

**FELICIDAD T. MARTIN, MELISSA M. ISIDRO, GRACE M. DAVID,
CAROLINE M. GARCIA, VICTORIA M. ROLDAN, AND BENJAMIN T.
MARTIN, JR., PETITIONERS, VS. DBS BANK PHILIPPINES, INC.
(FORMERL...**

G.R. No. 174632. June 16, 2010

Ponente: ABAD, J.

Read online (full-text search, related cases, audio case brief): <https://batas.org/library/g-r-no-174632/>

ABAD, J.:

This case is about the right of rescission provided in the contract of lease in the event of failure of the lessor to make repairs that would enable the lessee to continue with the intended use of the leased property.

The Facts and the Case

On March 27, 1997 Felicidad T. Martin, Melissa M. Isidro, Grace M. David, Caroline M. Garcia, Victoria M. Roldan, and Benjamin T. Martin, Jr. (the Martins), as lessors, entered into a lease contract[1] with the DBS Bank Philippines, Inc. (DBS), formerly known as Bank of Southeast Asia and now merged with Bank of the Philippine Islands, as lessee, covering a commercial warehouse and lots that DBS was to use for office, warehouse, and parking yard for repossessed vehicles. The lease was for five years, from March 1, 1997 to March 1, 2002, at a monthly rent of P300,000.00 for the first year, P330,000.00 for the second year, P363,000.00 for the third year, P399,300.00 for the fourth year, and P439,230.00 for the final year, all net of withholding taxes.[2] DBS paid a deposit of P1,200,000.00 and advance rentals of P600,000.00.

On May 25 and August 13, 1997 heavy rains flooded the leased property and submerged into water the DBS offices there along with its 326 repossessed vehicles. As a result, on February 11, 1998 DBS wrote the Martins demanding that they take appropriate steps to make the leased premises suitable as a parking yard for its vehicles.[3] DBS suggested the improvement of the drainage system or the raising of the property's ground level. In response, the Martins filled the property's grounds with soil and rocks.

But DBS lamented that the property remained unsuitable for its use since the Martins did not level the grounds. Worse, portions of the perimeter fence collapsed because of the excessive amount of soil and rock that were haphazardly dumped on it. In June 1998, DBS vacated the property but continued paying the monthly rents. On September 11, 1998, however, it made a final demand on the Martins to restore the leased premises to tenantable condition on or before September 30, 1998, otherwise, it would rescind the lease contract.[4]

On September 24, 1998 the Martins contracted the services of Altitude Systems & Technologies Co. for the reconstruction of the perimeter fence on the property. [5] On October 13, 1998 DBS demanded the rescission of the lease contract and the return of its deposit.[6] At that point, DBS had already paid the monthly rents from March 1997 to September 1998. The Martins refused, however, to comply with DBS' demand.

On July 7, 1999 DBS filed a complaint against the Martins for rescission of the contract of lease with damages before the Regional Trial Court (RTC) of Makati City, Branch 141, in Civil Case 99-1266.[7] Claiming that the

leased premises had become untenable, DBS demanded rescission of the lease contract as well as the return of its deposit of P1,200,000.00.

On November 12, 2001 the Makati City RTC rendered a decision, dismissing the complaint against the Martins.[8] The trial court found that, although the floods submerged DBS' vehicles, the leased premises remained tenantable and undamaged. Moreover, the Martins had begun the repairs that DBS requested but were not given sufficient time to complete the same. It held that DBS unjustifiably abandoned the leased premises and breached the lease contract. Thus, the trial court ordered its deposit of P1,200,000.00 deducted from the unpaid rents due the Martins and ordered DBS to pay them the remaining P15,198,360.00 in unpaid rents.

On appeal to the Court of Appeals (CA) in CA-G.R. CV 76210, the latter court rendered judgment dated April 26, 2006,[9] reversing and setting aside the RTC decision. The CA found that floods rendered the leased premises untenable and that the RTC should have ordered the rescission of the lease contract especially since the contract provided for such remedy. The CA ordered the Martins to apply the deposit of P1,200,000.00 to the rents due up to July 7, 1999 when DBS filed the complaint and exercised its option to rescind the lease. The CA ordered the Martins to return the remaining balance of the deposit to DBS.

DBS moved for partial reconsideration, claiming that it rescinded the lease contract on October 13, 1998 and not on July 7, 1999. The CA should not require DBS to pay rents from October 1998 to July 7, 1999. It should rather order the Martins to return its deposit in full. For their part, the Martins asked the CA to reconsider its decision, pointing out that they undertook the necessary repairs and restored the leased premises to tenantable condition. Thus, DBS no longer had the right to rescind the lease contract.

With the denial of their separate motions for reconsideration,[10] DBS and the Martins filed their respective petitions for review before this Court in G.R. 174632 and 174804. The Court eventually consolidated the two cases.[11]

The Issues Presented

The issues presented in these cases are:

1. Whether or not the CA erred in holding that the Martins allowed the leased premises to remain untenable after the floods, justifying DBS' rescission of the lease agreement between them; and
2. In the affirmative, whether or not the CA erred in holding that DBS is entitled to the rescission of the lease contract only from July 7, 1999 when it filed its action for rescission, entitling the Martins to collect rents until that time.

The Court's Rulings

One. Unless the terms of a contract are against the law, morals, good customs, and public policy, such contract is law between the parties and its terms bind them.[12] In *Felsan Realty & Development Corporation v. Commonwealth of Australia*,[13] the Court regarded as valid and binding a provision in the lease contract that allowed the lessee to pre-terminate the same when fire damaged the leased building, rendering it uninhabitable or unsuitable for living.

Here, paragraph VIII[14] of the lease contract between DBS and the Martins permitted rescission by either party should the leased property become untenable because of natural causes. Thus:

In case of damage to the leased premises or any portion thereof by reason of fault or negligence attributable to the LESSEE, its agents, employees, customers, or guests, the LESSEE shall be responsible for undertaking

such repair or reconstruction. In case of damage due to fire, earthquake, lightning, typhoon, flood, or other natural causes, without fault or negligence attributable to the LESSEE, its agents, employees, customers or guests, the LESSOR shall be responsible for undertaking such repair or reconstruction. In the latter case, if the leased premises become untenable, either party may demand for the rescission of this contract and in such case, the deposit referred to in paragraph III shall be returned to the LESSEE immediately. (Underscoring supplied.)

The Martins claim that DBS cannot invoke the above since they undertook the repair and reconstruction of the leased premises, incurring P1.6 million in expenses. The Martins point out that the option to rescind was available only if they failed to do the repair work and reconstruction.

But, under their agreement, the remedy of rescission would become unavailable to DBS only if the Martins, as lessors, made the required repair and reconstruction after the damages by natural cause occurred, which meant putting the premises after the floods in such condition as would enable DBS to resume its use of the same for the purposes contemplated in the agreement, namely, as office, warehouse, and parking space for DBS' repossessed vehicles.

Here, it is undisputed that the floods of May 25 and August 13, 1997 submerged the DBS offices and its 326 repossessed vehicles. The floods rendered the place unsuitable for its intended uses.[15] And, while the Martins did some repairs, they did not restore the place to meet DBS' needs. The photographs[16] taken of the place show that the Martins filled the grounds with soil and rocks to raise the elevation but did not level and compact the same so they could accommodate the repossessed vehicles. Moreover, the heaviness of the filling materials caused portions of the perimeter walls to collapse or lean dangerously.[17] Indeed, the Office of the City Engineer advised DBS that unless those walls were immediately demolished or rehabilitated, they would endanger passersby.[18]

For their part, although the Martins insisted that they successfully repaired and restored the leased areas, they failed to produce photographs that would contradict those that DBS presented in court. For one thing, the evidence for DBS shows that the Martins simply dumped soil and rocks on the grounds, creating an uneven terrain that would not permit vehicular parking. True, the Martins contracted the services of Altitude Systems and Technologies Co. but the scope of work covered only the construction of a new perimeter fence, leaving out works that are essential to the leveling and compacting of the grounds.

Undeniably, the DBS suffered considerable damages when flood waters deluged its offices and 326 repossessed vehicles. Notably, DBS vacated the leased premises in June of 1998, without rescinding the lease agreement, evidently to allow for unhindered repair of the grounds. In fact, DBS continued to pay the monthly rents until September 1998, showing how DBS leaned back to enable the Martins to finish the repair and rehabilitation of the place. [19] The Martins provided basis for rescission by DBS when they failed to do so.

The Martins point out that paragraph X of the contract forbade the pre-termination of the lease. But, as the Court held in *Manila International Airport Authority v. Gingoyon*,[20] the various stipulations in a contract must be read together and given effect as their meanings warrant. Here, paragraph X, which barred pre-termination of the lease agreement, cannot be read in isolation. Paragraph VIII gave DBS and the Martins the right to rescind the agreement in the event the property becomes untenable due to natural causes, including floods, unless proper repairs and rehabilitation are carried out.

Two. As for the effective date of rescission, the record shows that DBS made a final demand on the Martins on September 11, 1998, giving the latter up to September 30, 1998 within which to fully restore the leased property to a tenable condition, otherwise, it would rescind their lease contract.[21] Consequently, the Martins may be

regarded in default with respect to their obligation to repair and rehabilitate the leased property by the end of September 1998 when they did not comply with the demand. Contrary to the ruling of the CA, it is not the filing of the action for rescission that marks the violation of the lease agreement but the failure of the Martins to repair and rehabilitate the property despite demand.

Finally, Paragraph III of the lease contract states that the deposit DBS made is to apply to any: a) unpaid telephone, electric, and water bills, and b) unpaid rents. As it happened, DBS left no unpaid utility bills. Also, since DBS paid the rents up to September 1998, it owed no unpaid rents when it exercised its right to rescind its lease contract with the Martins. The latter must, therefore, return the full deposit of P1,200,000.00 to DBS.

WHEREFORE, the Court DENIES the petition and AFFIRMS with MODIFICATION the April 26, 2006 decision of the Court of Appeals in CA-G.R. CV 76210 in that Felicidad T. Martin, Melissa M. Isidro, Grace M. David, Caroline M. Garcia, Victoria M. Roldan, and Benjamin T. Martin, Jr. are ORDERED to return the full deposit of P1,200,000.00 to DBS Bank Philippines, Inc. (formerly known as Bank of Southeast Asia, now merged with and into BPI Family Bank) with interest of 12% per annum to be computed from the finality of this decision until the amount is fully paid.

SO ORDERED.

Carpio, Nachura, Peralta, and Perez,[*] JJ., concur.

[*] Designated as additional member in lieu of Associate Justice Jose C. Mendoza, per Special Order No. 842 dated June 3, 2010.

[1] Rollo (G.R. 174632), pp. 60-66.

[2] Id. at 61.

[3] Records, p. 15.

[4] Id. at 18.

[5] Rollo (G.R. 174632), pp. 190-193.

[6] Records, p. 19.

[7] Id. at 1-7.

[8] Rollo (G.R. 174632), pp. 53-57. Penned by Judge Manuel D. Victorio.

[9] Rollo (G.R. 174804), pp. 26-35. Penned by Associate Justice Vicente Q. Roxas and concurred in by Associate Justices Godardo A. Jacinto and Juan Q. Enriquez, Jr.

[10] Id. at 37-38.

[11] Id. at 42.

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

[13] G.R. No. 169656, October 11, 2007, 535 SCRA 618.

[14] Rollo (G.R. 174804), pp. 116-117.

[15] Records, p. 80.

[16] Id. at 118-122.

[17] Id. at 112-118.

[18] Id. at 16.

[19] TSN, June 19, 2000, pp. 19-20; TSN, July 12, 2000, p. 7.

[20] G.R. No. 155879, December 2, 2005, 476 SCRA 570, 577-578.

[21] Supra note 4.

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.