

## FIRST DIVISION

[ G.R. NO. 163429, March 03, 2006 ]

**JOHNNY JOSEFA, PETITIONER, VS. LOURDES SAN BUENAVENTURA, REPRESENTED BY ATTORNEYS-IN-FACT, TERESITA SAN BUENAVENTURA AND/OR RAUL SAN BUENAVENTURA, RESPONDENTS.**

### D E C I S I O N

**CALLEJO, SR., J.:**

Before us is a Petition for Review on *Certiorari* for the reversal of the Court of Appeals' (CA) Decision<sup>[1]</sup> in CA-G.R. SP No. 69546.

The antecedent facts are as follows:

Lourdes San Buenaventura is the owner of a 364-square meter parcel of land in Pasig City, covered by Transfer Certificate of Title No. PT-76848.<sup>[2]</sup>

On July 15, 1990, Johnny Josefa entered into a Contract of Lease<sup>[3]</sup> with San Buenaventura over the said parcel of land. The parties agreed, *inter alia*, that —

1. The period covered by this lease agreement is from August 1, 1990 to July 31, 1995, or a period of five (5) years, renewable upon agreement of the parties.<sup>[4]</sup>

Upon the expiry of the contract, San Buenaventura wrote Josefa informing him that the lease would no longer be extended but that he may continue with the lease at a rental rate of P30,000.00 a month.<sup>[5]</sup> Josefa was told to vacate the property and pay any arrearages if he opted not to lease the property after the expiration of the lease contract. However, Josefa refused to vacate the premises. He continued to occupy the property and paid a monthly rental of P15,400.00 which San Buenaventura received. However, the latter subsequently made demands for Josefa to vacate the property in a Letter dated June 3, 1998.<sup>[6]</sup> Josefa still refused to leave the premises.<sup>[7]</sup>

This prompted San Buenaventura to file a complaint for unlawful detainer against Josefa which was, however, dismissed due to the plaintiff's failure to secure a certification from the *lupon ng barangay*.<sup>[8]</sup> San Buenaventura refiled the Complaint<sup>[9]</sup> on July 9, 1998 with the Metropolitan Trial Court (MeTC) of Pasig City. The complaint, docketed as Civil Case No. 6798, was raffled to Branch 69. It contained the following prayer:

WHEREFORE, premises considered, plaintiff respectfully prays that this Honorable Court, after due hearing, lender [sic] judgment, in favor of

plaintiff and against defendant, ordering the latter:

1. To vacate the premises and to deliver the peaceful possession thereof to plaintiff;
2. To pay plaintiff the amount equivalent to the deficit on monthly rentals from August 1, 1995 up to the time that defendant actually surrenders possession of the property at the rate of PhP 30,000.00 per month;
3. To pay plaintiff the amount of PhP 100,000.00 as and by way of moral damages;
4. To pay plaintiff the amount of PhP 100,000.00 as and by way of exemplary damages;
5. To pay plaintiff the amount of PhP 50,000.00 and PhP 1,500.00/per appearance as and by way of attorney's fees; and
6. To pay costs of suit and expenses of litigations.

Other reliefs just and equitable under the premises are likewise prayed for.<sup>[10]</sup>

In his Answer,<sup>[11]</sup> Josefa averred that San Buenaventura had no cause of action against him because, under the contract, she (San Buenaventura) was obliged to renew the lease. Josefa pointed out that because of this commitment to renew the contract, he had made renovations and improvements on the land. Josefa also set up attorney's fees as counterclaim against San Buenaventura. He likewise prayed that should the lease contract not be renewed, San Buenaventura be ordered to reimburse to him the cost of the improvements in the amount of not less than P3 million.

On July 15, 1999, the MeTC rendered its Decision,<sup>[12]</sup> the dispositive portion of which reads:

WHEREFORE, premises considered, judgment is hereby rendered ordering herein defendant and all persons claiming rights under him to vacate the subject leased premises located as (sic) A. Mabini St., Capasigan, Pasig City and surrender possession thereof to the plaintiff; ordering defendant to pay P10,000.00 as and for attorney's fees, the same being deemed just and equitable, and to pay the costs of suit.

The claim for moral and exemplary damages is denied, the same not being recoverable in an ejectment suit. Moreover, for lack of basis, the claim for deficit in monthly rentals from August 1, 1995 is likewise denied. Defendant is, therefore, directed to continue to pay reasonable compensation for his continued use and occupation of the subject premises at the old rate of P15,000.00 a month from the time of the institution of this complaint until defendant and all person[s] claiming rights under him shall have completely vacated the premises.

Defendant's counterclaim is dismissed for want of basis.

SO ORDERED.<sup>[13]</sup>

The MeTC declared that the phrase "renewable upon agreement of the parties" in the lease contract implied mutuality, i.e., both parties' consent to the renewal of the lease. Thus, San Buenaventura's demand for Josefa to vacate the premises after the expiration of the lease necessarily negates the idea of her consent to such renewal. The court also held that the clause does not and cannot constitute a commitment or a promise on the part of San Buenaventura to renew the lease.<sup>[14]</sup>

Josefa appealed the decision to the Regional Trial Court (RTC). On June 27, 2001, the RTC rendered its Decision<sup>[14]</sup> reversing and setting aside the ruling of the MeTC and dismissing San Buenaventura's complaint. The decretal portion of the decision reads:

WHEREFORE, premises considered, the questioned Decision is REVERSED and SET ASIDE, and the Complaint in Civil Case No. 6798 hereby DISMISSED.<sup>[16]</sup>

The RTC held that the inclusion of the renewal clause in the contract showed the intent on the part of both parties to extend the lease without any condition or requirement of mutual agreement. It declared that the phrase was merely a useless addition "for the convenience of any party who may wish, in bad faith, to back out of the extension of the lease." According to the RTC, "the only time that phrase may come into play is when both parties mutually decline to extend the lease, but when only one party insists on the extension while the other refuses, the latter party is bound by the term."<sup>[17]</sup>

This time, San Buenaventura appealed to the CA via a Petition for Review under Rule 42 of the Revised Rules of Court, where she alleged the following:

5.1 Petitioner respectfully submits that the REGIONAL TRIAL COURT erred in finding that the phrase "renewable upon agreement of the parties" is an outright intent of the parties to renew the contract upon its expiration.

5.2 Petitioner respectfully submits that the REGIONAL TRIAL COURT erred in finding that the phrase "renewable upon agreement of the parties" does not mean that there has to be mutual consent before the lease contract may be extended.

5.3 Petitioner respectfully submits that the REGIONAL TRIAL COURT erred in finding that the phrase "renewable upon agreement of the parties" is indeed renewable and without any condition or requirement of mutual agreement notwithstanding the phrase upon agreement of the parties which the Court found as a useless addition for the convenience of any party who may wish, in bad faith, to back out of the extension.

5.4 Petitioner respectfully submits that the REGIONAL TRIAL COURT erred in finding that the act of sending defendant a demand to vacate, signifying her lack of intention to renew the lease is in violation of the

terms and conditions of the lease contract.

5.5 Petitioner submits that the Regional Trial Court erred in not ordering respondent to pay PHP 30,000.00 monthly rental.

5.6 Petitioner respectfully submits that the REGIONAL TRIAL COURT erred in dismissing the ejectment Complaint.<sup>[17]</sup>

San Buenaventura argued that the RTC failed to apply the ruling of this Court in *Fernandez v. Court of Appeals*,<sup>[19]</sup> where a similar clause in the lease contract of the parties was construed.

On November 22, 2002, the CA granted the petition and reversed the decision of the RTC. The fallo of the decision reads:

IN VIEW OF ALL THE FOREGOING, the challenged RTC Decision is hereby REVERSED and SET ASIDE, reinstating in the process the earlier judgment of the MTC in Civil Case No. 6798, with a modification that herein respondent Josefa is ordered to pay petitioner San Buenaventura rentals in the sum of P30,000.00 a month from the first demand therefor until he vacates the leased premises. In all other respect[s], the MTC Decision stands. No cost.

SO ORDERED.<sup>[20]</sup>

The appellate court declared that, after the expiration of the five-year period in the lease contract, the owner of the property had the right not only to terminate the lease but to demand a new rental rate. It held that it was unfair for the lessee to refuse to pay the demanded increased rate and still remain in possession of the property. The CA also ruled that Josefa could not claim to be a builder in good faith since he knew that he was only a lessee, whose rights relative to the improvements he introduced on the property are governed by Article 1678 of the New Civil Code.

Josefa (now petitioner) filed the instant petition against San Buenaventura (respondent) and raises the following issues for resolution: (a) whether the lease contract between petitioner and respondent contained a "renewal clause," and as such, they had agreed to extend the period of the lease after July 31, 1995; (b) whether petitioner is entitled to reimbursement for his improvements on the leased premises; and (c) whether petitioner is obliged to pay P30,000.00 a month by way of reasonable compensation for his continued occupancy of the property.

On the first issue, petitioner recalls that his predecessor had leased the property way back in 1939, and that said lease had always been renewed. Petitioner insists that when his lease contract with respondent was executed on July 15, 1990, a commitment was made to renew it upon its expiration on July 31, 1995, which was why the clause "renewable upon agreement of the parties" was incorporated in the lease contract. He posits that respondent could not unilaterally cancel the lease contract without affording him an opportunity to negotiate for its renewal. While the clause could not be construed to mean that the lease contract would be automatically renewed after its expiry, the provision negates the right of respondent to terminate the lease until after negotiations for its renewal should prove to be unsuccessful. However, he also maintains that respondent had the obligation to

renew the lease contract without modifying any of its terms and conditions. He posits that the ruling of this Court in *Fernandez v. Court of Appeals*<sup>[21]</sup> is not controlling in this case.

Respondent, for her part, avers that a similar issue was raised and resolved by this Court in the following cases: *Fernandez v. Court of Appeals*,<sup>[22]</sup> *Heirs of Amando Dalisay v. Court of Appeals*,<sup>[23]</sup> *Buce v. Court of Appeals*,<sup>[24]</sup> and *LL and Company Development and Agro-Industrial Corporation v. Huang Chao Chun*.<sup>[25]</sup> Respondent asserts that the rulings of this Court in said cases should apply.

The contention of petitioner has no merit.

It bears stressing that after the subject lease contract expired on July 15, 1995, petitioner was already unlawfully withholding possession of the leased premises from respondent as to entitle the latter to file her complaint for ejectment against petitioner as defendant.<sup>[26]</sup> Since the lease contract was executed for a determinate time, such contract ceased on the day fixed without need of further demand.<sup>[27]</sup> A notice to vacate constitutes an express act on the part of the lessor that he no longer consents to the continued occupation by the lessee of the property.<sup>[28]</sup> Hence, respondent, as plaintiff in the trial court, had a cause of action for ejectment against petitioner who was the defendant below.

It is true that petitioner and respondent agreed that the subject lease contract was "renewable upon agreement." The Court notes, however, that the effect of petitioner's intransigent refusal to pay the P30,000.00 monthly rental proposed by respondent was the failure of the parties to agree on the renewal of the contract. The clause "renewable upon agreement of the parties" in the lease contract is clear and admits of no other interpretation: the contract is renewable *only upon agreement of the parties*. If no such agreement is forged, petitioner has no other option except to vacate the property.

Even petitioner himself admits that under the subject clause, the lease contract would not be automatically renewed upon its expiration on July 31, 1995. Respondent, as the owner of the property whose title is recognized in the lease contract, was not obliged to agree to renew the lease contract, much less negotiate with petitioner for such renewal if she opts not to renew the agreement. Since the renewal of the contract contemplates the death of the old contract, it is necessary that a new one be executed by the parties.<sup>[28]</sup> A contract can only be renewed upon the mutual agreement of the parties or at the will of both of them. After all, as the Court ruled in *Buce v. Court of Appeals*:<sup>[30]</sup>

In the case at bar, it was not specifically indicated who may exercise the option to renew, neither was it stated that the option was given for the benefit of herein petitioner. Thus, pursuant to the *Fernandez* ruling and Article 1196 of the Civil Code, the period of the lease contract is deemed to have been set for the benefit of both parties. Renewal of the contract may be had only upon their mutual agreement or at the will of both of them. Since the private respondents were not amenable to a renewal, they cannot be compelled to execute a new contract when the old contract terminated on 1 June 1994. It is the owner-lessor's prerogative