

THIRD DIVISION

[G.R. No. 142378, March 07, 2002]

LL AND COMPANY DEVELOPMENT AND AGRO-INDUSTRIAL CORPORATION, PETITIONER, VS. HUANG CHAO CHUN AND YANG TUNG FA, RESPONDENTS.

DECISION

PANGANIBAN, J.:

A stipulation in a lease contract stating that its five-year term is subject to "an option to renew" shall be interpreted to be reciprocal in character. Unless the language shows an intent to allow the lessee to exercise it unilaterally, such option shall be deemed to benefit *both* the lessor and the lessee who must *both* consent to the extension or renewal, as well as to its specific terms and conditions.

Statement of the Case

Before us is a Petition for Review under Rule 45 of the Rules of Court, assailing the October 29, 1999 Decision^[1] and the March 9, 2000 Resolution^[2] of the Court of Appeals^[3] (CA) in CA-GR SP No. 50618. The decretal portion of the Decision reads as follows:

"WHEREFORE, the petition for review is hereby DISMISSED for lack of merit."^[4]

The assailed Resolution denied petitioner's Motion for Reconsideration.

The CA sustained the Decision of the Regional Trial Court (RTC) of Quezon City (Branch 217), which had disposed as follows:

"WHEREFORE, premises considered, the Decision appealed from is AFFIRMED insofar as it dismissed the complaint and it extended the lease contract up to September 16, 2001; and is MODIFIED such that, defendants-appellees are ordered to pay plaintiff-appellant the amount of P444,800.00 less 5% as withholding tax, as their rentals on subject premises from July 16, 1994 to November 13, 1994.

"Costs against the plaintiff-appellant."^[5]

The Facts

The factual antecedents of the case are summarized by the Court of Appeals as follows:

"[The present case] originated from an unlawful detainer case filed by petitioner before the Metropolitan Trial Court of Quezon City on October

9, 1996 which was docketed as Civil Case No. 16349.

"In its Complaint, petitioner alleged that respondents Huang Chao Chun and Yang Tung Fa violated their amended lease contract over a 1,112 square meter lot it owns, designated as Lot No. 1-A-1, when they did not pay the monthly rentals thereon in the total amount of P4,322,900.00. It also alleged that the amended lease contract already expired on September 16, 1996 but respondents refused to surrender possession thereof plus the improvements made thereon, and pay the rental arrearages despite repeated demands.

"The amended lease contract was entered into by the parties sometime in August, 1991. [Exact day is not mentioned in amended contract]. The same amended the lease contract previously entered into by the parties on August 8, 1991. The amended contract contains the following provisions:

'1. That the LESSOR agrees as by the[se] presents hereby agreed to change the lot from LOT 1-A-2 with an area of 1,091 sq. meters, to LOT 1-A-1 with an area of 1,112 sq. meters, covered by the same TCT No. 219417 and located at the same address at No. 2 Scout Chuatuco Street, Quezon City, Metro Manila.

'2. The monthly rental shall be the same at P100.00 per square meters and/or P111,200.00 per month, Philippine Currency. All other terms and conditions are the same for strict compliance thereof'.

"The terms and conditions referred to in paragraph 2 above are the following:

'1. x x x It is expressly agreed and understood that the payment of the rental herein stipulated shall be made without the necessity of express demand and without delay on any ground whatsoever.

'2. The term of this lease is FIVE (5) YEARS from the effectivity of said lease, and with the option to renew, specifically shall commence from September 15, 1991 and shall expire on September 16, 1996, and maybe adjusted depending upon the ejectment of tenants.

'3. The LESSEES shall have the option to reconstruct and/or renovate the improvement found thereon at the expense of the LESSEES, and whatever improvement introduced therein by the LESSEES in the premises the ownership of it shall become the property of the LESSOR without extra compensation of the same.

'4. Upon signing of this Contract of Lease, the LESSEES shall make a one (1) year deposit to be paid unto the LESSOR as follows:

'50% percent upon signing of this Contract of Lease;

'50% percent as payment in full of the one (1) year deposit. Payment of which shall be made unto the LESSOR on the day of the effectivity date of the Contract of Lease, said deposit shall be refundable 30 days prior to the termination of the same.

'5. The monthly rental is subject to increase, said increase shall be based upon the imposition of Real Estate Tax for every two (2) years upon presentation of the increased real estate tax to the Le[ssees], but said increase shall not be less than 25% percent.

"x x x

x x x

x x x

'9. The parties agree as by these presents have agreed to strictly observe the terms and conditions of the Contract of Lease. Violation by the Lessees of any of the terms and condition of said contract is equivalent to forfeitures of the deposit in favor of the Lessor, furthermore the Lessees agreed to vacate the lease[d] premises for any violation of the terms and condition of said contract, without going to court.'

"Respondent were joined by the Tsai Chun International Resources Inc. in their answer to the Complaint, wherein they alleged that the actual lessee over Lot No. 1-A-1 is the corporation.

"Respondents and the corporation denied petitioner's allegations, claiming instead that:

"1. The amended lease contract did not reflect the true intention of the parties because it did not contemplate an obsolete building that can no longer be renovated, such that petitioner did not become the owner of the new P24,000,000.00 two-storey building they introduced on Lot No. 1-A-1 when their contract expired.

"2. Their failure to pay the monthly rentals on the property was due to petitioner's fault when it attempted to increase the amount of rent in violation of their contract; and

"3. They are entitled to a renewal of their contract in view of the provision therein providing for automatic renewal, and also in view of the P24,000,000.00 worth of improvements they introduced on the leased premises.

"After the parties were accorded their respective rights to due process of law, Branch 32 of the MTC rendered decision on June 23, 1998, the decretal portion of which reads:

'WHEREFORE, premises considered, the Court hereby orders the dismissal of this case, without pronouncement as to costs.

'SO ORDERED.'

"The aforequoted decision was premised on the resolution of two issues:

'(a) 'Whether or not the Contract of Lease dated August 8, 1991 had expired;' and

'(b) 'Did defendants and/or the corporation incur rental arrearages.'

"The MTC ruled that the contract entered into by the parties may be extended by the lessees for reasons of justice and equity, citing as its legal bases the case of 'Legarda Koh v. Ongsi[a]co' (36 Phil. [185]) and 'Cruz v. Alberto' (39 Phil. 991). It also ruled that the corporation's failure to pay the monthly rentals as they fell due was justified by the fact that petitioner 'refused to honor the basis of the rental increase as stated in their Lease Agreement.'^[6] (Citations omitted)

Ruling of the Trial Court

The RTC affirmed the Decision of the Metropolitan Trial Court (MeTC) dismissing the unlawful detainer case. The RTC likewise agreed that the Contract of Lease entered into by the parties could be extended unilaterally by the lessees for another five years or until September 16, 2001, on the basis of justice and equity.

It also held that the parties had a reciprocal obligation: unless and until petitioner presented "the increased realty tax," private respondents were not under any obligation to pay the increased monthly rental.^[7]

In addition, the RTC ruled that petitioner was not entitled to legal interest, and that the 25 percent increase provided in the Contract of Lease should be based on the imposed real estate tax, not on the monthly rental.

Ruling of the Court of Appeals

The Court of Appeals affirmed *in toto* the RTC's dismissal of the unlawful detainer case and extension of the lease period for another five years, holding that the errors raised had already been fully taken into account by the two courts below.

It also reasoned that "[t]he elliptical construction of paragraph 5 of the Lease Contract made it awkward to the point of being ambiguous." There being no agreement on the "proven rent," an ejectment suit based on "the non-payment of rents that were not agreed upon x x x will not lie."

Hence, this Petition.^[8]

Issues

In its Memorandum, petitioner raises the following issues for the Court's consideration:

"Whether the court could still extend the term of the lease, after its expiration. Is expiration of the lease a proper ground in [a] case of unlawful detainer[?]

II

"Whether non-payment of rentals is a ground to eject, in an unlawful detainer. Is refusal of the lessor to accept or collect rentals a valid reason for non-payment of rentals[?]

III

"May the court allow the introduction of issues other than the elements of a case for ejectment[?]"^[9]

This Court's Ruling

The Petition is meritorious.

First Issue: **Extension of Lease Period**

Petitioner contends that because the Contract, as amended, had already expired, the MTC had no power to extend the lease period. We are convinced.

In general, the power of the courts to fix a longer term for a lease is discretionary. Such power is to be exercised only in accordance with the particular circumstances of a case: a longer term to be granted where equities demanding extension come into play; to be denied where none appear -- always with due deference to the parties' freedom to contract.^[10] Thus, courts are not bound to extend the lease.^[11]

Article 1675 of the Civil Code excludes cases falling under Article 1673 from those under Article 1687. Article 1673 provides among others, that the lessor may judicially eject the lessee upon the expiration of "the period agreed upon or that which is fixed for the duration of the leases." Where no period has been fixed by the parties,^[12] the courts, pursuant to Article 1687, have the potestative authority to set a longer period of lease.^[13]

In the case before us, the Contract of Lease provided for a fixed period of five (5) years -- "specifically" from September 16, 1991 to September 15, 1996. Because the lease period was for a determinate time, it ceased, by express provision of Article 1669 of the Civil Code, "on the day fixed, without need of a demand."^[14] Here, the five-year period expired on September 15, 1996, whereas the Complaint for ejectment was filed on October 6, 1996. Because there was no longer any lease that could be extended, the MeTC, in effect, made a new contract for the parties, a power it did not have.^[15] Early on, in *Bacolod-Murcia Milling v. Banco Nacional Filipino*,^[16] we said that a court could not supply material stipulations to a contract, as follows: