

SECOND DIVISION

[G.R. No. 126850, April 28, 2004]

**THE INSULAR LIFE ASSURANCE COMPANY, LTD., PETITIONER,
VS. COURT OF APPEALS AND SUN BROTHERS & COMPANY,
RESPONDENTS.**

D E C I S I O N

AUSTRIA-MARTINEZ, J.:

Before the Court is a petition for review on certiorari under Rule 45 of the Rules of Court which seeks the reversal of the Decision,^[1] dated May 20, 1996, of the Court of Appeals (CA for brevity) in CA-G.R. CV No. 46987 affirming the Decision,^[2] dated April 25, 1994, rendered by the Regional Trial Court (Branch 150), Makati City (RTC for brevity) in Civil Case No. 92-27754 extending the lease contract subject of the petition for declaratory relief and ordering petitioner to pay attorney's fees and costs.

The factual antecedents are as follows:

On September 24, 1992, Sun Brothers & Company (Sun Brothers for brevity) filed a petition for declaratory relief with the RTC seeking judicial interpretation of the "option to renew" clause under a Contract of Lease dated September 20, 1988.^[3]

Under the contract, Sun Brothers leased for a period of five years from December 1, 1987 until November 30, 1992, a parcel of land, with an approximate area of 4,215 square meters, and the building constructed thereon, located in Makati (then a Municipality). The contract stipulated that the lease was renewable at the option of the tenant, Sun Brothers, for an additional five years, provided the exercise of the option to renew the lease shall be made by the tenant in writing to The Insular Life Assurance Company, Ltd. (Insular for brevity) at least ninety days before the expiration of the period. The contract further provided for monthly rental of P50,000.00 for the first year and an increase of 10% per annum for the succeeding years, exclusive of real estate taxes and insurance premiums which are for the account of Sun Brothers.^[4]

Sun Brothers alleged that since the lease contract does not contain any provision as to the rental or any provision for any new or additional terms or conditions in case of renewal, the terms and conditions of the renewal of lease should be the same and the monthly rental should remain at P73,205.00. It prayed that judgment be rendered: (a) declaring that renewal under the contract of lease be for an additional period of five years under the same terms and conditions and the monthly rental should be P73,205.00; and, (b) ordering Insular to pay Sun Brothers P20,000.00 as attorney's fees and to pay the costs of suit.^[5]

On November 6, 1992, Insular filed its Answer^[6] claiming that while the lease contract grants Sun Brothers the option to renew the lease by giving notice thereof to Insular at least ninety days before the expiration of the period, it has always been the agreement of the parties that Sun Brothers does not have the right to impose, on its sole will, a renewal of the lease as to the period or the rentals;^[7] that despite the presence of the renewal clause in the previous contracts of lease, the parties still negotiated, as a matter of course, for the renewal of the lease in 1977 and 1987; that negotiation was the usual norm between the parties, clearing up as it did vague portions of the previous contracts.

After trial on the merits, the RTC rendered its decision, dated April 25, 1994, ruling as follows:

The wording of the xxx provisions of the contract is clear, unambiguous and need no further interpretation. The tenant, herein petitioner, is vested solely with the option to renew the said contract of lease on the only condition that the same be made known to respondent in writing at least 90 days before its expiration.

Petitioner, in its letter to respondent dated May 22, 1993 (Exh. "D"), expressed its desire to exercise the option granted in the contract, since there is no mention of any change or increase in the amount of monthly rental, petitioner understood it to mean that the renewal will be under the same terms and conditions.

Respondent's claim that the lease contract (Exh. "C") does not contain the true intent of the parties deserves scant consideration. It must be noted, as correctly pointed out by the petitioner, that all the contracts of lease between the parties and the repeated renewals thereof were entirely drafted, finalized and notarized by respondent and is, thus, a contract of adhesion. Being a contract of adhesion, petitioner's only role was for its general manager, Amancio L. Sun to sign the same. The respondent could have easily deleted this questioned renewal clause in the contract if, indeed, such was not the intention of the parties. It could have provided therein that any renewal of the lease would be by mutual agreement of the parties or had specifically limited the period of the lease.^[8]

The dispositive portion of the assailed decision reads:

WHEREFORE, considering all the foregoing, judgment is hereby rendered as follows:

- a) declaring that the contract of lease dated 30 September 1988 be renewed for another 5 years starting from 30 November 1992 and up to 1 December 1997;
- b) declaring that the monthly rental on the leased premises be P100,000.00 exclusive of real estate taxes and insurance premiums, less any amounts that petitioner may have paid respondent in the meantime;
- c) ordering the respondent to pay herein petitioner the amount of

P20,000.00 as attorney's fees; and

d) to pay the cost.

SO ORDERED.^[9]

On June 1, 1994, Insular filed a motion for reconsideration^[10] which the RTC denied in its Order dated July 18, 1994.^[11]

Dissatisfied, Insular appealed to the CA.^[12] In a Decision dated May 20, 1996, the CA affirmed the decision of the trial court.^[13] It reasoned that since the renewal clause in the latest contract of Insular and Sun Brothers is silent as to the terms and conditions of the subsequent contract, such subsequent contract should follow the terms and conditions of the original contract, applying the doctrine laid down in the cases of *Ledesma vs. Javellana*,^[14] *Millare vs. Hernando*,^[15] and *Fernandez vs. Court of Appeals*.^[16]

As regards the monthly rental, the CA held that there was no merit to Insular's allegation that the trial court acted arbitrarily in fixing the amount of the rent at P100,000.00 a month since it considered the testimony of Insular's witness that improvements introduced by Sun Brothers still have an appraised value, which value is considered by the CA in favor of Sun Brothers in the determination of the terms of the extended lease. The CA added that the trial court arrived at the amount of P100,000.00 after considering that Sun Brothers had shouldered the maintenance expenses on the building and paid real estate taxes as well as insurance premiums thereon.^[17]

Insular filed a motion for reconsideration^[18] which was denied by the CA in its Resolution dated October 10, 1996.^[19]

Hence, the present petition for review anchored on the following grounds:

- A. THE EXERCISE OF JUDICIAL POWER ENTAILS THE DUTY TO SETTLE ACTUAL CONTROVERSIES OF LEGALLY DEMANDABLE RIGHTS AND TO DECIDE UPON ISSUES SUBMITTED BY THE PARTIES.
- B. WHERE A PARTY PUTS IN ISSUE IN HIS PLEADING THAT THE CONTRACT FAILS TO EXPRESS THE TRUE INTENT OF THE PARTIES, THE LOWER COURT IS MANDATED TO CONSIDER THE EXTRINSIC EVIDENCE PRESENTED AND THEN DECIDE WHAT THE TRUE INTENT IS; BY THE VERY NATURE OF THIS CHALLENGE, IT IS A JUDICIAL ABDICATION OF DUTY TO SIMPLY AND MERELY RULE THAT THE CONTRACT IS CLEAR AND MUST BE INTERPRETED AS SUCH.
- C. THE AMOUNT OF REASONABLE RENT IS DETERMINED ON THE BASIS OF EVIDENCE PRESENTED.
- D. PETITIONER IS ENTITLED TO AN AWARD OF MORAL AND EXEMPLARY DAMAGES AND ATTORNEY'S FEES.^[20]

Succinctly, the issue herein is the real nature of the option to renew the lease under the contractual agreement of the parties. Insular insists that the option to renew is a bilateral agreement subject to the terms and conditions the parties may agree upon. Sun Brothers, on the other hand, posits that the option to renew is its unilateral right effectively exercised by mere notice to Insular of the intention to extend the lease, at least ninety days before the expiration of the period, without qualification as to monthly rental or term of the lease.

It is a settled rule that in the exercise of the Supreme Court's power of review, the Court is not a trier of facts and does not normally undertake the re-examination of the evidence presented by the contending parties during the trial of the case considering that the findings of facts of the CA are conclusive and binding on the Court.^[21] However, the Court had recognized several exceptions to this rule, to wit: (1) when the findings are grounded entirely on speculation, surmises or conjectures; (2) when the inference made is manifestly mistaken, absurd or impossible; (3) when there is grave abuse of discretion; **(4) when the judgment is based on a misapprehension of facts;** (5) when the findings of facts are conflicting; (6) when in making its findings the Court of Appeals went beyond the issues of the case, or its findings are contrary to the admissions of both the appellant and the appellee; (7) when the findings are contrary to the trial court; (8) when the findings are conclusions without citation of specific evidence on which they are based; (9) when the facts set forth in the petition as well as in the petitioner's main and reply briefs are not disputed by the respondent; **(10) when the findings of fact are premised on the supposed absence of evidence and contradicted by the evidence on record; and (11) when the Court of Appeals manifestly overlooked certain relevant facts not disputed by the parties, which, if properly considered, would justify a different conclusion.**^[22] Exceptions (4), (10) and (11) are present in this case.

It is a cardinal rule in contract interpretation that the ascertainment of the intention of the contracting parties is to be discharged by looking to the words they used to project that intention in their contract, that is, all the words, not just a particular word or two, and words in context, not words standing alone.^[23] Furthermore, Article 1374 of the Civil Code requires that the various stipulations of a contract shall be interpreted together, attributing to the doubtful ones that sense which may result from all of them taken jointly. Conformably, to ascertain the true meaning or import of the disputed "option to renew" clause in the contract of lease, the entirety of the contract must be considered; not merely the clause relating to the "option to renew."

After a careful examination of the records of the case, the Court finds it significant that the disputed contract of lease is not the first contract between the parties but, in fact, the third contract or the second renewal contract. The parties' lessor-lessee relationship all started on January 29, 1958, with the original contract of lease,^[24] portions of which provide:

I

INSULAR does hereby lease the abovementioned land and building unto the TENANT and the TENANT does hereby accept in lease from INSULAR the said land and building, for a period of TEN (10) YEARS from the date

provided for in Clause IX hereof, renewable at the option of the TENANT for an additional period of TEN (10) YEARS; PROVIDED, HOWEVER, that the exercise of the options to renew the lease as herein stated shall be made by the TENANT in writing to INSULAR at least NINETY (90) DAYS before the expiration of the periods herein mentioned. **All renewals shall be under the same terms and conditions hereinstated.**

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III

INSULAR expressly covenants that if on or before the expiration of the period of TWENTY (20) YEARS (covered by the original TEN (10) years period of the lease and the renewal period of TEN (10) years hereinabove stipulated) TENANT still desires to occupy the building, INSULAR shall give the TENANT first priority to lease the building at the monthly rental and under such other terms and conditions as may be agreed upon by the parties at that time.^[25]
(Emphasis supplied)

The first renewal of the lease contract was made on January 20, 1978 for a period of another 10 years, from December 1, 1977 until November 30, 1987, which by that time had added up to twenty years of lease. The parties agreed that the lease was renewable at the option of the Sun Brothers for an additional period of five years with the proviso that the exercise of the option to renew the lease shall be made by the tenant in writing to Insular at least ninety days before the expiration of the period provided.^[26] The contract further provided that:

- 2) For the use and occupancy of the leased premises TENANT shall, during the first (5) years of the above 10-year period, pay in advance at the office of INSULAR, within the first five (5) days of every month a monthly rental of P24,325.00 exclusive of real estate taxes and insurance premiums. (All real estate taxes, other assessments and insurance premiums of the leased properties shall be for the account of the TENANT).

Thereafter, the rental shall be adjusted beginning on the sixth year of this lease with an effective increase equivalent to 6.5% per annum of the imputed value increment on the land compounded at 5% annually for a period of five (5) years using the current value of the leased property as base, which current value is hereby agreed upon by the parties as follows:

Land -----	P
-----	3,793,500.00
Improvements -----	697,100.00

Total Current Value -----	P
-----	4,490,600.00

On the basis of the above current value, the monthly rental for the 2nd Five (5) years of the said 10-year period is estimated to be P30,002.00 exclusive of real estate taxes, other assessments and insurance premiums for the leased properties.