

THIRD DIVISION

[G.R. No. 131784, September 16, 1999]

FELIX L. GONZALES, PETITIONER, VS. THE HEIRS OF THOMAS AND PAULA CRUZ, HEREIN REPRESENTED BY ELENA C. TALENS, RESPONDENTS.

D E C I S I O N

PANGANIBAN, J.:

If a stipulation in a contract admits of several meanings, it shall be understood as bearing that import most adequate to render it effectual. An obligation cannot be enforced unless the plaintiff has fulfilled the condition upon which it is premised. Hence, an obligation to purchase cannot be implemented unless and until the sellers have shown their title to the specific portion of the property being sold.

The Case

Before us is a Petition for Review on Certiorari assailing the August 13, 1997 Decision^[1] of the Court of Appeals^[2] in CA-GR CV No. 303754, which disposed as follows:

"WHEREFORE, the decision of the trial court dated November 16, 1990 is hereby REVERSED. The appellee FELIX GONZALES is hereby ordered to surrender possession of the property covered by the Contract of Lease/Purchase to the appellants, Heirs of Thomas and Paula Cruz, and to pay to the appellants the following amounts:

1. P15,000.00 per annum as rentals counted from December 1, 1984 until the appellants shall have recovered possession of the property subject of the Contract of Lease/Purchase;
2. P15,000.00 as attorney's fees; and
3. Costs of suit."^[3]

On the other hand, the trial court^[4] Decision,^[5] which was reversed by the CA, ruled as follows:

"WHEREFORE, premises considered, this Court hereby renders judgment in favor of the defendant, Felix Gonzales, and against the plaintiffs, as follows:

- (1) Ordering the dismissal of the case;
- (2) Sentencing the plaintiffs, jointly and severally, the sum of P20,000.00 as moral damages and the other sum of P10,000.00 as and for attorney's

fees; and

(3) To pay the costs.”^[6]

The Facts

We hereby reproduce, unedited, the Court of Appeals’ summary of the facts of this case as follows:

“On December 1, 1983, Paula Año Cruz together with the plaintiffs heirs of Thomas and Paula Cruz, namely Ricardo A. Cruz, Carmelita M. Cruz, Salome A. Cruz, Irene C. Victoria, Leticia C. Salvador and Elena C. Talens, entered into a Contract of Lease/Purchase with the defendant, Felix L. Gonzales, the sole proprietor and manager of Felgon Farms, of a half-portion of a ‘parcel of land containing an area of 12 hectares, more or less, and an accretion of 2 hectares, more or less, situated in Rodriguez Town, Province of Rizal’ and covered by Transfer Certificate of Title No. 12111 (Exhibit A, p. 157, Records). The contract of Lease/Purchase contains the following provisions:

- ‘1. The terms of this Contract is for a period of one year upon the signing thereof. After the period of this Contract, the LESSEE shall purchase the property on the agreeable price of One Million Pesos (P1,000,000.00) payable within Two (2) Years period with an interest of 12% per annum subject to the devalued amount of the Philippine Peso, according to the following schedule of payment:

Upon the execution of the Deed of Sale 50% - and thereafter 25% every six (6) months thereafter, payable within the first ten (10) days of the beginning of each period of six (6) months.

- ‘2. The LESSEE shall pay by way of annual rental an amount equivalent to Two Thousand Five Hundred (P2,500.00) Pesos per hectare, upon the signing of this contract on Dec. 1, 1983.

x x x x x x x x x

- ‘9. The LESSORS hereby commit themselves and shall undertake to obtain a separate and distinct T.C.T. over the herein leased portion to the LESSEE within a reasonable period of time which shall not in any case exceed four (4) years, after which a new Contract shall be executed by the herein parties which shall be the same in all respects with this Contract of Lease/Purchase insofar as the terms and conditions are concerned.

x x x x x x x x x’

(Exhibits A, A-1; pp. 157-158. Records)

"The defendant Gonzales paid the P2,500.00 per hectare or P15,000.00 annual rental on the half-portion of the property covered by Transfer Certificate of Title No. 12111 in accordance with the second provision of the Contract of Lease/Purchase (p. 12, TSN, September 14, 1989) and thereafter took possession of the property, installing thereon the defendant Jesus Sambrano as his caretaker (pp. 16-17, 27, TSN, December 12, 1989). The defendant Gonzales did not, however, exercise his option to purchase the property immediately after the expiration of the one-year lease on November 30, 1984 (pp. 19-20, TSN, September 14, 1989). He remained in possession of the property without paying the purchase price provided for in the Contract of Lease/Purchase (Ibid.) and without paying any further rentals thereon (p. 36, TSN, November 7, 1989).

"A letter was sent by one of the plaintiffs-heirs Ricardo Cruz to the defendant Gonzales informing him of the lessors' decision to rescind the Contract of Lease/Purchase due to a breach thereof committed by the defendant (Exhibit C; p. 162, Records). The letter also served as a demand on the defendant to vacate the premises within 10 days from receipt of said letter (Ibid.).

"The defendant Gonzales refused to vacate the property and continued possession thereof (p. 2, Record). The matter was therefore brought before the barangay captain of San Isidro, but owing to the defendant's refusal to appear before the barangay, a certification allowing the case to be brought to Court was issued on March 18, 1987 (Exhibit E; p. 165, Records).

"The lessor, Paula Año Cruz died the following day, March 19, 1987 (p. 9, TSN, September 14, 1989).

"A final demand letter to vacate the premises was sent by the remaining lessors who are also the heirs of the deceased lessor Paula Año Cruz, through their counsel on August 24, 1987 which the defendant Gonzales received but did not heed (Exhibits D and D-1; pp. 163-164, Records).

"The property subject of the Contract of Lease/Purchase is currently the subject of an Extra-Judicial Partition (Exhibits G and G-1; pp. 168-169, Records). Title to the property remains in the name of the plaintiffs' predecessors-in-interest, Bernardina Calixto and Severo Cruz (Exhibit B; p. 160, Records).

"Alleging breach of the provisions of the Contract of Lease/Purchase, the plaintiffs filed a complaint for recovery of possession of the property - subject of the contract with damages, both moral and compensatory and attorney's fees and litigation expenses (p. 3, Records).

"Alleging breach of paragraph nine of the Contract of Lease/Purchase, and payment of only P50,000.00 of the P500,000.00 agreed down payment on the purchase price of P1,000,000.00, the defendant Gonzales filed his answer on November 23, 1987 praying for a dismissal of the complaint filed against him and an award of moral, exemplary and actual damages, as well as litigation expenses (pp. 19-22, Records).

"The defendant Sambrano was, upon motion, declared in default for failure to file an answer despite valid service of summons (p. 30, Records).

"The parties limited the issues to be resolved to:

(1) Whether or not paragraph 9 of the contract is a condition precedent before the defendant is to pay the down payment;

(2) Whether or not plaintiffs can rescind the Contract of Lease/Purchase; and

(3) Whether or not plaintiffs can terminate the Contract of Lease. (p. 4, Decision; p. 262, Records)

"After the termination of the pre-trial conference, the trial court proceeded to hear the case on the merits and arrived at its appealed decision based on the following findings and conclusions:

'Paragraph 9 of the contract clearly indicates that the lessors-plaintiffs shall obtain a Transfer Certificate of Title in the name of the lessee within 4 years before a new contract is to be entered into under the same terms and conditions as the original Contract of Lease/Purchase. Thus, before a deed of Sale can be entered into between the plaintiffs and the defendant, the plaintiffs have to obtain the Transfer Certificate of Title in favor of the defendant. Article 1181 of the New Civil Code states that: 'In conditional obligations, the acquisition of rights, as well as the extinguishment or loss of those already acquired, shall depend upon the happening of the event which constitutes the condition.' When the obligation assumed by a party to a contract is expressly subjected to a condition, the obligation cannot be enforced against him unless the condition is complied with (Wise & Co. vs. Kelly, 37 Phil. 695; PNB vs. Philippine Trust Co., 68 Phil. 48).

'The failure of the plaintiffs to secure the Transfer Certificate of Title, as provided for in the contract, does not entitle them to rescind the contract[.] Article 1191 of the New Civil Code states that: 'The power to rescind obligations is implied in reciprocal ones, in case one of the obligors should not comply with what is incumbent upon him. The injured party may choose between the fulfillment of the obligation, with the payment of damages in either case. He may seek rescission, even after he has chosen fulfillment, if the latter should become impossible x x x.' The power to rescind is given to the injured party. Where the plaintiff is the party who did not perform, he is not entitled to insist upon the performance of the contract by the defendant or recover damages by reason of his own breach (Mateos vs. Lopez, 6 Phil. 206; Borque vs. Yu Chipco, 14 Phil. 95). An action for specific performance of a contract is an equitable proceeding, and he who seeks to enforce it must himself be fair and reasonable, and do equity (Seva vs. Berwin, 48 Phil. 581). In this case, plaintiffs failed to comply with the conditions precedent after 2-1/2 years from the execution of the contract so as to entitle them to rescind the contract. Although the contract stated that the same be done within 4 years from execution, still, the defendant has to be assured that the land subject of the case will be transferred in his name without any

encumbrances, as the Extra-Judicial Partition dated July 17, 1989 was being processed, and continues to be in process to this date. The failure to secure the Transfer Certificate of Title in favor of the defendant entitles not the plaintiffs but, rather, the defendant to either rescind or to ask for specific performances.

'Are the plaintiffs entitled to terminate the Contract of Lease? Article 1670 of the New Civil Code states that:

If at the end of the contract the lessee should continue enjoying the thing leased for fifteen days with the acquies[c]ence of the lessor and unless a notice to the contrary by either party has previously been given, it is understood that there is an implied new lease, not for the period of the original contract, but for the time established in Articles 1682 and 1687. The other terms of the original contract shall be revived.

'Article 1682 of the New Civil Code states that:

The lease of a piece of rural land, when its duration has not been fixed, is understood to have been made for all the time necessary for the gathering of the fruits which the whole estate leased may yield in one year, or which it may yield once, although two or more years may have to elapse for the purpose.

'The plaintiffs filed the complaint on October 12, 1987 after making an extra-judicial demand on July 2, 1986. The contract was entered into on December 1, 1983. The demand was thus made more than a year and a half from the expiry date of the original lease considering that there was no payment made for the second year of the lease. If one has to consider the fact that the defendant was given the option to purchase the property after two years, then, the lease would presumably run for at least two years. If that is so, then, the demand was made seven months after the expiration of the two-year lease. Still, this demand by the plaintiffs will come under the implied new lease of Articles 1682 and 1670 so that the plaintiffs are not entitled to terminate the Contract of Lease.

'In sum, the plaintiffs cannot terminate the Contract of Lease due to their failure to notify the defendant in due time of their intention to that effect. Nor can they rescind the Contract of Purchase in view of the fact that there is a condition precedent which the plaintiffs have not fulfilled. It is the defendant now who has the option to either rescind or demand the performance of the contract. Moreover, according to Article 1654 of the New Civil Code, the lessor is obliged to deliver the thing which is the object of the contract in such condition as to render it fit for the use intended. Considering that the lessors-plaintiffs have not delivered the property in whole over the protest of the defendant, the latter suffered damages therefor.' (p. 4-6, Decision; pp. 262-264, Records)

"Their complaint thus dismissed, the plaintiffs, now appellants, assign the trial court of having committed the following errors: