

FIRST DIVISION

[G.R. No. 108222, May 05, 1997]

**HENRY L. SIA, PETITIONER, VS. THE HON. COURT OF APPEALS,
AND TORRE DE ORO DEVELOPMENT CORPORATION,
RESPONDENTS.**

D E C I S I O N

HERMOSISIMA, JR., J.:

Before us is a petition for review of the decision^[1] of the Court of Appeals^[2] in an ejectment case.^[3] Respondent appellate court affirmed the decision on appeal^[4] rendered by the Regional Trial Court of Misamis Oriental^[5] which ordered the ejectment of petitioner on the ground of expiration of lease contract. The Court of Appeals and the Regional Trial Court in effect reversed the Municipal Trial Court^[6] which decided in favor of petitioner and dismissed private respondent's complaint for ejectment.^[7]

Petitioner, in setting forth his summary statement of facts, quoted the narration thereof rendered by the Court of Appeals in the herein assailed decision. Said narration runs in this wise:

"The facts are as follows: Atty. Rodolfo N. Pelaez was the owner of a parcel of land at the corner of Tiano Bros. Street and Cruz Taal Street, Cagayan de Oro City. He leased the land to Henry L. Sia's parents, the spouses Lim Siok Oan and Sia Bon Suan, who in 1970, constructed a building with the consent of lessor. When Rodolfo Pelaez died, the land was inherited by his son, Atty. Pacifico Pelaez, who sold it to the private respondent Torre de Oro Development Corp. On the other hand, petitioner succeeded to the rights of his parents as lessees of property, upon the latter's death.

On March 22, 1988, private respondent Torre de Oro Development Corp., represented by Atty. Pacifico Pelaez, and petitioner Henry L. Sia entered into a lease contract (Exh. H) of the land in question under the following terms and conditions:

'That the LESSOR hereby leases unto the LESSEE, his property located at Corner Tiano Bros. St., and Cruz Taal St., known as Cad. Lot No. 401 (bigger portion) for a period of One (1) year counting from this date, particularly bounded as follows:

A parcel of commercial land, without the improvements, bounded on the North by Cruz Taal St., on the East by Matilda Menciano; on the South by Rodolfo N. Pelaez and on the West by Tiano Bros. St., having an approximate area of 391.62 sq. meters, per Tax Decla. No. 0907 assessed at P153,440.00 covered by TCT No. 36954 in the name of TORRE DE ORO DEVELOPMENT CORPORATION subject to the

following conditions, to wit:

1. That the LESSEE agrees to pay the sum of TWO THOUSAND PESOS (P2,000.00) as monthly rental effective January 1987;
2. That the LESSEE cannot sublease the property without the written consent of the LESSOR during the life of this contract;
3. That the LESSOR shall pay all the taxes of the property, except the improvements;
4. That the LESSEE shall pay all the bills for the electric light and telephone bills including (telephone) installations;
5. That all installations of any appliances such as air-conditioning unit, TV sets or other electrical appliances shall be for the account of the LESSEE;
6. That the period of this lease is for One (1) year counted from January 1988 and renewable for another year [after] every expiration of the contract upon agreement of both parties;
7. That a sketch of the property occupied is herein attached marked as Annex "A" and made an integral part of this contract;
8. That the LESSEE agrees to pay increase of the rental for 1987-1988 should there be an increase in the assessed value (Taxable) value of real property subject matter of this contract resulting from the general revision of property assessment conducted by our National Government pursuant to the provision of existing law.'

On December 22, 1988, private respondent sent a letter (Exh. I) to petitioner, informing him that it was not renewing their lease contract after its expiration, on the ground that petitioner had subleased the property without the written consent of private respondent, in violation of condition par. 2 of the lease contract. In letters dated December 26, 1988 (Annexes B-1 to B-5) the sublessees were similarly notified of the expiration of petitioner's lease and were advised that in case they wished to continue with their lease, arrangements should be made directly with private respondent.

Petitioner, through counsel, wrote a letter to private respondent dated January 20, 1989 (Exh. J), stating that the increase in rent from P2,000.00 to P8,500.00, which private respondent demanded, was excessive. He intimated that he was willing to pay an increase of P500.00 only.

Private respondent ignored the offer, but petitioner insisted on remaining in the premises. Private respondent Torre de Oro Development Corp., therefore, brought this suit in the court below for his ejectment.

On June 26, 1990, the Municipal Trial Court rendered judgment in favor of petitioner. However, on appeal, the Regional Trial Court reversed its decision."^[8]

The Regional Trial Court, on appeal, ascribed error to the Municipal Trial Court for having dismissed private respondent's complaint for ejectment on the ground of prematurity, for at the time said complaint was filed on February 8, 1989, the lease contract had in fact already expired. The Regional Trial Court pointed out:

"xxx Exhibit H, the lease contract appears to be a common evidence of the parties. Exhibit H was signed by the parties on March 22, 1988 and notarized on April 5, 1988. These different dates are normal occurrences in notarial practice due to the peculiar circumstances of the parties and the notary. xxx [B]ecause the contract must have an end or "cut off" date to govern the relationship of the signatories thereto the parties agree to fix the start and the end of the contract by declaring a date clearly expressed in the contract. In this particular contract, the parties signed and agreed to the expressed terms, to wit:

'That the LESSOR hereby leases unto the LESSEE, his property located at Corner Tiano Bros. St. and Cruz Taal St. known as Cad. Lot No. 401 (bigger portion) for a period of One (1) year counting from this date.' xxx

'1. That the Lessee agrees to pay the sum of Two Thousand Pesos (P2,000.00) as monthly rental effective January 1987.'

'That the period of this lease is for one (1) year counted from January, 1988 and renewable for another year [after] every expiration of the contract upon agreement of both parties.' xxx

The foregoing terms were voluntarily agreed by the parties as there was no allegation of force, undue influence or intimidation that attended the signing thereof. All the three paragraphs must perforce be read and understood in its [sic] entire context as we are not allowed to emasculate any part thereof or add anything which is not found in the agreement. In short, the parties agreed that the Lessee shall pay a monthly rent to plaintiff in the sum of P2,000.00 xxx; that the lifetime of the contract is for one year; and that the one year period of the lease shall start or be 'counted from January, 1988 and renewable [sic] for another year [after] every expiration of the contract upon agreement of both the parties.'

It is the strong conviction of this court that in the interpretation of contracts the entire document must be fully read, evaluated and considered, taking into consideration the intention of the parties and giving effect and force to all its provisions. xxx Every paragraph leads to one intention if taken as a whole and that is, that the rental every month is P2,000.00; that the contract is on a yearly basis renewable only if agreed by both parties, that the one year period shall be counted from January, 1988. To give the said provisions and covenants another interpretation would result in an absurd situation as the one year period was never meant to start on March 22, 1988 or April 5, 1988; otherwise the parties should have included or expressed the same within the enumeration of the terms, conditions or lifetime of the lease contract. Besides, the date of signing is not material or decisive to the present discussion because the parties had already agreed in writing as to a

specific date, which is January 1988 and to end December, 1988. In view of the foregoing observation, this court finds that the contract started in January, 1988 and ended one year after, ergo, the complaint has stated a sufficient cause of action and must perforce be reinstated and given legal effect."^[9]

Consequently, the Regional Trial Court upheld the right of private respondent as lessor to terminate the contract of lease upon expiration thereof, regardless of the tenability of petitioner's violation of the prohibition against the sub-leasing of the leased premises which was private respondent's original ground for ejecting petitioner.

"At the time of the filing of this case and during the execution of the Lease Contract, Exhibit H, the parties cannot deny that there was already a commercial building standing on the land in dispute since the early part of 1971 because there was a big fire in 1969 that razed down the Divisoria area including the building that used to stand on the land. After the construction of the building it cannot be denied that the purpose of the building which cost the defendant's predecessors the sum of P35,000.00 was to have it subleased to several tenants subject to the terms of their contract which expressly prohibited any sub-lease. This court finds the situation incongruous but cannot fault the defendant on this because the violation or non-violation of this prohibition is not very relevant to this resolution. Whether there was a violation or not on the sublease, the fact remains that it is the legal and contractual right of plaintiff to terminate the contract as he pleases after the expiration of the same. It is therefore the submission of this court that this issue simply has by its own nature and weight paled into insignificance and limbo."^[10]

The Municipal Trial Court, in the course of dismissing private respondent's complaint for ejectment, also ruled that petitioner is a builder in good faith in contemplation of Article 448 in relation to Article 546 of the New Civil Code and that as such, he cannot be ejected without being paid the fair market value of the commercial building erected on the leased premises by his parents. Again, the Regional Trial Court found this ruling by the court a quo to be erroneous. The Regional Trial Court ratiocinated, thus:

"It must always be remembered that Art. 448 of the New Civil Code comes in only when the possessor builds on the land of another believing that he is the owner of the land of another. The facts in this proceeding are very much different. Defendant Henry Sia is a tenant of plaintiff and no amount of denial or legal forensic can add or alter that status of the defendant. This being so, it must perforce be safe to uphold that the provisions of Article 1678 of the New Civil Code shall govern the respective rights of the parties herein. The Supreme Court said a mouthful in the following cases affirming the applicability of Art. 1678, as it ruled as follows:

'In connection with the petitioner's contention that she be considered a builder in good faith and, therefore, entitled to reimbursement in addition to reasonable expenses that may be incurred in transferring the house to another place, the same cannot stand legal scrutiny. The rule is well-settled that lessees, like petitioner, are

not possessors in good faith, the premises continues only during the life of the lease, and they cannot as a matter of right, recover the value of their improvements from the lessor, much less retain the premises until they are reimbursed. Their rights are governed by Article 1678 of the Civil Code which allows reimbursement of lessees up to one-half of the value of their improvements if the lessor so elects.' (p. 250, underlining supplied) (Bocaling vs. Laguna, et al. 54 SCRA 243).'

'Moreover, as correctly found by the trial court, the plaintiffs-appellants, as lessees, are neither builders in good faith nor in bad faith. Their rights are governed not by Article 448 but by Art. 1678 of the New Civil Code. xxx As lessees, they may remove the improvements should the lessor refuse to reimburse them, but the lessee does not have the right to buy the land.' (pp. 368-369, citing Southwestern University vs. Salvador, 90 SCRA 318, 329-330)

xxx xxx xxx

In this connection, this court finds that the court a quo erred in applying the provisions of Arts. 448 and 527 of the New Civil Code to the case at bar because said ruling is against the principles set by the New Civil Code and of our established jurisprudence."^[11]

The Regional Trial Court therefore rendered its decision on appeal setting aside the judgment of the court a quo and ordering petitioner to vacate the leased premises and to pay private respondent a monthly rental of P5,000.00 from December, 1988 until he actually vacates said premises. Petitioner was also adjudged liable for P5,000.00 as litigation expenses and P10,000.00 as attorney's fees.

Aggrieved by the foregoing decision, petitioner appealed to the Court of Appeals. Respondent appellate court, however, also found the court a quo's decision in favor of petitioner, to be starkingly lacking factual and legal basis, if not contrary to prevailing legal jurisprudence. In agreeing with the Regional Trial Court's critique of the court a quo's decision, the Court of Appeals made its ruling in the following manner:

"First. The contract of lease between private respondent Torre de Oro Development Corp., as lessor, and petitioner, as lessee, was for one year. This period was to be counted from January 1988, so that the lease expired on December 31, 1988. Private respondent gave notice in December 1988 of its intent not to renew the contract, by sending letters to petitioner and his sub-lessees. Private respondent, therefore, had the right to eject the lessee, in accordance with art. 1673(1) of the Civil Code, after the expiration of the contract.

Petitioner contends, however, that under art. 448, in relation to art. 546 of the Civil Code, he is entitled to remain in the building until he is paid its value because he is a builder in good faith, and that art. 1678 does not apply because this provision refers to a case where the lessor is the owner of both the land and the building and the lessee makes improvements on the building. Petitioner contends that in that case, the lessee cannot be considered to be a builder in good faith because he knows he is not the owner of either the land or the building.