroyed a major portion of the house. According to the Fire Investigation Report of the Bureau of Fire Protection, the cause of the fire was “[a]ccidental due to overheated electric fan that produce[d] intense heat/sparks and subsequently ignited the combustible materials thereat and burst into flame.”[2]

On November 21, 1997, the respondent informed the petitioner that, as a result of the fire, the property has become uninhabitable and unsuitable for living. It averred that the appraisal made by its Facilities Manager indicated that it would take three months to complete the restoration of the premises and that the alternate property offered was not suitable. The respondent then demanded the pre-termination of the lease contract effective November 4, 1997, and reimbursement of the advance rentals and security deposit.[3]

The petitioner rejected the respondent’s demand to terminate the contract on the ground that the fire was caused by the gross negligence of the occupants of the leased property based on the investigation report of the Bureau of Fire Protection of Makati City which showed that the fire was caused by an “overheated fan.” Instead, the petitioner offered to refund the balance, if any, of the advance rentals and security deposit from the time it is able to find a new lessee until February 22, 1999.[4]

On May 29, 1998, the petitioner informed the respondent of the completion of the repairs of the premises and asked whether the latter will reoccupy the same.[5] The respondent, however, replied that it was no longer interested in reoccupying the subject property and reiterated its request for the refund of the advance rentals paid. Consequently, the petitioner informed the respondent that it has advertised the property as available for lease and that it was willing to refund the balance, if any, of the advance rentals and security deposit from the time of the new lease up to and including February 22, 1999, less the amount spent for the repairs of the damage caused to

the property.[6]

The respondent did not agree. Thus, on November 13, 1998, the respondent filed a complaint against the petitioner claiming that under Section 13 of the Contract of Lease, it is entitled to the reimbursement of P1,556,666.67 as balance of the prepaid rental. It also prayed for exemplary damages, attorney's fees and the costs of suit.

In its Answer with Counterclaim, the petitioner averred that the respondent did not comply with the mandatory requirement under Article 1358 of the Civil Code of the Philippines that a pre-termination or rescission of a contract of lease over real property shall appear in a public document. It claimed that the respondent is not entitled to reimbursement because the subject property was damaged by fire due to its negligence.

During trial, Edgardo A. Nogales, who was the Chief of the Investigation and Intelligence Unit of Fire Station 2, Fire District III, Makati City, at the time of the fire, testified that they determined the cause of the fire as accidental in nature because it was not intentionally motivated. According to him, the fire was caused by the overheating of an electric fan which was plugged in but actually turned off. He said that there was no shred of evidence tending to show that the fire was anything but accidental.[7]

On the other hand, Reynaldo D. Gonzales, the Fire and Arson Investigator assigned to the case, testified that, based on the path of the fire, the probable area where the fire started was the maids' quarters on the ground floor of the building. He narrated that, according to the account of the firemen who arrived first at the scene, there was no one inside the maids' quarter when the fire broke out because they had to use force to open it. They reported to Gonzales that the electric fan was plugged into a wall socket and in the "on" position when they entered the room. Gonzales stated that although he was not personally present when the firemen entered the maids' quarters after forcibly opening it, he conducted an ocular inspection thereon. He noted that the source of ignition could only be the burnt electric fan which was still plugged in.[8]

On October 23, 2000, the Regional Trial Court (RTC) rendered a Decision upholding the right of the respondent to pre-terminate the contract of lease. According to the trial court, the respondent successfully overturned the presumption of negligence against it through the testimonies of the fire officers that the cause of the fire was accidental. It opined that the overheating of the electric fan which, although plugged in, was not switched on, could not have been reasonably expected or foreseen by occupants of the leased premises. The trial court further declared that the pre-termination of the Contract of Lease need not appear in a public instrument because the requirement under Article 1358[9] of the Civil Code is not mandatory but a mere formality for the convenience of the parties. Moreover, it awarded attorney's fees to the respondent since the latter was constrained to go to court to protect its interests. The dispositive portion of the Decision reads:

PREMISES CONSIDERED, judgment is hereby rendered in favor of plaintiff declaring the pre-termination of the Contract of Lease effective 4 November 1997 and ordering defendant to pay the following:

1. PhP1,556,666.67 representing the balance of the advance rentals;
- [2.] PhP200,000.00 representing the two (2) months security deposit;
- [3.] PhP100,000.00 as and for attorney's fees; and
- [4.] The costs.

SO ORDERED.[10]

On December 2, 2004, the CA rendered a Decision affirming the RTC decision.[11] At the outset, the appellate court agreed with the petitioner that the terms "accident" and "accidental" do not exclude, without qualification, events resulting in damage or loss due to the fault, recklessness or negligence of third parties. However, in view of

the conflicting testimonies of the fire investigators, it held that it cannot reasonably conclude that the accident was attended by negligence or fault. It, therefore, sustained the trial court's findings that the respondent cannot be held liable since the petitioner failed to establish by preponderance of evidence the respondent's negligence. It agreed with the trial court that non-compliance with the requirement under Article 1358 of the Civil Code does not affect the validity or enforceability of the rescission of the contract as between the parties.

On September 13, 2005, the CA likewise denied the petitioner's motion for reconsideration.

In this petition for review, the petitioner ascribes the following errors to the CA:

A.

THE COURT OF APPEALS COMMITTED GRAVE AND REVERSIBLE ERROR OF LAW IN PLACING ON PETITIONER FELSAN THE BURDEN OF PROVING NEGLIGENCE AS CAUSE OF THE FIRE, IN CONTRAVENTION OF ARTICLES 1667 AND 1668 OF THE NEW CIVIL CODE WHICH PLACES THE BURDEN OF PROVING NON-NEGLIGENCE ON THE LESSEE, RESPONDENT COA [COMMONWEALTH OF AUSTRALIA] IN THE INSTANT CASE.

B.

THE COURT OF APPEALS COMMITTED GRAVE AND REVERSIBLE ERROR OF LAW IN EQUATING "ACCIDENTAL" WITH LACK OF NEGLIGENCE ON THE PART OF COA.

C.

THE COURT OF APPEALS COMMITTED GRAVE AND REVERSIBLE ERROR OF LAW IN HOLDING THAT THERE WAS A CONFLICT OF TESTIMONIES OF SFO4 NOGALES, ON THE ONE HAND, AND OF FO3 GONZALES, ON THE OTHER HAND, AS TO THE "ON" OR "OFF" POSITION OF THE OVERHEATED ELECTRIC FAN, CONSIDERING THAT THE FORMER IS HEARSAY AND WORTHLESS WHILE THE LATTER IS COMPETENT AND POSITIVE.

D.

THE COURT OF APPEALS COMMITTED GRAVE AND REVERSIBLE ERROR IN UPHOLDING THE SPECULATION OF THE TRIAL COURT THAT THE CAUSE OF THE FIRE COULD HAVE BEEN FAULTY WIRING EITHER OF THE FAN ITSELF OR THE ELECTRICAL SOCKET, CONSIDERING THAT CONJECTURE IS NOT FACT.

E.

THE COURT OF APPEALS COMMITTED GRAVE AND REVERSIBLE ERROR OF LAW IN UPHOLDING THAT IN THE FACE OF SUPPOSED EQUIPOISE OF EVIDENCE AND/OR CONJECTURE, JUDGMENT SHOULD NEVERTHELESS BE IN FAVOR OF PETITIONER FELSAN.

F.

THE COURT OF APPEALS COMMITTED GRAVE AND REVERSIBLE ERROR OF LAW IN ILLOGICALLY TAKING AGAINST PETITIONER FELSAN ITS RELIANCE ON THE CERTIFICATION OF SFO4 NOGALES THAT THE FIRE WAS ACCIDENTAL, FOR THE PURPOSE OF RECOVERING INDEMNITY FROM THE INSURER, AND THUS ERRONEOUSLY APPLYING THE LAW AND PRINCIPLE OF ESTOPPEL AGAINST FELSAN.

G.

THE COURT OF APPEALS COMMITTED GRAVE AND REVERSIBLE ERROR OF LAW IN HOLDING THAT RESPONDENT COA HAS THE RIGHT TO AUTOMATIC RESCISSION OF THE LEASE

CONTRACT AND TO PAYMENT OF THE BALANCE OF UNPAID RENTALS (P1,556,666.67) AND TWO MONTHS SECURITY DEPOSIT (P200,000.00), AS WELL AS ATTORNEY'S FEES (P100,000.00).

H.

THE COURT OF APPEALS COMMITTED GRAVE AND REVERSIBLE ERROR OF LAW IN AFFIRMING THE DECISION OF THE TRIAL COURT.[12]

The petitioner maintains that the respondent does not have the right to pre-terminate the contract and to be reimbursed for the advance rentals since the leased property was damaged due to the latter's fault or negligence. The petitioner contends that the CA erred in placing on it, the lessor, the burden of proof to establish that the respondent-lessee was negligent, considering that under Article 1667 of the Civil Code, the lessee is presumed to be negligent; hence, the latter bears the burden to prove that it was not negligent. It argues that the evidence proffered by the respondent was not sufficient to overturn the presumption of negligence.

In petitions for review on certiorari, the jurisdiction of this Court is only limited to the review and revision of errors of law allegedly committed by the appellate court inasmuch as the latter's findings of fact are deemed conclusive. Thus, this Court is not duty-bound to analyze and weigh all over again the evidence already considered in the proceedings below.[13] It is foreclosed from ascertaining if the trial court and the appellate court were correct in according superior credit to this or that piece of evidence of one party or the other.[14] While this rule is not without exceptions, we do not find the instant case falling under any of said exceptions to warrant a different conclusion from the Court. [15]

The Court finds no reversible error in the appellate court's ruling that the respondent has the right to pre-terminate the Contract of Lease. This is clearly embodied in Section 13 thereof which provides that:

(13) DAMAGES TO PREMISES: Should the leased premises subject matter of this contract be damaged by fire, lightning, earthquake, typhoon, or by any cause in the nature of force majeure, rendering the premises to be totally uninhabitable or unsuitable for living, in the opinion of the LESSEE, this Contract shall be automatically rescinded without the parties becoming liable to each other for any damages. In such a case, the obligation of the LESSEE to pay the agreed rental shall cease from the date the accident or force majeure hereinabove mentioned occurs. The LESSOR shall reimburse the LESSEE the balance of the rentals which may have been paid in advance by the latter to the former if any exists at the time of the accident or force majeure. (Emphasis supplied.)

However, if damage to premises is minimal (e.g., only a small isolated portion of the house such as the portion of the living/dining room was destroyed), then the effective rental rate for that period can be reduced to a minimum as deemed fit and agreed to by both LESSOR and LESSEE.

x x x x[16]

The first paragraph of Section 13 plainly states that, where the leased property is damaged by fire, the lessee has the right to automatically pre-terminate the contract when it finds that the damage to the property rendered it uninhabitable or unsuitable for living. In this case, the respondent determined that the leased property has become uninhabitable after it was damaged by fire. Accordingly, it immediately exercised its right to pre-terminate the contract.

Considering that the parties entered into a contract, it shall constitute the law between them.[17] The agreement between the parties is the formal expression of the parties' rights, duties and obligations.[18] Being the primary law between the parties, it governs the adjudication of their rights and obligations.[19] When the terms of the contract are clear and leave no room for interpretation, the literal meaning of its stipulations shall, therefore, control.[20] A court has no alternative but to enforce the contractual stipulations in the manner they have been

agreed upon and written.[21] The petitioner was, therefore, bound to respect the decision of the respondent not to continue on with the lease. Absent any allegation that a stipulation is contrary to law, morals, good customs, public order or public policy, it must be complied with in good faith.[22]

The petitioner's insistence that the fire was allegedly due to the fault or negligence of the respondent cannot prevail. This argument was proffered in the light of the alleged conflicting testimonies of the fire officers based on the same burned electric fan during their ocular inspection.[23] To this, we quote with favor the respondent court's ruling on the matter:

x x x [T]he Court cannot reasonably conclude therefrom that the accident was attended by negligence or fault on the part of appellee. As the trial court correctly pointed out, the cause of the fire could have been faulty wiring either of the fan itself or the electrical socket but no evidence was presented to establish the same. Thus, bereft of sufficient evidence to establish that the fire was caused by the negligence of appellee, the finding of the trial court that the cause of the fire was accidental in nature must be sustained. Besides, appellant's witness himself admitted that Felsan requested for the certification of SPO4 Nogales and used the same to establish that the fire was caused by pure accident to recover indemnity in the amount of more than one million pesos from the insurer and it is now estopped from disputing the said finding.[24]

Considering the foregoing, the petitioner cannot use the respondent's alleged fault or negligence as an excuse to prevent the pre-termination of the lease contract. Neither can the petitioner seek reimbursement for expenses as may be warranted under the third paragraph of Section 13 of the Contract of Lease, which states:

That all damages which may be caused upon the premises, equipment and fixtures due to the fault or negligence of the LESSEE, its agents, employees and/or servants, shall be repaired by the LESSEE at its exclusive expense. The LESSOR, however, shall not be responsible for any loss or damage sustained by the LESSEE in the premises, or arising from the use of the equipment and fixtures, without the fault or negligence of the LESSOR, his agents or employees. The LESSEE shall, however, be free from any claim whatsoever by the insurance company.

It must be noted that the various stipulations in a contract must be interpreted together, attributing to the doubtful ones that sense which may result from all of them taken jointly.[25] Section 13 of the Contract of Lease enumerates the grounds for pre-termination as "fire, lightning, earthquake, typhoon, or by any cause in the nature of force majeure." The second and third sentences of Section 13 use "accident or force majeure" in referring to the grounds for the pre-termination of the Contract. Except for fire, none of the other causes can occur through accident because they are all natural calamities. The only logical conclusion is that the word "accident" qualifies "fire"; the lessee does not have the right to pre-terminate only when fire is not accidental or is deliberate. No other qualification can be read into the Contract. Accident and negligence are intrinsically contradictory; one cannot exist with the other. Accident occurs when the person concerned is exercising ordinary care, which is not caused by fault of any person and which could not have been prevented by any means suggested by common prudence.[26] Hence, a statement that the cause was accidental necessarily implies that it was not due to the fault or negligence of any party.

Clearly, the respondent had the right to pre-terminate the Contract of Lease considering that it was well established that the fire was accidental in nature. This was a finding made by the trial court and affirmed by the appellate court. In the absence of any showing that the findings complained of are totally devoid of support in the evidence on record, or that they are so glaringly erroneous as to constitute serious abuse of discretion, such findings must stand.[27]

As to the award of attorney's fees in favor of the respondent, the Court finds that this is not warranted under the circumstances; hence, it should be deleted. An adverse decision does not ipso facto justify an award of attorney's

fees to the winning party.[28] The power of the court to award attorney's fees under Article 2208 demands factual, legal, and equitable justification. Even when a claimant is compelled to litigate with third persons or to incur expenses to protect his rights, still attorney's fees may not be awarded where no sufficient showing of bad faith could be reflected in a party's persistence in a case other than an erroneous conviction of the righteousness of his cause.[29]

WHEREFORE, the Decision of the Court of Appeals, dated December 2, 2004, and Resolution dated September 13, 2005, are AFFIRMED with the MODIFICATION that the award of attorney's fees in favor of the respondent is deleted.

SO ORDERED.

Ynares-Santiago, (Chairperson), Austria-Martinez, Chico-Nazario, and Reyes, JJ., concur.

[1] Penned by Associate Justice Josefina Guevara-Salonga, with Associate Justices Conrado M. Vasquez, Jr. and Fernanda Lampas-Peralta, concurring.

[2] Records, p. 263.

[3] Id. at 250.

[4] Id. at 252-253.

[5] Id. at 254-255.

[6] Id. at 256-257.

[7] Id. at 260-261.

[8] Id. at 271-273.

[9] Article 1358 of the New Civil Code provides—

ART. 1358. The following must appear in a public document:

(1)

Acts and contracts which have for their object the creation, transmission, modification or extinguishment of real rights over immovable property; sales of real property or of an interest therein are governed by articles 1403, No. 2 and 1405;

(2)

The cession, repudiation or renunciation of hereditary rights or those of the conjugal partnership of gains;

(3)

The power to administer property, or any other power which has for its object an act appearing or which should appear in a public document, or should prejudice a third person;

(4)

The cession of actions or rights proceeding from an act appearing in a public document.

All other contracts where the amount involved exceeds five hundred pesos must appear in writing, even a private

one. But sales of goods, chattels or things in action are governed by articles 1403, No. 2 and 1405.

[10] Rollo, p. 49.

[11] Id. at 126.

[12] Id. at 22-23.

[13] Romago Electric Co., Inc. v. Court of Appeals, 388 Phil. 964, 975 (2000).

[14] Gaje v. Vda. de Dalisay, G.R.No. 158762, April 4, 2007.

[15] (1) when the inference made is manifestly mistaken, absurd or impossible; (2) when there is grave abuse of discretion; (3) when the findings are grounded entirely on speculations, surmises or conjectures; (4) when the judgment of the Court of Appeals is based on misapprehension of facts; (5) when the findings of fact are conflicting; (6) when the Court of Appeals, in making its findings, went beyond the issues of the case and the same is contrary to the admissions of both appellant and appellee; (7) when the findings of fact are conclusions without citation of specific evidence on which they are based; (8) when the Court of Appeals manifestly overlooked certain relevant facts not disputed by the parties and which, if properly considered, would justify a different conclusion; and (9) when the findings of fact of the Court of Appeals are premised on the absence of evidence and are contradicted by the evidence on record. (Child Learning Center, Inc. v. Tagario, G.R. No. 150920, November 25, 2005, 476 SCRA 236, 241-242).

[16] Records, p. 242

[17] Dela Torre v. Bicol University, G.R. No. 148632, August 31, 2005, 468 SCRA 542, 551.

[18] Arwood Industries, Inc. v. D.M. Consunji, Inc., 442 Phil. 203, 212 (2002).

[19] Pryce Corporation v. Philippine Amusement and Gaming Corporation, G.R. No. 157480, May 6, 2005, 458 SCRA 164, 175-176.

[20] Dela Torre v. Bicol University, *supra*.

[21] Pryce Corporation v. Philippine Amusement and Gaming Corporation, *supra*.

[22] Spouses Inocencio and Adoracion San Antonio v. Court of Appeals, 423 Phil. 8, 17 (2001).

[23] Rollo, p. 125

[24] Id.

[25] Civil Code of the Philippines, Art. 1374.

[26] Jarco Marketing Corporation v. Court of Appeals, 378 Phil. 991, 1003 (1999).

[27] Philippine National Bank v. Pike, G.R. No. 157845, September 20, 2005, 470 SCRA 328, 340.

[28] "J" Marketing Corp. v. Sia, Jr., 349 Phil. 513, 518 (1998).

[29] ABS-CBN Broadcasting Corporation v. Court of Appeals, 361 Phil. 499, 529 (1999).

ABOUT BATAS.ORG

Study smarter at BATAS.org

The Philippine bar review and law-school companion built around how your brain actually remembers.

The complete Philippine law library - free for everyone.

More than 100,000 Supreme Court decisions, Republic Acts, and executive issuances - full-text searchable, browsable by category and year, and always free. No paywall, no login. This PDF came from it.

Audio case-brief lectures.

Any decision becomes a podcast-style lecture - facts, issues, ruling, and doctrine - with read-along highlighting and a hands-free presentation mode. Study while commuting, working out, or resting your eyes.

Bar review built on the science of memory.

Complete, sequenced courses for all eight bar subjects, narrated like podcasts and reinforced with retrieval practice and spaced review - the study techniques with the strongest evidence behind them.

The full law-school curriculum.

One subscription unlocks the entire J.D. curriculum - every subject, every lesson, with your progress tracked down to the paragraph so you can pick up exactly where you left off, on any device.

Mock exams that tell you where you stand.

Timed multiple-choice exams graded instantly, with per-subject score breakdowns and focus suggestions that point you at your weakest topics first.

A study planner that keeps you on pace.

Set your schedule and BATAS tells you every day whether you are on track for bar day - and exactly which lesson to take next.

Start free at <https://batas.org>

The law library is free forever - and your first lesson is one click away.

The text of this document is an official public record and remains in the public domain. Formatting, presentation, and compilation © 2026 batas.org.

Downloaded free from the batas.org Law Library. Share it freely - the library is free for every law student, bar reviewee, and practitioner.