HEIRS OF AMANDO DALISAY, REPRESENTED BY JUANITA VDA. DE DALISAY, NOEL E. DALISAY, EDWIN E. DALISAY, ROSINA DALISAY TRINIDAD, ERIC E. DALISAY, DENNIS E. DALISAY AND JOHNNY DALISA...

G.R. No. 94654. September 24, 1991

Ponente: REGALADO, J.

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REGALADO, J.:

This is a petition to review on certiorari the decision[1] and resolution[2] of respondent Court of Appeals in CA-G.R. Civil Case No. 16401, dated January 19, 1990 and July 30, 1990, respectively.

The facts as found by respondent court are as follows:

> "On March 15, 1971, the late Dr. Amando M. Dalisay and plaintiff Fortunato M. Gupit (now appellant) executed a lease contract whereby the former rented out to the latter a parcel of land, situated at the corner of Aurora Boulevard and Balete Drive, Quezon City, covered by TCT No. 13573. The term of the lease is 15 years, extendible for another five years. The contract also stipulated that appellant would construct a building on the land which would become the lessor's property upon expiration of the lease.
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> "The building was eventually constructed, known as the 'FMSG Building.' Appellant leased the building's spaces to different tenants. Appellant paid a monthly rental of P1,500.00 to Dr. Dalisay. After the latter's death, the monthly rentals were paid to his heirs.
>
> "Subsequently, Dr. Dalisay's administratrix, Juanita Vda. de Dalisay, notified appellant of her intention not to renew the lease after its expiration on October 31, 1986. Despite appellant's notice to her that he would exercise his option to lease the property for another five years, with an offer to pay a bigger monthly rental of P4,800.00 instead of the current rental of P1,500.00, the administratrix stood pat on her decision not to extend the lease and, at the same time, notified him that the lessor's heirs (herein appellees) would take possession of the land and exercise ownership of the building beginning November 1, 1986. The administratrix also notified appellant that the heirs would begin collecting rentals from all the building tenants from that date onward. Because the administratrix refused to accept payment of the rentals from appellant, the latter consignated the amounts in court. Mean-while, the tenants jointly filed a complaint in intervention."[3]

By reason of the refusal of the administratrix to extend the lease on the property for another five (5) years as stipulated, private respondent filed a complaint for specific performance and damages against herein petitioners before the Regional Trial Court of Manila, Branch I, docketed as Civil Case No. 86-38667.

On October 19, 1987, the trial court issued a decision[4] dismissing the complaint under the holding that:

> "After carefully considering the import and context of the lease contract in its entirety and the language used therein, particularly par. 7 thereof, the court is convinced that the lease contract is clear and unequivocal and leaves no room for construction and interpretation. Hence, its provisions must be applied in accordance with their literal meaning and must be respected as the law between the contracting parties. Under its terms, it is

clear that any extension of its original period of 15-years for another five (5) years must and can only be made by mutual consent of the parties and under such terms and conditions that they may mutually agree upon."

The additional reliefs granted in the decretal portion of said decision read:

x x x x x x x x x

"2.

Ordering the plaintiff:

a)

to render an accounting of all guaranty deposits made by the tenants of the building and all rentals collected from them from November 1, 1986 up to the present and deliver the same to the defendants;

b)

to pay moral and exemplary damages of P5,000.00; and

c)

to pay attorney's fees and costs of suit of P15,000.00.

3.

Directing the Clerk of Court to release to the defendants:

a)

all the rentals deposited by the plaintiff on consignation, the total amount of which should be deducted from the amount which plaintiff must account for and deliver to the defendants under par. 2(a) hereof; and

b)

all the rentals deposited by the intervenor/s."[5]

Private respondent went to the Court of Appeals questioning the decision of the trial court in not allowing the extension of the lease period for another five (5) years. Respondent court reversed the findings of the court a quo on the basis of the rulings laid down in the case of Koh vs. Ongsiaco[6] and Cruz vs. Alberto[7] declaring that the lessor cannot unilaterally terminate the lease where it is made extendible upon mutual agreement of the parties and that he cannot legally refuse the extension of or bring about the termination thereof without the consent of the lessee.

The dispositive portion of the resolution of July 30, 1990, granting private respondent's motion for reconside-ration correspondingly decrees:

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> "WHEREFORE, the motion is GRANTED. In addition to the directive contained in our said decision of January 19, 1990 that the trial court receive evidence on the just and equitable monthly rental of the land in question that plaintiff-appellant should pay during the extended 5-year lease, the trial court is also directed to receive evidence on the total amount of rentals defendants-appellees have collected from lessees of the building in question and thereafter to order defendants-appellees to deliver those collected rentals if any, to plaintiff-appellant. In effect this decretal portion of the motion (sic) amends the judgment in our said decision."[8]

Hence, this petition.

The particular provision of the lease contract subject of the present controversy is as follows:

> "7. Before the end of the 15[th] year, the parties of this contract may extend the lease for another five (5) years after the 15-year lease under such terms and conditions that they may mutually agree upon, with due consideration to any changes in the value of the peso x x x."[9]

Petitioners contend that on the basis of the aforequoted stipulation of the parties, the period of the lease cannot be extended at the sole will of private respondent-lessee, but must be mutually agreed upon by both parties. Private respondent invokes the applicability of the aforesaid cases of Koh vs. Ongsiaco and Cruz vs. Alberto. In Koh, the contract of lease provides that the term of the contract shall be for one (1) year which term shall be extendible at the will of both parties. The Court therein held that "(t)he word 'extendible,' contained in the contract executed between the plaintiff and 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." The Court thus concluded that "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."

In Cruz, the parties therein stipulated that the terms of the contract shall be for six (6) years counted from the date of execution, and extendible for another six (6) years agreed upon by both parties. The term 'extendible' was taken to mean that "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 ruling of respondent court in the instant case would have been correct if we were to apply the interpretations adopted by the Court in the two aforecited cases. However, and this respondent court failed to consider, said cases have been overruled in Fernandez vs. Hon. Court of Appeals, et al.[10] which was promulgated on October 18, 1988. The only issue raised in Fernandez 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."

In reversing the Koh and Cruz rulings, the Court had this to say:

> "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 has 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

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> execution of the contract to grant the lessee a unilateral option to continue with the lease beyond the original term; in any event Mr. Justice Street treated the phrase as a superfluity. 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 to 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 shall be: shall all 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. 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."

The new rule, therefore, is that a stipulation in the lease contract which provides for the extension of the period of lease, the terms and conditions of which are subject to the mutual agreement of the lessor and the lessee, should be interpreted to mean that the lease may be extended only upon mutual agreement of the parties and not at the option alone of the lessee or even the lessor for that matter. The Court in Fernandez elaborated further on this point, thus:

> "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. We are not aware of any presumption in law that the term of a lease is designated for the benefit of the lessee alone. Koh and Cruz in effect rested upon such a presumption. But that presumption cannot reason-ably 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."

On the strength of the foregoing pronouncements, it is incontrovertible that private respondent cannot unilaterally extend the lease of the land subject of this case without the consent of petitioner-lessors.

ACCORDINGLY, the decision and resolution appealed from are hereby REVERSED and SET ASIDE, and the judgment rendered by the court a quo is REINSTATED.

SO ORDERED.

Melencio-Herrera, (Chairman), Paras, and Sarmiento, JJ., concur.
Padilla, J., no part; worked closely with private respondent as an officer of Philippine Trust when practicing law.

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[*] This case was originally commenced in this Court on February 9, 1990 and docketed as G.R. No. 91905, but the same was dismissed in the resolution of February 21, 1990 for non-compliance with Circular No. 1-88 of the Court. It turned out, however, that the petition in said case was premature as the private respondent had seasonably filed a motion for reconsideration of the judgment of January 19, 1990 of the Court of Appeals subject of said petition. Respondent court issued on July 30, 1990 an amendatory resolution modifying its aforesaid decision and which is the subject of the present petition.

[1] Associate Justice Jesus M. Elbinias, ponente, with Asso-ciate Justices Jose A. R. Melo and Antonio M. Martinez concurring; Annex A, Petition; Rollo, 27.

[2] Annex B, id.; ibid., 41.

[3] Rollo, 27-28.

[4] Penned by Judge Rebecca G. Salvador; Annex D, id.; ibid. , 47.

[5] Id.; ibid. , 51-52.

[6] 36 Phil. 185 (1917).

[7] 39 Phil. 991 (1919).

[8] Rollo, 43.

[9] Annex C, id.; ibid., 44-45.

[10] 166 SCRA 577 (1988).

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