

**PACIFICA MILLARE, PETITIONER, VS. HON. HAROLD M. HERNANDO,
IN HIS CAPACITY AS PRESIDING JUDGE, COURT OF FIRST INSTANCE
OF ABRA, SECOND JUDICIAL DISTRICT, BRANCH I, ANTONIO CO AN...**

G.R. No. 55480. June 30, 1987

Ponente: FELICIANO, J.

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FELICIANO, J.:

On 17 June 1975, a five-year Contract of Lease^[1] was executed between petitioner Pacifica Millare as lessor and private respondent Elsa Co, married to Antonio Co, as lessee. Under the written agreement, which was scheduled to expire on 31 May 1980, the lessor-petitioner agreed to rent out to the lessee at a monthly rate of P350.00 the "People's Restaurant", a commercial establishment located at the corner of McKinley and Pratt Streets in Bangued, Abra.

The present dispute arose from events which transpired during the months of May and July in 1980. According to the Co spouses, sometime during the last week of May 1980, the lessor informed them that they could continue leasing the People's Restaurant so long as they were amenable to paying increased rentals of P1,200.00 a month. In response, a counter-offer of P700.00 a month was made by the Co spouses. At this point, the lessor allegedly stated that the amount of monthly rentals could be resolved at a later time since "the matter is simple among us", which alleged remark was supposedly taken by the spouses Co to mean that the Contract of Lease had been renewed, prompting them to continue occupying the subject premises and to forego their search for a substitute place to rent.^[2] In contrast, the lessor flatly denied ever having considered, much less offered, a renewal of the Contract of Lease.

The variance in versions notwithstanding, the record shows that on 22 July 1980, Mrs. Millare wrote the Co spouses requesting them to vacate the leased premises as she had no intention of renewing the Contract of Lease which had, in the meantime, already expired.^[3] In reply, the Co spouses reiterated their unwillingness to pay the P1,200.00 monthly rentals supposedly sought by Mrs. Millare which they considered "highly excessive, oppressive and contrary to existing laws". They also signified their intention to deposit the amount of rentals in court, in view of Mrs. Millare's refusal to accept their counter-offer.^[4] Another letter of demand from Mrs. Millare was received on 28 July 1980 by the Co spouses, who responded by depositing the rentals for June and July (at P700.00 a month) in court.

On 30 August 1980, a Saturday, the Co spouses jumped the gun, as it were, and filed a Complaints^[5] (docketed as Civil Case No. 1434) with the then Court of First Instance of Abra against Mrs. Millare and seeking judgment (a) ordering the renewal of the Contract of Lease at a rental rate of P700.00 a month and for a period of ten years, (b) ordering the defendant to collect the sum of P1,400.00 deposited by plaintiffs with the court, and (c) ordering the defendant to pay damages in the amount of P50,000.00. The following Monday, on 1 September 1980, Mrs. Millare filed an ejectment case against the Co spouses in the Municipal Court of Bangued, Abra, docketed as Civil Case No. 661. The spouses Co, defendants therein, subsequently set up *lis pendens* as a defense against the

complaint for ejectment.

Mrs. Millare, defendant in Civil Case No. 1434, countered with an Omnibus Motion to Dismiss^[6] grounded on (a) lack of cause of action due to plaintiffs' failure to establish a valid renewal of the Contract of Lease, and (b) lack of jurisdiction by the trial court over the complaint for failure of plaintiffs to secure a certification from the Lupong Tagapayapa of the barangay wherein both disputants reside attesting that no amicable settlement between them had been reached despite efforts to arrive at one, as required by Section 6 of Presidential Decree No. 1508. The Co spouses opposed the motion to dismiss.^[7]

In an Order dated 15 October 1980, respondent judge denied the motion to dismiss and ordered the renewal of the Contract of Lease. Furthermore plaintiffs were allowed to deposit all accruing monthly rentals in court, while defendant Millare was directed to submit her answer to the complaint.^[8] A motion for reconsideration^[9] was subsequently filed which, however, was likewise denied.^[10] Hence, on 13 November 1980, Mrs. Millare filed the instant Petition for Certiorari, Prohibition and Mandamus, seeking injunctive relief from the abovementioned orders. This Court issued a temporary restraining order on 21 November 1980 enjoining respondent judge from conducting further proceedings in Civil Case No. 1434.^[11] Apparently, before the temporary restraining order could be served on the respondent judge, he rendered a "Judgment by Default" dated 26 November 1980 ordering the renewal of the lease contract for a term of 5 years counted from the expiration date of the original lease contract, and fixing monthly rentals thereunder at P700.00 a month, payable in arrears. On 18 March 1981, this Court gave due course to the Petition for Certiorari, Prohibition and Mandamus.^[12]

Two issues are presented for resolution: (1) whether or not the trial court acquired jurisdiction over Civil Case No. 1434; and (2) whether or not private respondents have a valid cause of action against petitioner.

Turning to the first issue, petitioner's attack on the jurisdiction of the trial court must fail, though for reasons different from those cited by the respondent judge.^[13] We would note firstly that the conciliation procedure required under P.D. 1508 is not a jurisdictional requirement in the sense that failure to have prior recourse to such procedure would not deprive a court of its jurisdiction either over the subject matter or over the person of the defendant.^[14] Secondly, the record shows that two complaints were submitted to the barangay authorities for conciliation -- one by petitioner for ejectment and the other by private respondents for renewal of the Contract of Lease. It appears further that both complaints were, in fact, heard by the Lupong Tagapayapa in the afternoon of 30 August 1980. After attempts at conciliation had proven fruitless, Certifications to File Action authorizing the parties to pursue their respective claims in court were then issued at 5:20 p.m. of that same afternoon, as attested to by the Barangay Captain in a Certification presented in evidence by petitioner herself.^[15]

Petitioner would, nonetheless, assail the proceedings in the trial court on a technicality, i.e., private respondents allegedly filed their complaint at 4:00 p.m. of 30 August 1980, or one hour and twenty minutes before the issuance of the requisite certification by the Lupong Tagapayapa. The defect in procedure admittedly initially present at that particular moment when private respondents first filed the complaint in the trial court, was cured by the subsequent issuance of the Certifications to File Action by the barangay Lupong Tagapayapa. Such certifications in any event constituted substantial compliance with the requirement of P.D. 1508.

We turn to the second issue, that is, whether or not the complaint in Civil Case No. 1434 filed by the respondent Co spouses claiming renewal of the contract of lease stated a valid cause of action. Paragraph 13 of the Contract of Lease reads as follows:

"13. This contract of lease is subject to the laws and regulations of the government; and that this contract of lease may be renewed after a period of five (5) years under the terms and conditions as will be mutually agreed upon by the parties at the time of renewal; x x x" (Underscoring supplied.)

The respondent judge, in his Answer and Comment to the Petition, urges that under paragraph 13 quoted above,

"there was already a consummated and finished mutual agreement of the parties to renew the contract of lease after five years; what is only left unsettled between the parties to the contract of lease is the amount of the monthly rental; the lessor insists P1,200 a month, while the lessee is begging P700 a month which doubled the P350 monthly rental under the original contract x x x. In short, the lease contract has never expired because paragraph 13 thereof had expressly mandated that it is renewable. x x x"[16]

In the "Judgment by Default" he rendered, the respondent judge elaborated his views -- obviously highly emotional in character -- in the following extraordinary statements:

"However, it is now the negative posture of the defendant-lessor to block, reject and refuse to renew said lease contract. It is the defendant-lessor's assertion and position that she can at the mere click of her fingers, just throw-out the plaintiffs-lessees from the leased premises and any time after the original term of the lease contract had already expired; This negative position of the defendant-lessor, to the mind of this Court does not conform to the principles and correct application of the philosophy underlying the law of lease; for indeed, the law of lease is impressed with public interest, social justice and equity; reason for which, this Court cannot sanction lot owner's business and commercial speculations by allowing them with 'unbridled discretion' to raise rentals even to the extent of 'extraordinary gargantuan proportions', and calculated to unreasonably and unjustly eject the helpless lessee because he cannot afford said inflated monthly rental, and thereby said lessee is placed without any alternative, except to surrender and vacate the premises immediately;' Many business establishments would be closed and the public would directly suffer the direct consequences; Nonetheless, this is not the correct concept or perspective of the law of lease, that is, to place the lessee always at the mercy of the lessor's 'Merchant of Venice' and to agitate the latter's personal whims and caprices; the defendant-lessor's hostile attitude by imposing upon the lessee herein an 'unreasonable and extraordinary gargantuan monthly rental of P1,200.00', to the mind of this Court, is 'fly-by night unjust enrichment' at the expense of said lessees; but, no Man should unjustly enrich himself at the expense of another; under these facts and circumstances surrounding this case, the action therefore to renew the lease contract is 'tenable' because it falls squarely within the coverage and command of Articles 1197 and 1670 of the New Civil Code, to wit:

x x x

The term 'to be renewed' as expressly stipulated by the herein parties in the original contract of lease means that the lease may be renewed for another term of five (5) years; it is equivalent to a promise made by the lessor to the lessee, and as a unilateral stipulation, obliges the lessor to fulfill her promise; of course the lessor is free to comply and honor her commitment or back-out from her promise to renew the lease contract; but, once expressly stipulated, the lessor shall not be allowed to evade or violate the obligation to renew the lease because certainly, the lessor may be held liable for damages caused to the lessee as a consequence of the unjustifiable termination of the lease or renewal of the same; In other words, the lessor is guilty of breach of contract; Since the original lease was fixed for five (5) years, it follows, therefore, that the lease contract is renewable for another five (5) years and the lessee is not required before hand to give express notice of this fact to the lessor because it was expressly stipulated in the original lease contract to be renewed; Wherefore, the bare refusal of the lessor to renew the lease contract unless the monthly rental is P1,200.00 is contrary to law, morals, good customs, public policy, justice and equity because no one should unjustly enrich herself at the expense of another. Article 1197 and 1670 of the New Civil Code must therefore govern the case at bar and whereby this Court is authorized to fix the period thereof by ordering the renewal of the lease contract to another fixed term of five (5) years."[17]

Clearly, the respondent judge's grasp of both the law and the English language is tenuous at best. We are otherwise unable to comprehend how he arrived at the reading set forth above. Paragraph 13 of the Contract of Lease can only mean that the lessor and lessee may agree to renew the contract upon their reaching agreement on the terms and conditions to be embodied in such renewal contract. Failure to reach agreement on the terms and

conditions of the renewal contract will of course prevent the contract from being renewed at all. In the instant case, the lessor and the lessee conspicuously failed to reach agreement both on the amount of the rental to be payable during the renewal term, and on the term of the renewed contract.

The respondent judge cited Articles 1197 and 1670 of the Civil Code to sustain the "Judgment by Default" by which he ordered the renewal of the lease for another term of five years and fixed monthly rentals thereunder at P700.00 a month. Article 1197 of the Civil Code provides as follows:

"If the obligation does not fix a period, but from its nature and the circumstances it can be inferred that a period was intended, the courts may fix the duration thereof.

The courts shall also fix the duration of the period when it depends upon the will of the debtor.

In every case, the courts shall determine such period as may, under the circumstances, have been probably contemplated by the parties. Once fixed by the courts, the period cannot be changed by them." (Underscoring supplied.)

The first paragraph of Article 1197 is clearly inapplicable, since the Contract of Lease did in fact fix an original period of five years, which had expired. It is also clear from paragraph 13 of the Contract of Lease that the parties reserved to themselves the faculty of agreeing upon the period of the renewal contract. The second paragraph of Article 1197 is equally clearly inapplicable since the duration of the renewal period was not left to the will of the lessee alone, but rather to the will of both the lessor and the lessee. Most importantly, Article 1197 applies only where a contract of lease clearly exists. Here, the contract was not renewed at all there was in fact no contract at all the period of which could have been fixed.

Article 1670 of the Civil Code reads thus.

"If at the end of the contract the lessee should continue enjoying the thing left for 15 days with the acquiescence of the lessor and unless a notice to the contrary by either party has previously been given, it is understood that there is an implied new lease, not for the period of the original contract, but for the time established in Articles 1682 and 1687. The other terms of the original contract shall be revived." (Underscoring supplied.)

The respondents themselves, public and private, do not pretend that the continued occupancy of the leased premises after 31 May 1980, the date of expiration of the contract, was with the acquiescence of the lessor. Even if it be assumed that tacita reconduccion had occurred, the implied new lease could not possibly have a period of five years, but rather would have been a month-to-month lease since the rentals (under the original contract) were payable on a monthly basis. At the latest, an implied new lease (had one arisen) would have expired as of the end of July 1980 in view of the written demands served by the petitioner upon the private respondents to vacate the previously leased premises.

It follows that the respondent judge's decision requiring renewal of the lease has no basis in law or in fact. Save in the limited and exceptional situations envisaged in Articles 1197 and 1670 of the Civil Code, which do not obtain here, courts have no authority to prescribe the terms and conditions of a contract for the parties. As pointed out by Mr. Justice J.B.L. Reyes in *Republic vs. Philippine Long Distance Telephone, Co.*,^[18]

"[P]arties cannot be coerced to enter into a contract where no agreement is had between them as to the principal terms and conditions of the contract. Freedom to stipulate such terms and conditions is of the essence of our contractual system, and by express provision of the statute, a contract may be annulled if tainted by violence, intimidation or undue influence (Articles 1306, 1336, 1337, Civil Code of the Philippines).

Contractual terms and conditions created by a court for two parties are a contradiction in terms. If they are

imposed by a judge who draws upon his own private notions of what "morals, good customs, justice, equity and public policy" demand, the resulting "agreement" cannot, by definition, be consensual or contractual in nature. It would also follow that such coerced terms and conditions cannot be the law as between the parties themselves. Contracts spring from the volition of the parties. That volition cannot be supplied by a judge and a judge who pretends to do so, acts tyrannically, arbitrarily and in excess of his jurisdiction.[19]

WHEREFORE, the Petition for Certiorari, Prohibition and Mandamus is granted. The Orders of the respondent judge in Civil Case No. 1434 dated 26 September 1980 (denying petitioner's motion to dismiss) and 4 November 1980 (denying petitioner's motion for reconsideration), and the "Judgment by Default" rendered by the respondent judge dated 26 November 1980, are hereby annulled and set aside and Civil Case No. 1434 is hereby dismissed. The temporary restraining order dated 21 November 1980 issued by this Court is hereby made permanent. No pronouncement as to costs.

SO ORDERED.

Yap, (Chairman), Narvasa, Melencio-Herrera, Cruz, Gancayco, and Sarmiento, JJ., concur.

[1] Rollo, p. 48, Annex "1" of Answer and Comment.

[2] Id., pp. 14-17, Complaint, Annex "A" of Petition.

[3] Id., p. 66, Annex "A" of Comment.

[4] Id., p. 67, Annex "B" of Comment.

[5] Id., pp. 14-17, Annex "A" of Petition.

[6] Id., pp. 18-23, Annex "B" of Petition.

[7] Id., pp. 24-26, Annex "C" of Petition.

[8] Id., p. 29, Annex "F" of Petition.

[9] Id., pp. 30-33, Annex "G" of Petition.

[10] Id., pp. 38-39, Annex "I" of Petition.

[11] Id., p. 40.

[12] Id., p. 93.

[13] On the issue of jurisdiction, respondent judge denied the motion to dismiss on the erroneous assumption that barangay conciliation proceedings need not have been undertaken since the complaint was "coupled with the provisional remedy of making monthly deposits or consignment (sic) of the due and accruing rentals (with) this Court". Consignation is not of course a provisional remedy, the Revised Rules of Court enumerating only five such remedies, namely: attachment, preliminary injunction, receivership, replevin and support pendente lite.

[14] *Ebol vs. Amin*, 135 SCRA 438 (1985); see also *Royales vs. Intermediate Appellate Court*, 127 SCRA 438 (1984).

[15] Rollo, p. 35, Annex "G-1" of Petition.

[16] Id., pp. 43-47, at 45.

[17] *Id.*, pp. 120-122; underscoring in the original.

[18] 26 SCRA 620 at 628 (1969).

[19] The respondent judge ceased to be a judge in 1983; he was not re-appointed in connection with the 1983 reorganization of the judiciary, under B.P. Blg. 129.

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