

CELSO A. FERNANDEZ, PETITIONER, VS. THE HONORABLE COURT OF APPEALS AND MIGUEL TANJANGCO, RESPONDENTS.

G.R. No. 80231. October 18, 1988

Ponente: FELICIANO, J.

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FELICIANO, J.:

The controversy here revolves around the appropriate reading of a clause in a lease contract that was executed about fifteen years ago.

On 31 July 1973, respondent Miguel Tanjangco, as lessor, and petitioner Celso A. Fernandez,[1] as lessee, entered into a ten-year Contract of Lease[2] over a piece of land situated along Kahilum Street, Pandacan, Manila, where petitioner would put up the then proposed New Zamora Market. The parties agreed that the lease, which was scheduled to end on 1 July 1983, would be "renewable for another ten (10) years at the option of both parties under such terms, conditions and rental reasonable at that time" and that, upon expiration of the lease, whatever improvements were then existing thereon should automatically belong to the lessor without having to pay the lessee.

Before the agreed term ended, or on 19 April 1983, respondent wrote petitioner about the former's intention not to extend further or renew the lease. Petitioner replied, through a letter dated 6 June 1983, that he had opted to renew the contract for another ten (10) years so that he could recover all the expenses he had incurred in the construction of the market.

In another letter to petitioner dated 1 June 1983, respondent, through his lawyer, advised that respondent could not accept petitioner's unilateral action to renew the lease because, under the contract, any renewal or extension thereof was possible only "at the option of both parties."

On 23 June 1983, petitioner commenced an action against respondent before the Regional Trial Court of Quezon City, Branch 84, alleging that petitioner was entitled to renew the lease contract, under paragraph 3 Section 2 thereof, for another ten (10) years, which paragraph in the contract should be construed in a liberal manner and with justice. In his prayer, he sought to compel respondent to renew the lease agreement for another term, or asked the court consider the original contract as renewed for another ten (10) years or to fix another period for the renewal contract.

Respondent, in his answer, contended that a judicial interpretation of the contract involved was not necessary, the contract being simply worded and phrased in a categorical and unequivocal manner that had expressed clearly the intention of the parties to it, in respect of their mutual prestations.

On 5 November 1984, the trial court rendered judgment in favor of petitioner. The dispositive portion of the decision reads:

"WHEREFORE, judgment is hereby rendered declaring the Contract of Lease executed between the plaintiff and the defendant on July 30, 1973 (Exh. "A", "1") renewed for another ten (10) years from July 1, 1983 to

June 30, 1993 with the corresponding increase of rental from P750.00 to P1,500.00 a month from July 1, 1983 to June 30, 1988 and to P3,750.00 a month from July 1, 1988 to June 30, 1993."[3] (Underscoring supplied)

Respondent immediately brought an appeal to the Court of Appeals, which court, on 9 June 1987, reversed the trial court's decision. A Motion for Reconsideration was denied. Hence this Petition for Review on Certiorari.

By a Resolution dated 18 November 1987, respondent was required to file a Comment on the Petition, to which a Reply was filed by petitioner on 27 January 1988.

The only issue here relates to the interpretation of the phrase "renewable for another ten (10) years at the option of both parties under such terms, conditions and rental reasonable at that time", set out in paragraph (2) of the lease contract in question.

The Court of Appeals read the above contract language as comprising, not technical terms or terms of legal art, but rather just plain and ordinary words. As such, the Court of Appeals understood the above language as requiring ---

"that the parties should mutually agree on a new contract which may not be the same as the original, under such terms, conditions and rental reasonable at that time. It follows therefore that the plaintiff [petitioner] cannot renew the lease by his unilateral act of exercising his option. Simply stated, the option must be mutually and consen[s]ually exercised, and not unilaterally as was erroneously done by the plaintiff.

Applied to the lease contract under consideration, it appears that the lease has expressed in clear, unmistakable and unambiguous terms the intention of the parties that if the lease contract was to be renewed, the option to renew should be made by both parties."[4]

We agree with the respondent appellate court's reading: the intention of the parties to the lease agreement is clearly discernible in the words of that agreement. The assent of both lessor and lessee essential for another contract to spring into juridical existence upon expiration of the original one. The contract clause may be seen to consist of two (2) parts: first, the contract is stipulated to be "renewable for another ten years at the option of both parties"; second, the contract is specified to be "renewable --- under such terms, conditions and rental reasonable at that time." The first part of the clause stresses that the option or faculty to renew was given, not to the lessee alone nor to the lessor by himself, but to the two (2) simultaneously who hence must both exercise the option to renew if anew contract is to come about. The second portion of the contract clause addresses the future and directs the parties to negotiate and reach mutual agreement on the terms and conditions of the new contract, including the new rental rate, which terms and conditions must be reasonable under such situation as may be extant when the time for renewal arrives. The only term on which there has been some pre-agreement is the period of the new contract: "another ten years." Clearly, the requirement of future mutual agreement as to renewal, has here been specified, with adequate precision.

In *Millare vs. Hernando*,^[5] the Court had before it a lease contract which provided that the contract "may be renewed after a period of five years under the terms and conditions as will be mutually agreed upon by the parties at the time of renewal". The contract clause in the case at bar may be seen to be closely similar to the contract stipulation in *Millare*, though the former is worded with a slightly lower degree of particularity. In *Millare*, the respondent Judge ordered, against the lessor's objection, the renewal of the lease for another five years and fixed the monthly rentals at P700.00 a month payable in arrears. In setting aside the Judge's Order, the Court said:

"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."[6] (Underscoring supplied)

Petitioner, however, invokes *Koh vs. Ongsiaco*[7] and *Cruz vs. Alberto*.[8] In *Koh*, the Court had to construe the following provision in a contract of lease: "The term of the --- contract shall be that of one counting from the 1st of December of the present year (1913), which term shall be extendible at the will of both parties". After finding as a matter of fact that the phrase "at the will of both parties" had been intercalated in the contract without the knowledge and consent of the lessee, the Court held that the option to extend the term of the lease had in effect been vested in the lessee alone:

"The word 'extendible,' contained in the and contract executed between the plaintiff the defendant, means that the term of the contract could be extended and is equivalent to a promise to extend made by the defendant to the plaintiff lessee, and, as a unilateral stipulation, obliges the promisor to fulfill his promise. Both the defendant *Ongsiaco* and the plaintiff *Legarda Koh* testified that the contract was extendible at the expiration of its term, and the lessee, accepting the promise, acquired the right to demand its fulfillment by virtue of the special, and obligatory juridic relation established between them.

The plaintiff-lessee, notifying the lessor that he wished to continue the contract, by virtue of the word 'extendible' acquired the right to elect between continuing his occupancy of the properties in accordance with the lease, a promise for the extension of the term of which was made him, and of giving them up by refraining from demanding the fulfillment of said promise. Therefore, the right arising out of the grant of the extension of the term of the lease is understood as having been created in favor of the lessee, who is entitled to require that the lessor fulfill his promise a - unilateral one contained in the contract and accepted by the lessee. The consequence of that promise is that its fulfillment shall depend solely on the will of one of the contracting parties, the one to whom the promise was made. Such a concession cannot be considered as anomalous and opposed to the principles of law touching contracts, inasmuch as the lessor was entirely free to make or not to make the promise, within the most ample liberty enjoyed by every citizen in the exercise of his rights; but once the promise was made and the contract was made to read that the term of the latter should be extendible, the lessor cannot be permitted afterwards to evade fulfillment of this obligation which he freely assumed, x x x."[9] (Underscoring supplied)

In *Cruz*, the Court was faced with very similar language in another lease agreement written in Spanish:

"That the term of this contract of lease shall be six years counted from the date of execution, and extendible for another six years agreed upon by both parties. (Que el termino de este contrato de arrendamiento, sera el de seis (6) años contados desde la fecha de su otorgamiento, y prorrogable a otros seis (6) años convenidos por ambas partes.)"[10] (Underscoring supplied)

The Court actually had before it at the same time another lease contract between the same parties and covering a different portion of the same property: "Plus six years of extension agreed upon by both parties (mas seis (6) años de prorroga convenida por ambas partes)." The Court read the above stipulation in Spanish as importing that the parties had already previously agreed, at the time of execution of the contract, to give the lessee a unilateral option to extend the period of the lease for another six years:

"It is contended on the part of the plaintiff-appellant that the expression 'agreed upon by both parties' was used to denote that, while the parties were agreed upon a future extension of the lease, the same should not take place except by their mutual consent to be expressed in the future, that is to say, upon the expiration of the original, term. These words, so it is insisted, do not refer to a past transaction but to some future agreement.

The trial judge held, on the contrary, that the phrase in question had the effect of conceding to the lessee a term of six full years in addition to the original term, being in practical effect equivalent to twelve years, if the lessee

should elect, as he did, to have the term extended. In this connection his Honor noted that the words 'agreed upon' are used adjectively in the contracts, as written in the original Spanish, to qualify 'years' and 'extension', respectively, and furthermore, that in the form of the perfect participle those qualifying words speak of something past and already determined.

We are of the opinion that the trial judge was entirely correct in his interpretation of the contracts in question; and though it must be admitted that this interpretation renders the words 'agreed upon by both parties' superfluous, yet this does not involve any strain upon the meaning of the entire passage. If the interpretation which the appellant would have us adopt be true, the entire clause relative to the extension of the term would be superfluous, for if the extension is only to be effective upon a new agreement of the parties to be made at the expiration of the original term, why should anything at all be said about an extension? Parties who are free to make one contract of lease are certainly free to make a new one when the old has expired without being reminded of their faculty to do so by the insertion of a clause of this kind in the first lease. This would not only be superfluous but nonsensical. The clause relative to the extension of the lease, should, if possible, be so interpreted as to give it some force.

As we interpret the contracts before us, the parties meant to express the fact that they had already agreed that there might be an extension of the lease and had agreed upon its duration, thus giving the defendant the right of election to take for a second term or to quit upon the expiration of the original term. The clause in question has the same meaning as if the words 'agreed upon by both parties' had been omitted and the passage had closed with a period after the word 'years' in the first contract and after 'extension' in the third contract."^[11] (Underscoring supplied)

Petitioner, urges that Koh and Cruz should be applied in the present case. We do not believe, however, that Koh and Cruz are controlling here. Upon the other hand, we believe that the Koh and Cruz rulings need to be re-examined and we do that below.

On the purely linguistic level, we note that the important, operative word in the contract clause in both Koh and Cruz was "extendible"; in the case at bar, the contract used the term "renewable". In Koh, the Court was in effect looking at the word "extendible" standing alone: Mr. Justice Torres found that the phrase "at the will of both parties" had been unilaterally inserted by a stranger to the contract -- the lessor's caretaker of the property involved -- without the consent of the lessee; the phrase therefore could be disregarded. In Cruz, Mr. Justice Street felt compelled by what may well be too mechanical a rendering into English of the past participle form in Spanish to read "convenidos por ambas partes" as referring to a previous agreement contemporaneous with execution of the contract to grant the lessee a unilateral option to continue with the lease beyond the original term;^[12] in any event Mr. Justice Street treated the phrase as a superfluity.^[13] In the case at bar, "renewable" does not stand alone: as noted earlier, it is qualified and amplified by two phrases, the one stressing that the option to renew was not unilateral but mutual, and the other emphasizing the need for future agreement between lessor and lessee on the detailed terms and conditions of renewal.

As a matter of dictionary meaning, "extendible" means "capable of extension", and "renewable" means "capable of renewal"; both are oriented towards the future. It may be seen that both "extendible" and "renewable", when considered in and of themselves, are non-committal: they do not purport to answer the intensely practical question of who is vested -- lessor or lessee or both acting together -- with the option to extend or renew a lease. Again, neither term by itself pre-empts the question of what the specific terms and conditions of the extended or renewed lease be: shall all the terms and provisions of the old lease be carried forward into the future, or shall all or some of them be renegotiated upon expiration of the old lease.^[14] Thus, both Koh and Cruz seem to impose an impossible burden upon single words. Put a little differently, both Mr. Justice Torres and Mr. Justice Street read too much into a single word: they read "extendible" as if it said "extendible at the option of the lessee alone, all other terms and conditions remaining unchanged". In effect, Koh and Cruz treated "extendible" as a highly

technical and cryptic term.

We do not believe that the use of either "extendible" or "renewable" should be given sacramental significance. The important task in contract interpretation is always the ascertainment of the intention of the contracting parties and that task is of course to be discharged by looking to the words they used to project that intention in their contract, all the words not just a particular word or two, and words in context not words standing alone. In the case at bar, the intent of the parties is observable with sufficient clarity and specificity in the language they used.

It is also important to bear in mind that in a reciprocal contract like a lease, the period of the lease must be deemed to have been agreed upon for the benefit of both parties, absent language showing that the term was deliberately set for the benefit of the lessee or lessor alone.^[15] We are not aware of any presumption in law that the term of a lease is designed for the benefit of the lessee alone. Koh and Cruz in effect rested upon such a presumption. But that presumption cannot reasonably be indulged in casually in an era of rapid economic change, marked by, among other things, volatile costs of living and fluctuations in the value of the domestic currency. The longer the period the more clearly unreasonable such a presumption would be. In an age like that we live in, very specific language is necessary to show an intent to grant a unilateral faculty to extend or renew a contract of lease to the lessee alone, or to the lessor alone for that matter. We hold that the above-quoted rulings in Koh v. Ongsiaco and Cruz v. Alberto should be and are overruled.

Petitioner's contention that respondent had assured him over the telephone that the latter would willingly renew the lease for another ten (10) years upon expiration of the original term, does not persuade. Neither does his claim that he would not have agreed to retain the clause providing for ownership of improvements made by the lessee vesting upon the lessor at the expiration of the lease, had respondent not given him such assurance. The Court of Appeals noted that petitioner is a lawyer and was, at the time of entering into the contract, aware of the fact that private respondent might exercise the option not to renew and that the option to renew was not his alone. Notwithstanding this awareness, petitioner entered into the lease agreement, probably convinced that he would not only recover the costs of all the improvements he proposed to introduce into the leased lot but also make profits in the process. In any event, an alleged verbal assurance of renewal of a lease is inadmissible to qualify the terms of the written lease agreement under the parole evidence rule,^[16] and unenforceable under the Statute of Frauds.^[17]

WHEREFORE, the Petition for Review is DENIED and the Decision of the Court of Appeals dated 9 June 1987 is hereby AFFIRMED. Costs against petitioner.

SO ORDERED.

Fernan, C.J., Narvasa, Melencio-Herrera, Gutierrez, Jr., Cruz, Paras, Gancayco, Padilla, Bidin, Sarmiento, Cortes, Griño-Aquino, Medialdea, and Regalado, JJ., concur.

[1] Holder of local franchise for the construction and operation of a public market under Resolution No. 256 of the defunct Municipal Board of Manila.

[2] Petition, p. 2; Rollo, p. 33.

[3] Petition, p. 4.

[4] Rollo, pp. 37-38.

[5] 151 SCRA 484 (1987).

[6] 151 SCRA at 491-492.

[7] 36 Phil. 185 (1917).

[8] 39 Phil. 991 (1919).

[9] 36 Phil. at 192-193.

[10] 39 Phil. at 992.

[11] 39 Phil. at 993-994.

[12] In the trial court, appellant Cruz' counsel offered to present witnesses "versed in the use of the Spanish language", who would have testified that the phrase "prorrogable a otros seis (6) años convenidos por ambas partes" meant in Spanish, that the period of six years may be extended for another six years if both parties agree thereto. The trial court refused to allow such testimony on the ground that, since the contract was cast "in non-technical terms" and written in an official language of the court, expert assistance was not needed in its interpretation. Mr. Justice Street agreed with the trial court, on the ground that the question was "after all merely a question of law." (39 Phil. at 995.)

In a terse dissenting opinion, Mr. Justice Malcolm wrote that "convenidos por ambas partes was not a mere superfluity. It was used to denote that while the parties were agreed upon a future extension of the lease, the same would not take place except by their mutual consent." (39 Phil. at 996; underscoring in the original.)

[13] The difficulty posed by Mr. Justice Street that -if a clause on extension or renewal of a lease (or other) contract is to be understood as "effective (only) upon a new agreement of the parties to be made at the expiration of the original term, why should anything at all be said about an extension? Parties --- are certainly free to make a new (contract) when the old has expired without being reminded of their faculty to do so by the insertion of a clause of this kind ---", with respect, appears more apparent than real. The insertion of a clause on renewal or extension by mutual agreement evidences uncertainty on the part of at least one of the parties as to whether, at the end of the original term, another or an extended term, would still be to his economic interest. Such a clause signals, however, that either of the parties may be expected to ask for renewal or extension and that the other will consider the matter and negotiate with the former. Moreover, the fact that a contract provision may be expressive of a right or obligation established by statute can scarcely justify the interpreter of the contract in disregarding such stipulation. Parties in fact do frequently remind themselves by contract stipulation of what their statutory rights are.

[14] In *Ong Ching v. Ramolete*, 51 SCRA 13 (1973), the original lease had a stipulation that the "lessor shall have the option to renew said lease for a like period". The term of the lease was fifteen years. At the end of the original period, the lessee insisted that he had the right to have the lease contract renewed for another fifteen years under the same terms and conditions (including rentals) as those stipulated in the original contract. Mr. Justice Antonio rejected this demand, noting that the phrase "under the same terms and conditions" had not been inserted into the contract and refused to find those words in said contract. In a footnote, Mr. Justice Antonio referred to *Koh and Cruz* without discussion, while saying that the conclusion he had reached was not inconsistent with *Koh and Cruz*.

[15] Article 1196, Civil Code.

[16] See *Syquia v. Court of Appeals*, 151 SCRA 505 (1987).

[17] Article 1403 (2), Civil Code.

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