

## SECOND DIVISION

[ G.R. No. 174632, June 16, 2010 ]

**FELICIDAD T. MARTIN, MELISSA M. ISIDRO, GRACE M. DAVID, CAROLINE M. GARCIA, VICTORIA M. ROLDAN, AND BENJAMIN T. MARTIN, JR., PETITIONERS, VS. DBS BANK PHILIPPINES, INC. (FORMERLY KNOWN AS BANK OF SOUTHEAST ASIA) NOW MERGED WITH AND INTO BPI FAMILY BANK, RESPONDENT.**

[G.R. No. 174804]

**DBS BANK PHILIPPINES, INC. (FORMERLY KNOWN AS BANK OF SOUTHEAST ASIA) NOW MERGED WITH AND INTO BPI FAMILY BANK), PETITIONER, VS. FELICIDAD T. MARTIN, MELISSA M. ISIDRO, GRACE M. DAVID, CAROLINE M. GARCIA, VICTORIA M. ROLDAN, AND BENJAMIN T. MARTIN, JR. RESPONDENTS.**

### D E C I S I O N

**ABAD, J.:**

This case is about the right of rescission provided in the contract of lease in the event of failure of the lessor to make repairs that would enable the lessee to continue with the intended use of the leased property.

#### The Facts and the Case

On March 27, 1997 Felicidad T. Martin, Melissa M. Isidro, Grace M. David, Caroline M. Garcia, Victoria M. Roldan, and Benjamin T. Martin, Jr. (the Martins), as lessors, entered into a lease contract<sup>[1]</sup> with the DBS Bank Philippines, Inc. (DBS), formerly known as Bank of Southeast Asia and now merged with Bank of the Philippine Islands, as lessee, covering a commercial warehouse and lots that DBS was to use for office, warehouse, and parking yard for repossessed vehicles. The lease was for five years, from March 1, 1997 to March 1, 2002, at a monthly rent of P300,000.00 for the first year, P330,000.00 for the second year, P363,000.00 for the third year, P399,300.00 for the fourth year, and P439,230.00 for the final year, all net of withholding taxes.<sup>[2]</sup> DBS paid a deposit of P1,200,000.00 and advance rentals of P600,000.00.

On May 25 and August 13, 1997 heavy rains flooded the leased property and submerged into water the DBS offices there along with its 326 repossessed vehicles. As a result, on February 11, 1998 DBS wrote the Martins demanding that they take appropriate steps to make the leased premises suitable as a parking yard for its vehicles.<sup>[3]</sup> DBS suggested the improvement of the drainage system or the raising of the property's ground level. In response, the Martins filled the property's grounds with soil and rocks.

But DBS lamented that the property remained unsuitable for its use since the Martins did not level the grounds. Worse, portions of the perimeter fence collapsed because of the excessive amount of soil and rock that were haphazardly dumped on it. In June 1998, DBS vacated the property but continued paying the monthly rents. On September 11, 1998, however, it made a final demand on the Martins to restore the leased premises to tenantable condition on or before September 30, 1998, otherwise, it would rescind the lease contract.<sup>[4]</sup>

On September 24, 1998 the Martins contracted the services of Altitude Systems & Technologies Co. for the reconstruction of the perimeter fence on the property. <sup>[5]</sup> On October 13, 1998 DBS demanded the rescission of the lease contract and the return of its deposit.<sup>[6]</sup> At that point, DBS had already paid the monthly rents from March 1997 to September 1998. The Martins refused, however, to comply with DBS' demand.

On July 7, 1999 DBS filed a complaint against the Martins for rescission of the contract of lease with damages before the Regional Trial Court (RTC) of Makati City, Branch 141, in Civil Case 99-1266.<sup>[7]</sup> Claiming that the leased premises had become untenable, DBS demanded rescission of the lease contract as well as the return of its deposit of P1,200,000.00.

On November 12, 2001 the Makati City RTC rendered a decision, dismissing the complaint against the Martins.<sup>[8]</sup> The trial court found that, although the floods submerged DBS' vehicles, the leased premises remained tenantable and undamaged. Moreover, the Martins had begun the repairs that DBS requested but were not given sufficient time to complete the same. It held that DBS unjustifiably abandoned the leased premises and breached the lease contract. Thus, the trial court ordered its deposit of P1,200,000.00 deducted from the unpaid rents due the Martins and ordered DBS to pay them the remaining P15,198,360.00 in unpaid rents.

On appeal to the Court of Appeals (CA) in CA-G.R. CV 76210, the latter court rendered judgment dated April 26, 2006,<sup>[9]</sup> reversing and setting aside the RTC decision. The CA found that floods rendered the leased premises untenable and that the RTC should have ordered the rescission of the lease contract especially since the contract provided for such remedy. The CA ordered the Martins to apply the deposit of P1,200,000.00 to the rents due up to July 7, 1999 when DBS filed the complaint and exercised its option to rescind the lease. The CA ordered the Martins to return the remaining balance of the deposit to DBS.

DBS moved for partial reconsideration, claiming that it rescinded the lease contract on October 13, 1998 and not on July 7, 1999. The CA should not require DBS to pay rents from October 1998 to July 7, 1999. It should rather order the Martins to return its deposit in full. For their part, the Martins asked the CA to reconsider its decision, pointing out that they undertook the necessary repairs and restored the leased premises to tenantable condition. Thus, DBS no longer had the right to rescind the lease contract.

With the denial of their separate motions for reconsideration,<sup>[10]</sup> DBS and the Martins filed their respective petitions for review before this Court in G.R. 174632

and 174804. The Court eventually consolidated the two cases.<sup>[11]</sup>

### **The Issues Presented**

The issues presented in these cases are:

1. Whether or not the CA erred in holding that the Martins allowed the leased premises to remain untenable after the floods, justifying DBS' rescission of the lease agreement between them; and
2. In the affirmative, whether or not the CA erred in holding that DBS is entitled to the rescission of the lease contract only from July 7, 1999 when it filed its action for rescission, entitling the Martins to collect rents until that time.

### **The Court's Rulings**

**One.** Unless the terms of a contract are against the law, morals, good customs, and public policy, such contract is law between the parties and its terms bind them.<sup>[12]</sup> In *Felsan Realty & Development Corporation v. Commonwealth of Australia*,<sup>[13]</sup> the Court regarded as valid and binding a provision in the lease contract that allowed the lessee to pre-terminate the same when fire damaged the leased building, rendering it uninhabitable or unsuitable for living.

Here, paragraph VIII<sup>[14]</sup> of the lease contract between DBS and the Martins permitted rescission by either party should the leased property become untenable because of natural causes. Thus:

**In case of damage to the leased premises or any portion thereof by reason of fault or negligence attributable to the LESSEE, its agents, employees, customers, or guests, the LESSEE shall be responsible for undertaking such repair or reconstruction. In case of damage due to fire, earthquake, lightning, typhoon, flood, or other natural causes, without fault or negligence attributable to the LESSEE, its agents, employees, customers or guests, the LESSOR shall be responsible for undertaking such repair or reconstruction. In the latter case, if the leased premises become untenable, either party may demand for the rescission of this contract and in such case, the deposit referred to in paragraph III shall be returned to the LESSEE immediately.** (Underscoring supplied.)

The Martins claim that DBS cannot invoke the above since they undertook the repair and reconstruction of the leased premises, incurring P1.6 million in expenses. The Martins point out that the option to rescind was available only if they failed to do the repair work and reconstruction.

But, under their agreement, the remedy of rescission would become unavailable to DBS only if the Martins, as lessors, made the required repair and reconstruction after the damages by natural cause occurred, which meant putting the premises after the floods in such condition as would enable DBS to resume its use of the