

## FIRST DIVISION

[ G.R. No. 187930, February 23, 2015 ]

**NEW WORLD DEVELOPERS AND MANAGEMENT, INC.,  
PETITIONER, VS. AMA COMPUTER LEARNING CENTER, INC.,  
RESPONDENT.**

[G.R. NO. 188250]

**AMA COMPUTER LEARNING CENTER, INC., PETITIONER, VS. NEW  
WORLD DEVELOPERS AND MANAGEMENT, INC., RESPONDENT.**

### D E C I S I O N

**SERENO, C.J.:**

Before us are consolidated Petitions for Review on Certiorari under Rule 45 of the Rules of Court assailing the Court of Appeals (CA) Decision<sup>[1]</sup> dated 22 January 2009 and Resolution<sup>[2]</sup> dated 18 May 2009 in CA-G.R. CV No. 89483.

The CA Decision ordered AMA Computer Learning Center, Inc. (AMA) to pay New World Developers and Management, Inc. (New World) unpaid rentals for 2 months, as well as liquidated damages equivalent to 4 months' rent. The CA Resolution denied the separate motions for reconsideration filed by the parties.

### FACTS

New World is the owner of a commercial building located at No. 1104-1118 España corner Paredes Streets, Sampaloc, Manila.<sup>[3]</sup> In 1998, AMA agreed to lease the entire second floor of the building for its computer learning center, and the parties entered into a Contract of Lease<sup>[4]</sup> covering the eight-year period from 15 June 1998 to 14 March 2006.

The monthly rental for the first year was set at P181,500, with an annual escalation rate equivalent to 15% for the succeeding years.<sup>[5]</sup> It was also provided that AMA may preterminate the contract by sending notice in writing to New World at least six months before the intended date.<sup>[6]</sup> In case of pretermination, AMA shall be liable for liquidated damages in an amount equivalent to six months of the prevailing rent.

In compliance with the contract, AMA paid New World the amount of P450,000 as advance rental and another P450,000 as security deposit.<sup>[7]</sup>

For the first three years, AMA paid the monthly rent as stipulated in the contract, with the required adjustment in accordance with the escalation rate for the second and the third years.<sup>[8]</sup>

In a letter dated 18 March 2002, AMA requested the deferment of the annual increase in the monthly rent by citing financial constraints brought about by a decrease in its enrollment. New World agreed to reduce the escalation rate by 50% for the next six months. The following year, AMA again requested the adjustment of the monthly rent and New World obliged by granting a 45% reduction of the monthly rent and a 5% reduction of the escalation rate for the remaining term of the lease. For this purpose, the parties entered into an Addendum to the Contract of Lease.<sup>[9]</sup>

On the evening of 6 July 2004, AMA removed all its office equipment and furniture from the leased premises. The following day, New World received a letter from AMA dated 6 July 2004<sup>[10]</sup> stating that the former had decided to preterminate the contract effective immediately on the ground of business losses due to a drastic decline in enrollment. AMA also demanded the refund of its advance rental and security deposit.

New World replied in a letter dated 12 July 2004,<sup>[11]</sup> to which was attached a Statement of Account<sup>[12]</sup> indicating the following amounts to be paid by AMA: 1) unpaid two months' rent in the amount of P466,620; 2) 3% monthly interest for the unpaid rent in the amount of P67,426.59; 3) liquidated damages equivalent to six months of the prevailing rent in the amount of P1,399,860; and 4) damage to the leased premises amounting to P15,580. The deduction of the advance rental and security deposit paid by AMA still left an unpaid balance in the amount of P1,049,486.59.

Despite the meetings between the parties, they failed to arrive at a settlement regarding the payment of the foregoing amounts.<sup>[13]</sup>

On 27 October 2004, New World filed a complaint for a sum of money and damages against AMA before the Regional Trial Court of Marikina City, Branch 156 (RTC).<sup>[14]</sup>

### **RULING OF THE RTC**

In a Decision<sup>[15]</sup> dated 31 January 2007, the RTC ordered AMA to pay New World P466,620 as unpaid rentals plus 3% monthly penalty interest until payment; P499,860 as liquidated damages equivalent to six months' rent, with the advance rental and security deposit paid by AMA to be deducted therefrom; P15,580 for the damage to the leased premises; P100,000 as attorney's fees; and costs of the suit.

According to the RTC, AMA never denied that it had arrearages equivalent to two months' rent. Other than its allegation that it did not participate in the preparation of the Statement of Account, AMA did not proffer any evidence disputing the unpaid rent. For its part, New World clearly explained the existence of the arrears.

While sympathizing with AMA in view of its business losses, the RTC ruled that AMA could not shirk from its contractual obligations, which provided that it had to pay liquidated damages equivalent to six months' rent in case of a pretermination of the lease.

The RTC provided no bases for awarding P15,580 for the damage to the leased

premises and P100,000 for attorney's fees, while denying the prayer for exemplary and moral damages.

Upon the denial of its motion for reconsideration, AMA filed an appeal before the CA.  
[16]

### **RULING OF THE CA**

In the assailed Decision dated 22 January 2009, the CA ordered AMA to pay New World P466,620 for unpaid rentals and P33,240 for liquidated damages equivalent to four months' rent, with the advance rental and security deposit paid by AMA to be deducted therefrom.<sup>[17]</sup>

The appellate court ruled that the RTC erred in imposing a 3% monthly penalty interest on the unpaid rent, because there was no stipulation either in the Contract of Lease or in the Addendum to the Contract of Lease concerning the imposition of interest in the event of a delay in the payment of the rent.<sup>[18]</sup> Thus, the CA ruled that the rent in arrears should earn interest at the rate of 6% per annum only, reckoned from the date of the extrajudicial demand on 12 July 2004 until the finality of the Decision. Thereafter, interest at the rate of 12% per annum shall be imposed until full payment.

The CA also ruled that the RTC's imposition of liquidated damages equivalent to six months' rent was iniquitous.<sup>[19]</sup> While conceding that AMA was liable for liquidated damages for preterminating the lease, the CA also recognized that stipulated penalties may be equitably reduced by the courts based on its sound discretion. Considering that the unexpired portion of the term of lease was already less than two years, and that AMA had suffered business losses rendering it incapable of paying for its expenses, the CA deemed that liquidated damages equivalent to four months' rent was reasonable.<sup>[20]</sup>

The appellate court deleted the award for the damage to the leased premises, because no proof other than the Statement of Account was presented by New World.<sup>[21]</sup> Furthermore, noting that the latter was already entitled to liquidated damages, and that the trial court did not give any justification for attorney's fees, the CA disallowed the award thereof.<sup>[22]</sup>

Both parties filed their respective motions for reconsideration, which were denied in the assailed Resolution dated 10 May 2009.

Hence, the present petitions for review on certiorari. On 3 August 2009, the Court resolved to consolidate the petitions, considering that they involve the same parties and assail the same CA Decision and Resolution.<sup>[23]</sup>

### **PARTIES' POSITIONS**

According to New World, when parties freely stipulate on the manner by which one may preterminate the lease, that stipulation has the force of law between them and should be complied with in good faith.<sup>[24]</sup> Since AMA preterminated the lease, it became liable to liquidated damages equivalent to six months' rent. Furthermore, its

failure to give notice to New World six months prior to the intended pretermination of the contract and its leaving the leased premises in the middle of the night, with all its office equipment and furniture, smacked of gross bad faith that renders it undeserving of sympathy from the courts.<sup>[25]</sup> Thus, the CA erred in reducing the liquidated damages from an amount equivalent to six months' rent to only four months.

New World also challenges the CA Decision and Resolution for disallowing the imposition of the 3% monthly interest on the unpaid rentals. It is argued that AMA never disputed the imposition of the 3% monthly interest; rather, it only requested that the interest rate be reduced.<sup>[26]</sup>

On the other hand, AMA assails the CA ruling for not recognizing the fact that compensation took place between the unpaid rentals and the advance rental paid by AMA.<sup>[27]</sup> Considering that the obligation of AMA as to the arrears has been extinguished by operation of law, there would be no occasion for the imposition of interest.<sup>[28]</sup>

AMA also prays for the further reduction of the liquidated damages to an amount equivalent to one month's rent up to one and a half months, arguing that four months' worth of rent is still iniquitous on account of the severe financial losses it suffered.<sup>[29]</sup>

## **ISSUES**

1. Whether AMA is liable to pay six months' worth of rent as liquidated damages.
2. Whether AMA remained liable for the rental arrears.

## **OUR RULING**

### ***I.***

#### ***AMA is liable for six months' worth of rent as liquidated damages.***

Item No. 14 of the Contract of Lease states:

That [AMA] may pre-terminate this Contract of Lease by notice in writing to [New World] at least six (6) months before the intended date of pre-termination, provided, however, that in such case, [AMA] shall be liable to [New World] for an amount equivalent to six (6) months current rental as liquidated damages;<sup>[30]</sup>

Quite notable is the fact that AMA never denied its liability for the payment of liquidated damages in view of its pretermination of the lease contract with New World. What it claims, however, is that it is entitled to the reduction of the amount due to the serious business losses it suffered as a result of a drastic decrease in its enrollment.

This Court is, first and foremost, one of law. While we are also a court of equity, we do not employ equitable principles when well-established doctrines and positive provisions of the law clearly apply.<sup>[31]</sup>

The law does not relieve a party from the consequences of a contract it entered into with all the required formalities.<sup>[32]</sup> Courts have no power to ease the burden of obligations voluntarily assumed by parties, just because things did not turn out as expected at the inception of the contract.<sup>[33]</sup> It must also be emphasized that AMA is an entity that has had significant business experience, and is not a mere babe in the woods.

Articles 1159 and 1306 of the Civil Code state:

Art. 1159. Obligations arising from contracts have the force of law between the contracting parties and should be complied with in good faith.

x x x x

Art. 1306. The contracting parties may establish such stipulations, clauses, terms and conditions as they may deem convenient, provided they are not contrary to law, morals, good customs, public order, or public policy.

The fundamental rule is that a contract is the law between the parties. Unless it has been shown that its provisions are wholly or in part contrary to law, morals, good customs, public order, or public policy, the contract will be strictly enforced by the courts.<sup>[34]</sup>

In rebuttal, AMA invokes Article 2227 of the Civil Code, to wit:

Art. 2227. Liquidated damages, whether intended as an indemnity or a penalty, shall be equitably reduced if they are iniquitous or unconscionable.

In *Ligutan v. CA*, we held that the resolution of the question of whether a penalty is reasonable, or iniquitous or unconscionable would depend on factors including but not limited to the type, extent and purpose of the penalty; the nature of the obligation; the mode of the breach and its consequences; the supervening realities; and the standing and relationship of the parties.<sup>[35]</sup> The appreciation of these factors is essentially addressed to the sound discretion of the court.<sup>[36]</sup>

It is quite easy to understand the reason why a lessor would impose liquidated damages in the event of the pretermination of a lease contract. Pretermination is effectively the breach of a contract, that was originally intended to cover an agreed upon period of time. A definite period assures the lessor a steady income for the duration. A pretermination would suddenly cut short what would otherwise have been a longer profitable relationship. Along the way, the lessor is bound to incur