

SPECIAL FOURTH DIVISION

[CA-G.R. CV. NO. 96453, November 26, 2014]

DRA. MA. CECILIA P. SERRANO, PLAINTIFFS-APPELLEE, VS. SPS. JETHRO AUSTRIA ORDINARIO & CATALINA ACOSTA, DEFENDANTS-APPELLANTS.

DECISION

SORONGON, J.:

This is an appeal from the *Decision*^[1] dated December 8, 2010 of the Regional Trial Court (RTC) of Cabanatuan City, Branch 24 in Civil Case No. 5126-AF.

The case arose from an action for Breach of Contract and Damages filed by Dra. Ma. Cecilia P. Serrano (plaintiff-appellee) against spouses Jethro Austria Ordinario and Catalina Acosta (defendants-appellants). In her complaint, plaintiff-appellee alleged that on August 13, 2003, she and defendants-appellants entered into a Lease Contract^[2] over a commercial lot situated at Maharlika Highway, Cabanatuan City for a term of one (1) year commencing from August 13, 2003 until August 13, 2004 at the option of both parties. They also agreed among others, that:

"xxx

2.2 That the yearly rental of the premises shall be P80,000.00 but payment shall be monthly in the amount of P6,670.00 which shall be deposited every month with Metrobank near the premises on the account of lessor with an increased of 10% per year and whatever improvements introduced therein shall be for the lessor at the end of the contract;

2.3 that the premises was so constructed according to the plan and specifications of the lessee as made by the lessor and that lessee shall be used exclusively for car airconditions shop only, that all permits for the business like licenses, cable, water and light and other utilities needed by the business of the lessee shall be for his account;

2.4 All the necessary maintenance of the building, the wear and tear of the premises shall be for the good account of the lessee, that the latter cannot sublease the premises to other person without the written permission of the lessor and in the event the lessee introduced a permanent improvement on the premises at the end of the contract shall belong to the lessor without the payment from the later;

2.5 That in case any of the party desires to terminate this contract, an advance notice of THIRTY (30) days shall be given and in the event

however that the party violates any of the term or condition above hereof the party at fault shall pay all the damages and expenses including attorney's fee of not less than P10,000.00 and that the venue of enforcement of this contract shall be at Cabanatuan City.

xxx"

Immediately on August 13, 2003, defendants-appellants took possession of the subject premises. But came August 14, 2004, without any of the parties terminating the contract of lease or entering into another written agreement, defendants-appellants remained in the premises and continued to pay their monthly rent therefor.

On November 23, 2005, defendants-appellants told plaintiff-appellee of their intention to vacate the premises and sometime in January 2006, they left the rented area without notifying plaintiff-appellee at least 30-days in advance.

When plaintiff-appellee visited the rented premises she found out that the improvements she introduced thereon pursuant to the plans and specifications of defendants-appellants were removed by the latter leaving the place in a non-tenantable condition. She called defendants-appellants for a conference but the latter merely ignored her. Hence, she filed a complaint for Breach of Contract and Damages against them.

In their Answer^[3], defendants-appellants admitted that they had a Lease Contract with plaintiffs-appellees which was not renewed upon its expiry but their lease of the premises continued thereafter on a month-to-month basis. It is not true that they failed to notify plaintiff-appellee of their desire to vacate the premises. The complaint for breach of contract has no basis since they had complied with their underlying obligations including the payment of the monthly rentals and bills for water and electricity.

The parties failed to amicably settle the case, thus, trial on the merits ensued. Thereafter, the trial court rendered its now assailed judgment^[4] in this wise:

"WHEREFORE, *premises considered, judgment is hereby rendered in favor of plaintiff Dra. Cecilia P. Serrano and against defendants Jethro Ordinario and Catalino Acosta, as follows:*

- 1. Ordering the defendants to pay plaintiff the amount of Php150,000.00 representing the costs of the improvements introduced by and expenses paid by plaintiff in accordance with the plan and specifications of the defendants, that were removed and/or destroyed by the defendants;*
- 2. Ordering the defendants to pay the Bills for light and water in the total sum of Php1,422.22; and*
- 3. Ordering the defendants to pay plaintiff the amount of Php50,000.00 as attorney's fees and costs of suit in the amount of Php12,827.50.*

SO ORDERED."

Defendants-appellants interposed the present appeal alleging that the Regional Trial Court of Cabanatuan City, Branch 24, committed grave and reversible errors:

(A) OF CONCLUDING THAT THE DEFENDANTS VIOLATED THE PROVISIONS OF THE LEASE CONTRACT WHEN THEY FAILED TO GIVE AN ADVANCE NOTICE OF THIRTY (30) DAYS PRIOR TO THE TERMINATION OF THE CONTRACT;

(B) OF CONCLUDING THAT IMPROVEMENTS WERE MADE BY THE PLAINTIFF ON THE LEASED PREMISES AND THAT IT WAS THE RESPONSIBILITY OF THE DEFENDANTS TO PRESERVE THE SAME AND RETURN IT TO THE PLAINTIFF, WHEN IN TRUTH AND IN FACT, IN ACCORDANCE WITH THE DEMAND LETTER, THE COST OF IMPROVEMENTS SOUGHT BY THE PLAINTIFF WAS THE IMPROVEMENTS INTRODUCED BY THE LESSEES;

(C) OF CONCLUDING THAT THE DEFENDANTS BREACHED THE LEASE CONTRACT THEY ENTERED INTO WITH THE PLAINTIFF AND DO NOT DESERVE EQUITY FOR THEIR WRONGFUL ACTS AND AWARDED DAMAGES IN FAVOR OF THE PLAINTIFF.

The assigned errors will be discussed *in seriatim* for being interrelated to each other.

Indisputedly, the subject contract of lease is only for a period of one (1) year commencing from August 3, 2003 renewable at the option of both parties. Accordingly, the contract ceased to be effective upon the day fixed therein without need of demand^[5]. However, defendants-appellants continued their stay in the leased premises with the acquiescence of plaintiff-appellee who did not ask them to vacate the same. This kind of arrangement, to our mind is an implied new lease based on the principle of *tacita reconduccion*. To put it differently, no positive act was made by both parties to indicate their intention to renew or enter a new contract of lease. In such a situation, Article 1670 of the Civil Code is *apropos*; thus:

"If at the end of the contract the lessee should continue enjoying the thing leased for fifteen days with the acquiescence 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."

The Supreme Court made an elaborate discussion of Article 1670 of the Civil Code in the case of *Dizon vs. Magsaysay*^[6] which was reiterated in the 2010 case of *Cebu Bionic Builders Supply, Inc. vs. DBP*^[7], thus:

"[T]he other terms of the original contract" which are revived in the implied new lease under Article 1670 are only those terms