

SECOND DIVISION

[G.R. No. 124791, February 10, 1999]

**JOSE RAMON CARCELLER, PETITIONER, VS. COURT OF APPEALS
AND STATE INVESTMENT HOUSES, INC., RESPONDENTS.**

DECISION

QUISUMBING, J.:

Before us is a petition for review of the Decision^[1] dated September 21, 1995 of the Court of Appeals^[2] in CA - G. R. CV No. 37520, as well as its Resolution^[3] dated April 25, 1996, denying both parties' motion for partial reconsideration or clarification. The assailed decision affirmed with modification the judgment^[4] of the Regional Trial Court of Cebu City, Branch 5, in Civil Case No. CEB 4700, and disposed of the controversy as follows:

"However, We do not find it just that the appellee, in exercising his option to buy, should pay appellant SIHI only P1,800,000.00. In fairness to appellant SIHI, *the purchase price must be based on the prevailing market price of real property in Bulacao, Cebu City.*" (Emphasis supplied)

The factual background of this case is quite simple.

Private respondent State Investment Houses, Inc. (SIHI) is the registered owner of two (2) parcels of land with a total area of 9,774 square meters, including all the improvements thereon, located at Bulacao, Cebu City, covered by Transfer Certificate of Titles Nos. T-89152 and T-89153 of the Registry of Deeds of Cebu City.

On January 10, 1985, petitioner and SIHI entered into a lease contract with option to purchase^[5] over said two parcels of land, at a monthly rental of Ten Thousand (P10,000.00) pesos for a period of eighteen (18) months, beginning on August 1, 1984 until January 30, 1986. The pertinent portion of the lease contract subject of the dispute reads in part:

"4. As part of the consideration of this agreement, the LESSOR hereby grants unto the LESSEE the exclusive right, option and privilege to purchase, within the lease period, the leased premises thereon for the aggregate amount of P1,800,000.00 payable as follows:

- a. Upon the signing of the Deed of Sale, the LESSEE shall immediately pay P360,000.00.
- b. The balance of P1,440,000.00 shall be paid in equal installments of P41,425.87 over sixty (60) consecutive months computed with interest at 24% per annum on the diminishing balance; Provided, that the LESSEE shall have the right to accelerate payments at

anytime in which event the stipulated interest for the remaining installments shall no longer be imposed.

x . . The option shall be exercised by a written notice to the LESSOR at anytime within the option period and the document of sale over the afore-described properties has to be consummated within the month immediately following the month when the LESSEE exercised his option under this contract."^[6]

On January 7, 1986, or approximately three (3) weeks before the expiration of the lease contract, SIHI notified petitioner of the impending termination of the lease agreement, and of the short period of time left within which he could still validly exercise the option. It likewise requested petitioner to advise them of his decision on the option, on or before January 20, 1986.^[7]

In a letter dated January 15, 1986, which was received by SIHI on January 29, 1986, petitioner requested for a six-month extension of the lease contract, alleging that he needs ample time to raise sufficient funds in order to exercise the option. To support his request, petitioner averred that he had already made a substantial investment on the property, and had been punctual in paying his monthly rentals.^[8]

On February 14, 1986, SIHI notified petitioner that his request was disapproved. Nevertheless, it offered to lease the same property to petitioner at the rate of Thirty Thousand (P30,000.00) pesos a month, for a period of one (1) year. It further informed the petitioner of its decision to offer for sale said leased property to the general public.^[9]

On February 18, 1986, petitioner notified SIHI of his decision to exercise the option to purchase the property and at the same time he made arrangements for the payment of the downpayment thereon in the amount of Three Hundred Sixty Thousand (P360,000.00) pesos.^[10]

On February 20, 1986, SIHI sent another letter to petitioner, reiterating its previous stand on the latter's offer, stressing that the period within which the option should have been exercised had already lapsed. SIHI asked petitioner to vacate the property within ten (10) days from notice, and to pay rental and penalty due.^[11]

Hence, on February 28, 1986, a complaint for specific performance and damages^[12] was filed by petitioner against SIHI before the Regional Trial Court of Cebu City, to compel the latter to honor its commitment and execute the corresponding deed of sale.

After trial, the court *a quo* promulgated its decision dated April 1, 1991, the dispositive portion of which reads:

"In the light of the foregoing considerations, the Court hereby renders judgment in Civil Case No. CEB 4700, ordering the defendant to execute a deed of sale in favor of the plaintiff, covering the parcels of land together with all the improvements thereon, covered by Transfer Certificates of Title Nos. 89152 and 89153 of the Registry of Deeds of Cebu City, in accordance with the lease contract executed on January 10,

1984 between the plaintiff and the defendant, but the purchase price may be by "one shot payment" of P1,800,000.00; and the defendant to pay attorney's fee of P20,000.00.

No damages awarded."^[13]

Not satisfied with the judgment, SIHI elevated the case to the Court of Appeals by way of a petition for review.

On September 21, 1995, respondent court rendered its decision, affirming the trial court's judgment, but modified the basis for assessing the purchase price. While respondent court affirmed appellee's option to buy the property, it added that, "the purchase price must be based on the prevailing market price of real property in Bulacao, Cebu City."^[14]

Baffled by the modification made by respondent court, both parties filed a motion for reconsideration and/or clarification, with petitioner, on one hand, praying that the prevailing market price be the value of the property in February 1986, the time when the sale would have been consummated. SIHI, on the other hand, prayed that the market price of the property be based on the prevailing price index at least 10 years later, that is, 1996.

Respondent court conducted further hearings to clarify the matter, but no agreement was reached by the parties. Thus, on April 25, 1996, respondent court promulgated the assailed resolution, which denied both parties' motions, and directed the trial court to conduct further hearings to ascertain the prevailing market value of real properties in Bulacao, Cebu City and fix the value of the property subject of the controversy.^{14a}

Hence, the instant petition for review.

The fundamental issue to be resolved is, should petitioner be allowed to exercise the option to purchase the leased property, despite the alleged delay in giving the required notice to private respondent?

An option is a preparatory contract in which one party grants to the other, for a fixed period and under specified conditions, the power to decide, whether or not to enter into a principal contract. It binds the party who has given the option, not to enter into the principal contract with any other person during the period designated, and, within that period, to enter into such contract with the one to whom the option was granted, if the latter should decide to use the option.^[15] It is a separate agreement distinct from the contract which the parties may enter into upon the consummation of the option.^[16]

Considering the circumstances in this case, we find no reason to disturb the findings of respondent court, that petitioner's letter to SIHI, dated January 15, 1986, was fair notice to the latter of the former's intent to exercise the option, despite the request for the extension of the lease contract. As stated in said letter to SIHI, petitioner was requesting for an extension (of the contract) for six months "to allow us to generate sufficient funds in order to exercise our option to buy the subject property".^[17] The analysis by the Court of Appeals of the evidence on record and