

**\*\*Title:\*\***

Manila Bay Club Corporation vs. Court of Appeals, et al. (315 Phil. 805)

**\*\*Facts:\*\***

Manila Bay Club Corporation (petitioner) entered into a ten-year lease contract beginning on March 4, 1988, with the Sabenianos (respondents) for a building located at 1408 Roxas Boulevard, Pasay City. The lease was set to expire on March 4, 1998. However, on May 28, 1990, the Sabenianos unilaterally terminated the lease due to several violations: failure to insure the building, unpaid accumulated rentals, and failure to pay fees, taxes, and assessments, citing the contract's 'Special Clause' allowing termination upon such breaches.

Petitioner filed a complaint for specific performance, preliminary injunction, and damages in the Makati Regional Trial Court (RTC), arguing that the termination was arbitrary. Respondents contended that petitioner had violated multiple contract clauses: non-payment of monthly rentals, usage of premises for gambling and prostitution, and non-procurement of insurance for the benefit of respondents.

The RTC ruled in favor of the respondents on October 17, 1991, determining that the petitioner failed to comply with the insurance clause, and thus ordered the termination of the lease and return of the premises. Petitioner appealed to the Court of Appeals, which affirmed the RTC decision with modifications, removing the 10% per annum interest on monthly rentals and attorney's fees. Petitioner's motion for reconsideration was denied, leading to a petition for review on certiorari before the Supreme Court.

**\*\*Issues:\*\***

1. Whether the petitioner violated paragraph 22 of the Contract of Lease regarding the insurance provision.
2. Whether such violation justified the rescission of the lease contract.
3. Whether the award of damages and attorney's fees to respondents was proper.
4. Whether the Court of Appeals erred in dismissing petitioner's appeal.

**\*\*Court's Decision:\*\***

1. **\*\*Violation of Paragraph 22 (Insurance Provision):\*\***

The Supreme Court agreed that petitioner's failure to designate respondents as beneficiaries in the insurance policies constituted a breach of paragraph 22. It was established that the insurance policies procured for the building named only the petitioner

as the beneficiary for the years 1988-1989 and 1989-1990. The court found that petitioner's own admission confirmed the violation, contrary to petitioner's argument that there was no clear duty on it to procure the insurance for respondents' benefit.

2. **Justification for Rescission:**

The court held that the breach of paragraph 22 was substantial and not merely slight or casual. Paragraph 19 of the contract allowed for automatic termination on breach of any covenant, including the insurance provision. Given that such terms were negotiated mutually, and the lease contract mandated compliance with all provisions, including the insurance clause, respondents were justified in rescinding the contract.

3. **Award of Damages and Attorney's Fees:**

With the clear violation of the lease, the court found no reversible error in the decision of the lower courts to award damages related to the termination and possession return. The modifications by the Court of Appeals, which removed the 10% per annum interest on monthly rentals and attorney's fees, were upheld.

4. **Dismissal of Appeal:**

The Supreme Court emphasized that findings of fact by the Court of Appeals are binding unless there is a significant oversight. Here, the facts supported the lower court's conclusions, and the premises and procedural correctness were upheld without any necessity for further discussion.

**Doctrine:**

The doctrine affirmed in this case is that compliance with explicitly stated terms in a lease contract is mandatory, and breaches can substantiate automatic rescission if stipulated. Contracts must be read by their clear terms, and parties are bound by negotiated covenants. Additionally, judicial admissions during proceedings bind a party and negate claims contrary to such admissions.

**Class Notes:**

- Lease Contracts: Obligations and mandatory compliance clauses.
- Contract Interpretation: Literal meaning controls when terms are clear; no room for alternate interpretations on plain terms.
- Judicial Admissions: Binding effect and how they preclude contrary assertions.
- Breach and Rescission: Establishing the substantiality of a breach leading to contract termination.

- Doctrine of Mutuality: Contracts are mutually binding and stipulations freely agreed upon govern parties' rights and obligations.

**\*\*Historical Background:\*\***

This case resurfaces legal principles concerning lease agreements and the rights and obligations of lessors and lessees. The historical significance lies in the application of strict compliance with contract terms, as well as reinforcing the legal stature of judicial admissions and procedural adherence in the Philippines' judicial processes, reflecting meticulous contract law enforcement and judicial reliability in contractual disputes.