

LUZ J. HENSON, PETITIONER, VS. THE INTERMEDIATE APPELLATE COURT, ELY FUDERANAN AND LUISA COMMENDADOR, RESPONDENTS.

G.R. No. 72456. February 19, 1987

Ponente: GUTIERREZ, JR., J.

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GUTIERREZ, JR., J.:

Whether or not the judicial interpretation of the lease contract amounts to the courts' contracting for the parties is the issue in this petition for review of the decision of the then Intermediate Appellate Court which upheld the Court of First Instance of Manila's dismissing the petitioner's complaint for recovery of the balance of unpaid rentals due for one year under the lease contract in question.

The petitioner leases out office spaces in her building at #494 Soldado Street, Ermita, Manila. The lessee in the disputed lease contract was designated as Sto. Niño Travel and Tour Agency, a sole proprietorship duly organized and existing under the laws of the Philippines, represented by private respondent Ely Fuderanan, its President and General Manager.

On May 15, 1980, the petitioner received the sum of P8,000.00 as "reservation deposit" for Apartment No. 116 at Luz J. Henson Building for which she issued a receipt to private respondent Fuderanan as follows:

"This reservation is good up to May 15, 1980, at 4:00 P.M.; failure to sign the Lease Contract, pay the required Three (3) months advance rental and Three (3) months guarantee deposits, the reservation is forfeited, monthly rental is P2,000.00 — net of W. H. Tax. Lease Contract is for one year."

On the same day, the petitioner and private respondent Fuderanan entered into a lease contract which, in part, provides:

"1. That this contract shall have a duration of one year, commencing from May 15, 1980; Provided that, at the expiration hereof, the lease shall be deemed renewed on a month to month basis under the same terms and conditions as this contract, unless either party, at least one month before this contract expires, informs the other in writing of his desire not to be bound anymore after said period; Provided Further, that should LESSEE terminate this contract before its termination or be cancelled for any of the causes enumerated, the LESSEE shall for his breach of this contract, have his guarantee deposit automatically forfeited and still be liable to LESSOR as penalty and liquidated damages for the rentals of the unexpired portion of this lease, irrespective of whether or not LESSOR subsequently finds another person to lease the vacated premises for the duration of said unexpired portion;

"2. That LESSEE agrees to pay rentals for the premises leased as above-described at the rate of TWO THOUSAND PESOS Net of Withholding Tax (P2,000.00), Philippine Currency, a month, due and payable without need of further demand and notice on the due date of the corresponding month, at LESSOR's office or residence; LESSEE shall pay in advance the amount of SIX THOUSAND PESOS (P6,000.00), Philippine Currency, as rentals for the first two (2) months of this contract and one month end of lease. Rentals are

payable monthly in advance. A fraction of a month is considered one month rental;

"Upon execution of this contract, the LESSOR (should be LESSEE) (shall) deposit with the LESSOR the amount equivalent to SIX THOUSAND PESOS (P6,000.00), three months rental. This deposit shall answer for any damages, losses, breakage, utilities destroyed including damages caused by renovation done on the leased premises and any extensions thereof, and shall be returned only upon expiration of this Lease Contract; Provided, that all Meralco Bills are fully paid and that charges for any and all long distance calls are paid duly certified by the PLDT Co. Nothing herein contained shall be understood as granting the LESSEE the right to require, before the termination of this lease, that this deposit shall be applied against over due rentals and other outstanding accounts owing to LESSOR in order to keep the LESSEE's account current, deposits bear no interest."

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Pursuant to the lease contract between the petitioner and private respondent Fuderanan, the latter paid Henson the amount of P6,000.00 in cash as deposit for rentals, water service and four keys (Exhibit A-1) and P1,660.00 in cash and P4,640.00 in a postdated check as rentals due from May 15, 1980 to July 14, 1980 (Exhibit A-1; Exhibit D). This postdated check was later replaced by another postdated check of private respondent Luisa Commendador which was dishonored due to insufficiency of funds as indicated by the bank's dishonor slip (Exhibit D-1).

On May 30, 1980, the Chief of the Licensing and Inspection Division of the Bureau of Tourism Services, Ministry of Tourism disapproved the request of the private respondents to transfer their office to the premises owned by the petitioner on the ground that the place failed to meet the minimum 50 square meter-space requirement of the Bureau (Exhibit 6).

On June 10, 1980, the private respondents informed the petitioner in writing that they had to vacate the leased premises in question on or about June 14, 1980 in view of the disapproval of their request to operate their business in the office space rented from the petitioner (Exhibit B).

On June 16, 1980, the petitioner notified the private respondents in writing of the dishonor of Commendador's postdated check (Exhibit C).

On July 9, 1980, the petitioner wrote the private respondents demanding that they make good their dishonored check in compliance with the terms and conditions of their lease contract (Exhibits F and F-1).

On July 18, 1980, the private respondents replied by stating that they had to rescind the lease contract and requested the refund of the amounts they paid by way of advance and deposit rentals less the amount of rental due (Exhibit 5). Their request was not granted by the petitioner (Exhibits E and E-1).

On January 16, 1981, the petitioner filed an action against the private respondents to recover the value of the dishonored check worth P4,640.00 plus 12% interest per annum from May 30, 1980 until paid and the amount of P22,000.00 as rental fees corresponding to the unexpired portion of the term of the lease contract between them.

On March 24, 1982, the private respondents filed their answer, which was later amended on July 29, 1981, alleging, among others, that private respondent Commendador was wrongly sued because she was not a party to the lease contract having issued the check merely for accommodation purposes; that the private respondents did not make good the dishonored check since the Ministry of Tourism had disapproved their request to transfer their

office to the petitioner's premises; and that under the circumstances the private respondents had no other alternative but to rescind the lease contract and vacate the premises. A counterclaim was filed for the refund of P6,200.00 representing the advance rentals paid by the private respondents and for the award of moral damages, attorney's fees, and expenses of litigation.

After trial, the trial court, on March 18, 1982, rendered judgment in favor of the private respondents. The dispositive portion of the decision reads:

"WHEREFORE, judgment is hereby rendered dismissing the complaint of the plaintiff Luz J. Henson against the defendants Ely Fuderanan and Luisa Commendador, doing business under the name and style 'Sto. Niño Travel and Tours Agency,' and upon the latter's counterclaim against the former, ordering the plaintiff to refund to the defendants the amount of P5,600.00. Costs against the plaintiff."

The appellate court affirmed the trial court's judgment. A motion for reconsideration was denied in a resolution dated October 9, 1985. Hence, this present petition assigning as errors the following:

I

The Intermediate Appellate Court erred when its decision 'made a new contract' for the parties.

II

The Intermediate Appellate Court erred in rendering a decision not sanctioned by equity.

The Intermediate Appellate Court dismissed the petitioner's complaint thereby giving the private respondents the right to a refund of the sum they advanced as rental fees when they executed the contract of lease. The court did not find the private respondents in breach of their obligations under said contract. In the words of the appellate court:

"The reason for the non-compliance of the obligation to occupy the leased premises came from a third party."

By "third party", it meant the Chief of the Licensing and Inspection Division of the Bureau of Tourism Services, Ministry of Tourism.

We are constrained under the circumstances of this case to uphold the time-honored principle that contracts are respected as the law between the contracting parties (*Castro v. Court of Appeals*, 99 SCRA 722; *Escano v. Court of Appeals*, 100 SCRA 197). In the case at bar, the lease contract executed by the petitioner and the private respondents remains as the law between them. In litigations involving the adjudication of rights and obligations between the lessor and the lessee, the lease contract shall govern (*Chua Peng Hian v. Court of Appeals*, 133 SCRA 572).

The disputed lease contract is plain and unequivocal in its terms. The stipulations are expressed in clear and explicit language that leaves no doubt as to the intention of the contracting parties. Nowhere is it provided in the contract that the fulfillment of the terms and conditions of the lease depend upon an act of a third party, i.e., the final action to be taken by the Chief of the Licensing and Inspection Division of the Bureau of Tourism. Neither is there any indication from the evidence presented that would justify either of the contracting parties to impugn the lease contract they executed.

The facts of the case constrain us to apply the rule that contracts are to be interpreted according to their literal meaning when the terms and conditions are clear and leave no doubt as to the intention of the contracting parties (*Gonzales v. Court of Appeals*, 124 SCRA 630; *Matienzo v. Servidad*, 107 SCRA 276; see also Article 1370 of

the Civil Code of the Philippines). It was error on the part of the appellate court to make room for construction of the provisions of the subject lease contract when the case plainly calls for application thereof. We reiterate our ruling in the case of *San Mauricio Mining Company v. Ancheta* (105 SCRA 371, 418) that:

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"x x x The primary and elementary rule of construction of documents is that when the words or language thereof is clear and plain or readily understandable by any ordinary reader thereof, there is absolutely no room for interpretation or construction anymore. x x x." (See also *Pichel v. Alonzo*, 111 SCRA 341)

The first stipulation in the disputed lease contract provided for a specific period of one year as the duration of the lease. This ought to be followed (See *Vda. de San Juan v. Tan*, 116 SCRA 447). For the respondent court to hold that the private respondents-lessees are justified in disregarding their obligation to pay for the leased premises throughout the term of the lease due to the requirement of the Ministry of Tourism that travel agencies must operate their business in an area mandated by the rules is tantamount to the court's revising the contract for the parties. The courts, be it the original trial court or the appellate court, have no power to make contracts for the parties (*Top-Weld Manufacturing, Inc. v. ECED, S.A.*, 138 SCRA 118).

Given the simple and unambiguous document of lease in this case, the lessees, at the most, would be entitled to a refund of the advance rental fees only if the rule on equity can be applied under the circumstances. However, there are no circumstances in this case that warrant the application of equitable considerations.

The predicament in which *Sto. Niño Travel and Tour Agency* found itself is entirely of its own making. It should have ascertained all the rules and requirements for the operation of a travel agency before it even started to look for premises to house its office. The petitioner had absolutely nothing to do with the private respondents' violating the requirements. Moreover, the record shows that the petitioner-lessor offered the occupancy of the bigger rooms in her apartments for lease to the private respondents in order that they could meet the minimum space requirement of 50 square meters ordered by the Ministry of Tourism. The private respondents declined the offer because they were not willing to pay for the corresponding increase in the rental fees.

The appellate court opined that the petitioner, in offering the bigger rooms for lease at a higher rent value, gave the private respondents no other choice but to stop the operation of their travel agency business as against renting one of the bigger rooms and operating at a loss in view of the increased rental fees. The records do not show upon what evidence the respondent court based this finding. The questioned decision itself shows that the court's conclusion is purely conjectural and cannot support the application of equity. It states:

"However, the record shows that defendants-appellees finally rejected leasing these larger rooms because the rents were 'different'. We presume that, by the word 'different', appellees meant the rents were higher which they could not afford." (Emphasis supplied).

The rule that travel agencies should have at least 50 square meters of office space is a reasonable regulation intended to dignify the business as a whole and avoid fly-by-night operators working out of cramped and dingy quarters. If the private respondents did not bother to look into this requirement before entering into a lease contract, they have no right to visit upon the petitioner the results of their negligence.

The petitioner contends that under the disputed lease contract, the lessor is not bound to make sure that her lessee realizes profit out of the latter's travel agency business while occupying the leased premises in the same way that it is not incumbent upon her to see to it that her lessee observes the regulatory measures laid down by the Ministry of Tourism for travel agencies. She states that the only business with which she is concerned is that of leasing office spaces in her apartment building to those lessees who agree to the terms and conditions of the lease such as

the private respondents. This may be a rigid and hardhearted approach to the problem but it is correct. The contract of lease was never conditioned on the lessees' ability to comply with governmental requirements pertaining to their business. We also note that the contract was executed on May 15, 1980. Part of the consideration was in the form of a postdated check for P4,600.00. The denial by the Inspection Division of the Bureau of Tourism Services was dated May 30, 1980. When the postdated check fell due the following day, May 31, the funds to meet the check were insufficient and the bank had to dishonor the check.

The private respondents argue that their failure to comply with their obligations under the lease contract may be justified by Stipulation No. 9 in the lease contract which provides that:

"Compliance With Law. — The LESSEE shall promptly obey, execute and fulfill any and all laws, ordinances, rules, regulations and orders of the national or city government or of any bureau, board or commission for the sanitation and safety of the leased premises."

The aforequoted stipulation in the lease contract must be read in the context of the petitioner's business of leasing office spaces, not in that of the private respondents' travel agency business. The laws, ordinances, rules, regulations, and orders which the lessee ought to obey, execute, and fulfill pertain to those relating to the business of the petitioner such as the payment of expenses for the deed of lease, the settlement of electric, water and phone bills or the installation of safety measures in cases of fire and other similar emergencies.

In view of the foregoing discussion, there is no question that the subject lease contract which is the law between the parties herein admits of no gap that the rule on equity may rightfully bridge.

WHEREFORE, the petition is hereby GRANTED. The decision appealed from is REVERSED and SET ASIDE and a new one is rendered:

- Ordering private respondent Ely Fuderanan to replace or pay the value of the dishonored check of P4,640.00 with 12% interest per annum from May 30, 1980 until paid;
- Ordering private respondent Ely Fuderanan to pay the rentals corresponding to the unexpired portion of the lease provided, however, that the P6,000.00 deposited by the private respondent which the petitioner is obliged to return may be offset against the unpaid rentals under the lease contract; and
- Ordering private respondent Ely Fuderanan to pay P2,000.00 as attorney's fees plus costs of the suit.

SO ORDERED.

Fernan, (Chairman), Alampay, Paras, Padilla, and Cortes, JJ., concur.
Bidin, J., no part.

Justice Abdulwahid A. Bidin took no part as he was one of the members who concurred in the decision of the then Intermediate Appellate Court.

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