

**SPOUSES ROBERTO E. FERMIN AND MAYLINDA FERRAREN,
PETITIONERS, VS. HON. COURT OF APPEALS AND SPOUSES MELITON
P. ALPAS, JR. AND LUCY D. ALPAS, RESPONDENTS.**

G.R. No. 95146. May 06, 1991

Ponente: GANCAYCO, J.

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GANCAYCO, J.:

The renewal of a contract of lease is the issue addressed by this petition.

The facts as found by the trial court are not disputed.

“1. On March 15, 1976, spouses Roberto E. Fermin and Maylinda Ferraren (herein plaintiffs) and spouses Meliton P. Alpas, Jr., and Lucy D. Alpas (herein defendants) as lessors and lessees, respectively, entered into a contract of lease covering the parcel of land (375 square meters) owned by the spouses Fermin at No. 157 Pinatubo Street, Mandaluyong, Metro Manila, for a term of ten (10) years, renewable for another term of ten (10) years upon mutual agreement of the parties. Rental was fixed at P5,000.00 yearly, to be increased by 10% at the end of each five year period. (Exh. "A")

The pertinent provisions of the contract of lease which lie at the core of this controversy are quoted hereunder:

- ‘The term of the lease shall be ten (10) years counted from the date this document is registered and annotated on the Original Certificate of Title No. 395344 and the lease shall be renewable for another term of ten (10) years upon mutual agreement of the parties.
- The rental for the property leased hereunder shall be at the rate of FIVE THOUSAND PESOS per annum; provided, that the rental shall be increased by (10) ten percent at the end of each five (5) year period, counted from the effectivity of this lease agreement.
- The parties hereby agree that during the renewal period after the ten (10) year term, the LESSEE may, at its own option and discretion terminate the lease, after giving the LESSORS a previous written notice in advance, at least one hundred eighty (180) days from effectivity date of termination.
- Upon termination of the lease agreement occurring after the first ten (10) years, all improvements which are permanent in nature that may have been constructed by the LESSEE on the leased properties, shall become properties of the LESSORS, their heirs or assigns, without any further obligation to reimburse the LESSEES. That the LESSEE has the priority to purchase the property if the LESSOR decides to sell said property.’

"2. Defendants built on the leased premises a warehouse structure of strong materials worth not less than P200,000.00.

"3. While in the United States of America, in October, 1980, Roberto Fermin, with marital consent from Maylinda Ferraren, executed a General Power of Attorney naming and constituting his mother, Eduviges Espinas vda. de Martin as his attorney-in-fact, who was tasked, among other things, to exercise general control and supervision over his property in the Philippines.

"4. On November 14, 1985 Eduviges E. Fermin for herself and as attorney-in-fact of her other children, including Roberto E. Fermin (plaintiff in this case), as principal, entered into a Property Administration Agreement with AGRA & Co., Inc., represented by its president, Rose B. Reyes, as agent, naming and constituting and appointing the latter to be their true and lawful attorney-in-fact (EXh. "5").

"5. Before the expiration of the ten (10) year period, defendants sent plaintiff's representative a document entitled 'Lease of Real Property' already signed by them. It was never signed by plaintiffs up to this day. (Exh. "2").

"6. On May 31, 1986, AGRA & Co., Inc., as collection agent of the plaintiffs collected payment from the defendants the sum of One Thousand Eight Hundred Pesos (P1,800.00) as partial payment for the annual rental covering March 15, 1986 to March 15, 1987 (Exhibits "3" and "4").

"7. In a letter dated 6 February 1987, AGRA & Co., Inc., informed Mr. Alpas that said company would no longer act in any representative capacity for the Fermins and advising to refer all matters to the Fermin's attorney-in-fact, Ms. Eduviges E. Fermin (Exhibit "6").

"8. Key Management Corporation in the letter dated 04 March 1987 and 09 March 1987 (Exhibits "7" and "8"), informed defendants that said company was appointed attorney-in-fact for the administration of the leased premises and to collect rentals due thereon.

"9. Key Management Corp., in another letter (Exh. "9") dated 12 March 1987 advised Mr. Alpas that they were unilaterally terminating the lease effective 18 April 1987.

"10. Mr. Alpas, through his lawyer answered Key Management Corp., in a letter dated March 17, 1987, advising the latter that the lease agreement had already been renewed for another term of ten (10) years from 16 March 1986 (Exh. "10"), tendered payment of the sum of Ten Thousand Six Hundred Eighty-Two & 50/100 Pesos (10,682.50) covering balance of the annual rental from March 16, 1986 to March 15, 1988, including 12% interest per annum on rental in arrears.

"11. On April 2, 1987, Key Management Corp., received the letter together with Mr. Alpas' Statement of Account, Check Vouchers and Check No. 188395 for P10,682.50 (Exhibit "11", "12", "13" and "14", respectively).

"12. In a letter dated 20 April 1987, (Exh. "15") Key Management Corporation acknowledged receipt of P10,682.50, but with notice of its application.

"13. In a letter dated 08 May 1987 Atty. Jose Benemerito of Key Management Corporation reiterated the demand to pay and to vacate.

"14. Defendants expressed strong exception and objection to the aforesaid unilateral Application of payment of their remittance of P10,682.50 by Key Management Corporation in its letter dated May 14, 1987 (Exhibit "16", "16-A" and "16-B").

"15. In another letter dated May 14, 1987 addressed to Atty. Jose J. Benemerito, Atty. Ismael Andres, defendants' counsel, reiterated his stand on the matter of payment made by the defendants of the P10,682.50 as rental up to March 15, 1988, including 12% interest per annum on rental in arrears and that the contract of lease between the plaintiffs and defendants had already been renewed for another ten (10) years from 15 March 1986 (Exhibit "18", "18-A", and "18-B")."[1]

On August 10, 1987, petitioners filed a complaint for ejectment in the Metropolitan Trial Court of Mandaluyong, Metro Manila against private respondents for refusal of the latter to agree to an increased rental of P2,000.00 month for renewal of the lease. On April 14, 1988, the trial court rendered a decision dismissing the complaint

with costs de officio.

Petitioners appealed to the Regional Trial Court (RTC of Pasig, Metro Manila, wherein on October 23, 1989, a decision was promulgated setting aside the appealed decision, the dispositive part of which reads -

"WHEREFORE, finding the instant petition to be well-taken, the Decision dated April 14, 1989, is set aside and a new one is entered, to wit:

Defendants/appellees are ordered to vacate the premises and to pay the rentals for its use at P5,500.00 the period from March 15, 1986 to March 17, 1987 and the amount of P2,000.00 for every month thereafter until defendants/appellees shall have surrendered the premises to plaintiffs/appellants.

No pronouncement as to costs.

SO ORDERED."[2]

A motion for reconsideration filed by private respondents was denied in an order dated February 21, 1990. Private respondents then filed a petition for review with the Court of Appeals. On August 31, 1990, the appellate court rendered a decision setting aside the decision of the RTC and reinstating the decision rendered by the inferior court.

Hence, this petition for review where the issues raised are as follows –

"1.

WHETHER OR NOT THE HONORABLE COURT OF APPEALS ERRED IN SETTING ASIDE THE DECISION OF THE REGIONAL TRIAL COURT DATED OCTOBER 23, 1989.

"2.

WHETHER OR NOT THE HONORABLE COURT OF APPEALS GRIEVOUSLY ERRED IN REINSTATING IN TOTO THE DECISION OF THE TRIAL COURT DATED APRIL 14, 1989 WHICH ORDERED THE DISMISSAL OF THE COMPLAINT FOR BEING PREMATURE AND FOR LACK OF CAUSE OF ACTION.

"3.

WHETHER OR NOT THE HONORABLE COURT OF APPEALS ERRED IN HOLDING THAT THE PERIOD OF THE IMPLIED NEW LEASE, ASSUMING ARGUENDO THAT ONE WAS CREATED, IS THE SAME AS THE ORIGINAL TEN (10) YEAR PERIOD AS PROVIDED IN THE CONTRACT OF LEASE (EXH. "A" OR "I") INSTEAD OF ON A YEAR-TO-YEAR BASIS AS PROVIDED IN ART. 1670 IN RELATION TO ARTICLE 1687, NEW CIVIL CODE."[3]

Nothing is more settled than the rule that the terms of a written contract are binding on the parties thereto. In the interpretation of the provisions of a written contract, the courts should follow the literal meaning of the stipulation. Otherwise, the evident intention of the parties must prevail.[4]

A reading of the lease agreement shows that it is for a term of ten (10) years and that the lease shall be renewable for another term of 10 years upon mutual agreement of the parties.[5] The agreed rental is P5,000.00 per annum with the escalation clause that the rental shall be increased by 10% at the end of each five-year period counted from the effectivity of the lease agreement.[6] After the 10-year term and during the renewal period, the lessee

may, at his/their own option and discretion, terminate the lease, after giving the lessors a previous written notice in advance, at least 180 days from the effective date of termination.[7] Upon termination of the lease after the first 10 years, all improvements which are permanent in nature that may have been constructed by the lessee on the leased properties, shall become properties of the lessors, their heirs or assigns, without any further obligation to reimburse the lessees. The lessee has the priority to purchase the property if the lessors decide to sell said property.[8]

Before the expiration of the 10-year term of the lease, private respondents manifested their desire to renew the lease when they sent petitioners' representative a prepared lease agreement already signed by them but it was never signed nor returned by petitioners.

Nevertheless, on May 31, 1986, AGRA & Co., Inc., as collection agent of petitioners collected from private respondents the sum of P1,800.00 as partial payment for the annual rental covering March 15, 1986 (the expiry date of the first term of 10 years) to March 15, 1987.[9] Key Management Corporation which was appointed by petitioners as attorney-in-fact for the administration of the leased premises, advised private respondent Meliton Alpas in a letter dated March 12, 1987 that the lease agreement was terminated effective April 18, 1987. Said respondent, through counsel, replied in a letter dated March 17, 1987 addressed to Key Management Corporation that the lease agreement had already been renewed for another term of ten (10) years from March 16, 1986 and tendered payment of the sum of P10,682.00 covering the balance of the annual rental from March 16, 1986 to March 15, 1988 including 12% interest per annum on rentals in arrears.[10] In a letter dated April 20, 1987, Key Management Corporation acknowledged receipt of P10,682.50, but with notice of its application to accrued rentals at P2,000.00 a month leaving an outstanding balance of P13,900.00 as of April 15, 1987.[11]

In a letter of May 8, 1987, Atty. Jose J. Benemerito of Key Management Corporation reiterated the demand that private respondents pay the accrued rentals and vacate the premises. On May 14, 1987, private respondents objected in writing to the aforesaid application of payment of their remittance of P10,682.50 by Key Management Corporation.[12] In another letter of same date addressed to one Atty. Benemerito private respondents reiterated said objection and stated that the lease had already been renewed for another 10 years.

From the foregoing set of facts, it cannot be said that the lease agreement had been effectively renewed for another 10 years. The stipulation of the parties is clear in that such a renewal is subject to the mutual agreement of the parties. While there is no question that private respondents expressed their desire to renew the lease by another 10 years at the rate of the rental stipulated in the lease agreement, apparently petitioners would be willing to renew said lease if the rentals are increased to P2,000.00 monthly. Obviously, there was no meeting of the minds as to the rate of the rental. As there was no agreement reached, then the term of the lease may not be considered to have been renewed for another 10 years.

However, since after the expiration of the lease agreement, the private respondents continued to occupy the premises for more than 15 days with the acquiescence of petitioners, then it is understood that there is an implied new lease, not for the period of the original contract, but from year to year. Article 1670 of the Civil Code so provides for this situation –

"Art. 1670. If at the end of the contract the lessee should continue enjoying the thing leased for fifteen 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."

There is thus an implied renewal of the lease from year to year. The extension of the lease for one year from March 16, 1986 to March 15, 1987 shall be at the agreed monthly rental in the contract of P6,150.00 considering

the escalation clause of 10% after every five (5) years. However, from March 16, 1987, the rate of monthly rental should be P2,000.00 as demanded by petitioners until private respondents vacate the premises.

WHEREFORE, the petition is hereby GRANTED. The questioned decision of the Court of Appeals dated August 31, 1990 is REVERSED and SET ASIDE, and the decision of the Regional Trial Court dated October 23, 1989 is hereby REINSTATED and AFFIRMED with the above modification as to rental, with costs against private respondents.

SO ORDERED.

Narvasa, (Chairman), Cruz, Griño-Aquino, and Medialdea, JJ., concur.

[1] Pages 210 to 213, Rollo.

[2] Pages 102 to 103, Rollo.

[3] Page 3, Rollo.

[4] Article 1370, Civil Code.

[5] Paragraph No. 1 of Lease Agreement, Exhibit H.

[6] Paragraph No. 2, *ibid*.

[7] Paragraph No. 9, *ibid*.

[8] Paragraph No. 10, *ibid*.

[9] Exhibits 3 and 4.

[10] Exhibit 10.

[11] Exhibit 15; Annex T to Petition.

[12] Exhibits 16, 16-A and 16-B.

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