



Republic of the Philippines
Supreme Court
Manila

SECOND DIVISION

PRIVATIZATION AND
MANAGEMENT OFFICE,

Petitioner,

G.R. No. 250477

Present:

— versus —

PERLAS-BERNABE, S.A.J.,
Chairperson,
GISMUNDO,
LAZARO-JAVIER,
LOPEZ, and
ROSARIO,* JJ.

MARIANO A. NOCOM,
substituted by MARIANO T.
NOCOM, JR., MARCELINO,
MANOLITO, HERMOSO,
ALBERT all surnamed
NOCOM, and CAROLINE N.
NG,

Respondents.

Promulgated:

NOV 09 2020

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DECISION

LOPEZ, J.:

The delineation between renewal of the contract and extension of its period is the core issue in this Petition for Review on *Certiorari*¹ under Rule 45 of the Rules of Court assailing the Decision² dated June 17, 2019 of the Regional Trial Court (RTC) of Makati City, Branch 135 in Civil Case No. R-MKT-16-03350-CV.

ANTECEDENTS

In 1964, the government reserved lots for the building site of the Reparations Commission (the Commission) in the South Harbor, Port Area, Manila.³ In 1968, the Commission constructed on the lots a 5-storey building with a floor area of 3,618 square meters. In 1980, the Commission was

* Designated additional Member per Special Order No. 2797 dated November 5, 2020.

¹ *Rollo*, pp. 23-68.

² *Id.* at 73-80; penned by Presiding Judge Josephine M. Advento.

³ PRESIDENTIAL PROCLAMATION NO. 244, entitled "Reserving for Building Site Purposes of the Reparations Commission Certain Parcels of Land of the Private Domain Situated in South Harbor, Port Area, City of Manila"; signed on May 18, 1964.

abolished and its assets and liabilities were placed under the management of the Board of Liquidators (the Board).⁴ In 1989, the Board offered the building for lease, and Mariano A. Nocom (Mariano) emerged as the highest bidder.⁵

In 1990, the Board and Mariano executed a lease contract⁶ with a right to renovate the building. However, there was a delay in the transfer of the building which halted the rehabilitation works. On October 18, 1991, the Board and Mariano executed an amended contract of lease⁷ for a period of 20 years to commence on October 1, 1993, and to end on September 30, 2013. The contract may be renewed for another 20 years upon agreement of the parties provided the lessee notifies in writing the lessor within 90 days before its expiration. They also agreed on a 10% increase in monthly rental every four years.⁸ Meantime, the Board was integrated with the National Development Company pursuant to the Office of the President's program to streamline the bureaucracy.⁹

On March 7, 1995, however, the Commission on Audit (COA) disallowed the lease because Mariano did not submit a duly approved construction/rehabilitation plan. On even date, the Board refused to accept rental payments. Mariano appealed to the COA *En Banc* which lifted the disallowance. Thereafter, Mariano filed an action for specific performance against the Board and its officers including the resident auditor before the RTC of Manila, Branch 22, docketed as Civil Case No. 96-78631-CV. In 1996, the Board's functions were transferred to the Asset Privatization Trust (Asset Privatization) which was then impleaded in the case.¹⁰

⁴ EXECUTIVE ORDER NO. 629, entitled "Abolishing the Reparations Commission and Transferring its Remaining Activities to the Development Bank of the Philippines"; signed on October 30, 1980, and EXECUTIVE ORDER NO. 635-A, entitled "Authorizing the Retention in the Service of Some Employees of the Reparations Commission (REPACOM) and Directing the Board of Liquidators to Advance their Salaries and Other Operating Expenses Subject to Reimbursement from REPACOM Funds"; signed on December 23, 1980.

⁵ Board of Liquidators Resolution No. 671; *rollo*, p. 26.

⁶ *Id.* at 139-146.

⁷ *Id.* at 148-154. The Amended Contract of Lease provided for a period of 20 years to be counted from the first rental payment but not beyond the 24th month from October 1, 1991. Thus, the lease period started on October 1, 1993, to wit:

1. That the lease shall be for a period of twenty (20) years starting from the date the first payment of the rental on the building is made by the LESSEE, but not later than the end of the 24th month from October 1, 1991, with an option to renew [the same] for the same period with the terms and conditions to be agreed upon by both parties, provided that the LESSEE shall give prior notice in writing to the LESSOR within ninety (90) days before the expiration of the contract. x x x[;] *id.* at 149. (Emphasis supplied.)

⁸ *Id.* at 150. The parties agreed that: "rental shall be relatively increased by ten (10%) percent every four (4) years starting from the 25th month from October 1, 1991[;]" *id.* (Emphasis supplied.)

⁹ EXECUTIVE ORDER NO. 149, entitled "Streamlining of the Office of the President;" signed on December 28, 1993.

¹⁰ EXECUTIVE ORDER NO. 345, "Transferring the Board of Liquidations (BOL) from the National Development Company (NDC) to the Asset Privatization Trust (APT) to Effect its Abolition"; signed on June 14, 1996, and MEMORANDUM ORDER NO. 401, "Directing the Implementation of Executive Order No. 345, Series of 1996"[;] x x x dated October 10, 1996.



On February 12, 1998, the RTC, Branch 22, approved a Compromise Agreement between Asset Privatization and Mariano where they ratified the amended contract of lease. Moreover, both parties agreed to extend the lease period corresponding to the time covered from refusal to accept rental payments on March 7, 1995, up to the approval of the compromise agreement,¹¹ viz.:

1. The Amended Contract of Lease dated October 18, 1991 is **hereby confirmed, ratified and validated**, x x x except as otherwise stipulated x x x in this Compromise Agreement;

2. All the parties further acknowledge and affirm an **extension of the lease period** of the said Amended Contract of Lease corresponding to the period covered from March 7, 1995 (the date of BOL's refusal to accept rental payments from PLAINTIFF/LESSEE) until the actual date of the Order of the Regional Trial Court of Manila, Branch XXII (before whom the civil case referred to above is pending) approving this Compromise Agreement[.]¹² (Emphases supplied.)

In 2001, Asset Privatization's powers and duties were transferred to the Privatization and Management Office (PMO).¹³ In a Letter dated February 24, 2011, the PMO demanded from Mariano the payment of the 10% increase in monthly rental,¹⁴ thus:

Under the Amended Contract of Lease executed between you and the Board of Liquidators covering Reparations Building x x x, **the monthly rental shall be increased by ten percent (10%) every four (4) years for twenty years starting February 12, 1998.**

Relative thereto, **the third (3rd) round of increase on the monthly rental** x x x **[shall] commence on February 12, 2010.** x x x

In view thereof, may we request for the payment x x x representing the increase in the rental rate for the month of February 2010.¹⁵ (Emphases supplied.)

On August 24, 2016, the PMO sent another letter to Mariano informing him that the contract of lease will expire on September 3, 2016, and reminding him to peacefully vacate the building.¹⁶ The PMO likewise stopped accepting rental payments from Mariano. On September 6, 2016, Mariano replied insisting that the contract is yet to expire on February 11, 2018, and notified PMO that he is exercising his right to renew the contract for another 20

¹¹ *Rollo*, pp. 170-176.

¹² *Id.* at 173.

¹³ EXECUTIVE ORDER NO. 323, "Constituting an Inter-Agency Privatization Council (PC) and Creating a Privatization and Management Office (PMO) Under the Department of Finance for the Continuing Privatization of Government Assets and Corporations;" signed on December 6, 2000.

¹⁴ *Rollo*, p. 849.

¹⁵ *Id.*

¹⁶ *Id.* at 178.

years.¹⁷ Also, Mariano tendered rental payments but was refused.¹⁸ On October 27, 2016, the PMO reiterated its demand for Mariano to vacate the premises.

Aggrieved, Mariano filed an action for injunction with prayer for temporary restraining order (TRO) and writ of preliminary injunction (WPI), specific performance, consignment, and damages against the PMO before the RTC of Makati City, Branch 58, docketed as Civil Case No. R-MKT-16-03350-CV.¹⁹ The RTC, Branch 58, issued a TRO enjoining the PMO from filing an eviction case against Mariano. Later, the RTC, Branch 58, granted a WPI and ordered the clerk of court to accept Mariano's rental payments. After the judicial dispute resolution conference was terminated, without the parties reaching a settlement, the case was raffled to the RTC of Makati City, Branch 135.

On June 17, 2019, the RTC, Branch 135, ruled that the expiration of the amended contract of lease was on February 11, 2018, and not on September 3, 2016. It ratiocinated that the compromise agreement between PMO and Mariano renewed the 20-year lease period from February 12, 1998 to February 11, 2018. Corollarily, the PMO violated the contract when it prematurely terminated the contract of lease. Lastly, the RTC, Branch 135, ordered the PMO to respect Mariano's right to renew the lease for another 20 years or from February 12, 2018 to February 11, 2038,²⁰ to wit:

WHEREFORE, premises considered, this Court hereby orders the following:

1. Let a Writ of Final Injunction be issued making permanent the Writ of Preliminary Injunction dated July 31, 2017 in favor of plaintiff Mariano A. Nocom, as substituted by his heirs, by RESTRAINING, PROHIBITING and/or ENJOINING defendant Privatization and Management Office and all persons acting on its behalf from filing an eviction case against plaintiff and from committing any acts of dispossession of Repacom Building against plaintiff and ORDERS the Clerk of Court, Regional Trial Court, Makati City to release the consigned amount of Php263,538.00 corresponding to the monthly rentals for the months of September 2016 to June 2017 in favor of the defendant and to release the Injunction Bond in the amount of Php300,000.00 in favor of the plaintiff;

2. For Defendant to respect plaintiff's right to renew the Amended Contract of Lease for another twenty (20) years from February 12, 2018 or until February 11, 2038;

¹⁷ *Id.* at 179.

¹⁸ *Id.* at 180.

¹⁹ *Id.* at 155-160.

²⁰ *Id.* at 73-80.



3. For Defendant to pay attorney's fees in the amount of Php200,000.00, and costs of suit.

SO ORDERED.²¹

The PMO sought reconsideration but was denied.²² Hence, this petition. The PMO, through the Office of the Solicitor General, argues that direct recourse to this Court is warranted since the facts are undisputed and the case refers to interpretation of a contract which involves a question of law. On the merits, the PMO contends that the RTC erred in ruling that the compromise agreement renewed the period of the amended contract of lease from February 12, 1998 to February 11, 2018. The plain language of the compromise agreement only extended the term of the lease corresponding to the time it was suspended from March 7, 1995 to February 12, 1998, or a period of two (2) years, eleven (11) months and three (3) days. Thus, the amended contract of lease expired on September 3, 2016. However, Mariano notified PMO of his intention to renew the lease contract only on September 6, 2016, or three days after the agreement expired.²³

In contrast, the heirs²⁴ of Mariano insist that the compromise agreement renewed the lease period for another 20 years from February 12, 1998, and that the correct expiration date of the amended contract of lease is on February 11, 2018. Consequently, Mariano timely notified the PMO on September 6, 2016 of his intention to renew the contract. Lastly, they claim that the PMO's letter dated February 24, 2011, stating that "*the monthly rental shall be increased by ten percent (10%) every four (4) years for twenty years starting February 12, 1998,*"²⁵ effectively confirmed the intention to renew the lease for another 20 years.

RULING

The petition is meritorious.

A question of law arises when there is doubt as to what the law is on a certain state of facts. It must not involve an examination of the probative value of the evidence.²⁶ Notably, an inquiry into the true intention of the contracting parties is a legal and not a factual issue. An appeal which involved an interpretation of the true agreement between the parties necessarily raises a

²¹ *Id.* at 80.

²² *Id.* at 81.

²³ *Id.* at 23-68.

²⁴ *Id.* at 34. On April 5, 2019, PMO received a Notice of Substitution notifying the court of the death of Mariano and the substitution of his children and heirs as party to the case, which was subsequently granted by the RTC-Makati, Branch 135 in an Order dated April 8, 2019.

²⁵ *Id.* at 849.

²⁶ *Republic of the Phils. v. Malabanan*, 646 Phil. 631, 637 (2010), citing *Leoncio v. De Vera*, 569 Phil. 512, 516 (2008); and *Far Eastern Surety and Insurance Co., Inc. v. People*, 721 Phil. 760,767 (2013), citing *Heirs of Nicolas Cabigas v. Limbaco*, 670 Phil. 274, 285 (2011). See also *Vda. De Formoso v. Philippine National Bank*, 665 Phil. 184, 197 (2011).



question of law.²⁷ In this case, the issue as to the correct expiration date of the amended contract of lease entails an interpretation of the compromise agreement *vis-à-vis* the respective rights of the parties. Hence, direct recourse to this Court is allowed.

It is a cardinal rule in the interpretation of contracts that “*if the terms of a contract are clear and leave no doubt upon the intention of the contracting parties, the literal meaning of its stipulations shall control.*”²⁸ The process of interpreting a contract requires the court to make a preliminary inquiry as to whether the contract before it is ambiguous. A contract provision is ambiguous if it is susceptible of two reasonable alternative interpretations. Where the written terms of the contract are not ambiguous and can only be read one way, the court will interpret the agreement as a matter of law.²⁹ As *Bautista v. Court of Appeals*³⁰ aptly discussed:

The rule is that where the language of a contract is plain and unambiguous, its meaning should be determined without reference to extrinsic facts or aids. The intention of the parties must be gathered from that language, and from that language alone. Stated differently, where the language of a written contract is clear and unambiguous, the contract must be taken to mean that which, on its face, it purports to mean, unless some good reason can be assigned to show that the words used should be understood in a different sense. Courts cannot make for the parties better or more equitable agreements than they themselves have been satisfied to make, or rewrite contracts because they operate harshly or inequitably as to one of the parties, or alter them for the benefit of one party and to the detriment of the other, or by construction, relieve one of the parties from terms which he voluntarily consented to, or impose on him those which he did not.³¹ (Emphasis supplied.)

Here, there is no ambiguity in the language of the compromise agreement. The parties explicitly provided for *an extension of the lease period*. There is nothing in the agreement showing that the parties intended to renew the contract of lease for another 20 years. Otherwise, they could have expressly done so. Indeed, a fine distinction exists between a stipulation to *renew* a lease and one to *extend* it beyond the original term. A renewal clause creates an obligation to execute a new lease for the additional period. It connotes the cessation of the old agreement and the emergence of a new one. On the other hand, an extension clause operates of its own force to create an additional term. It does not require the execution of a new contract between

²⁷ *F.F. Cruz & Co., Inc. v. HR Construction Corp.*, 684 Phil. 330, 347 (2012), citing *Phil. National Construction Corp. v. CA*, 541 Phil. 658, 669-670 (2007). See also *Malayan Insurance Co., Inc. v. St. Francis Square Realty Corp.*, G.R. Nos. 198916-17 & 198920-21, July 23, 2018. See also *CE Construction Corp. v. Araneta Center, Inc.*, 816 Phil. 221, 263 (2017).

²⁸ NEW CIVIL CODE, Art. 1370, first paragraph.

²⁹ *Abad v. Goldloop Properties, Inc.*, 549 Phil. 641, 654 (2007).

³⁰ 379 Phil. 386 (2000).

³¹ *Id.* at 399.

the parties.³² In this case, the compromise agreement did not require the parties to enter into another lease contract. Quite the contrary, the agreement *confirmed, ratified and validated* the existing amended contract of lease. Verily, the compromise agreement leaves no room for equivocation or interpretation. As such, no amount of extraneous sources are necessary in order to ascertain the parties' intent.³³ Relatively, the heirs of Mariano cannot unduly stretch the import of the PMO's letter dated February 24, 2011 beyond its nature as a mere demand to pay the increase in monthly rental. The letter cannot also be taken as detached and isolated from the other acts of the PMO that are incompatible with the theory of renewal. Particularly, PMO's reminder about the expiration of the contract, its refusal to accept rental payment, and demand to peacefully vacate the building, render renewal out of the question. Taken together, the parties to the compromise agreement vividly intended for an extension of the lease period, and not renewal of the contract.

We now determine the correct expiration date of the amended contract of lease. Originally, the lease is for 20 years or from October 1, 1993 to September 30, 2013, and may be renewed for another 20 years upon agreement of the parties. However, the contract was suspended on March 7, 1995, when the COA disallowed the lease and the Board refused to accept rental payment. At that time, the contract had a remaining period of 18 years, 6 months and 21 days. On February 12, 1998, Asset Privatization and Mariano entered into a compromise agreement and ratified the amended contract of lease. They agreed to extend the term of the lease equivalent to the time it was suspended from March 7, 1995 to February 12, 1998, or a period of two (2) years, eleven (11) months and three (3) days. The suspended period when tacked to the original date of expiration (September 30, 2013), results on the date September 3, 2016. Similarly, the remaining period of the contract (18 years, 6 months and 21 days), when added to the date it was ratified (February 12, 1998), falls on the same date September 3, 2016. Clearly, the extended lease period expired on September 3, 2016. Otherwise, to reckon the expiration date on February 11, 2018, will give Mariano a period of possession for more than 20 years which is contrary to the tenor of the compromise agreement which ratified the provisions of the amended contract of lease.

Lastly, the amended contract of lease stipulated that it may be renewed for another 20 years upon agreement of the parties, provided, the lessee notifies in writing the lessor within 90 days before its expiration. However, Mariano notified the PMO of the renewal of the contract on September 6, 2016, or three days after its expiration on September 3, 2016. There was no longer any lease which could be renewed. It is settled that if

³² See *Inter-Asia Services Corp. v. Hon. CA Special Fifteenth Div.*, 331 Phil. 708, 720 (1996), citing *Ching v. Hon. Ramolete*, 151-A Phil. 509, 516 (1973). See also *Buce v. CA*, 387 Phil. 897, 905 (2000).

³³ *Abella v. CA*, 327 Phil. 270, 275-276 (1996).

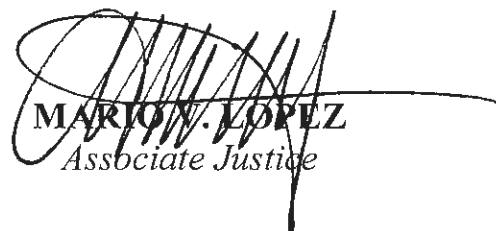


the lease was made for a determinate time, it ceases upon the day fixed, without the need of a demand.³⁴ Upon the lapse of the stipulated period, courts cannot belatedly extend or make a new lease for the parties, even on the basis of equity.³⁵ Here, after the lease was terminated on September 3, 2016, without reaching any agreement for its renewal, the PMO can eject the heirs of Mariano from the premises.³⁶

We reiterate that in an action for specific performance, the terms and conditions of the contract sought to be enforced must be adhered to, and the Court is not empowered to alter them or to prescribe any other condition not previously agreed to, by the parties. It is not the province of a court to alter a contract by construction, or to make a new contract for the parties. Its duty is confined to the interpretation of the one which they have made for themselves, without regard to its wisdom or folly, as the court cannot supply material stipulations or read into the contract words which it does not contain.³⁷

FOR THESE REASONS, the petition is **GRANTED**. The Decision dated June 17, 2019 of the Regional Trial Court of Makati City, Branch 135 in Civil Case No. R-MKT-16-03350-CV is **REVERSED** and **SET ASIDE**.

SO ORDERED.



MARIO V. LOPEZ
Associate Justice


³⁴ NEW CIVIL CODE, Art. 1669.

³⁵ *LL & Co. Dev't. & Agro-Industrial Corp. v. Huang Chao Chun*, 428 Phil. 665, 676 (2002), citing *Gindoy v. Judge Tapucar*, 166 Phil. 34, 44 (1977); and *Yap v. CA*, 406 Phil. 281, 289 (2001).

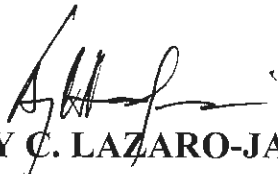
³⁶ *Chua v. CA*, 361 Phil. 308, 316 (1999).

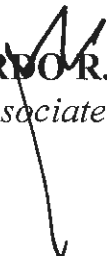
³⁷ *Bank of Commerce v. Manalo*, 517 Phil. 328, 353 (2006), citing *Chua v. CA*, *id.* at 317; *LL & Co. Dev't. & Agro-Industrial Corp. v. Huang Chao Chun*, *supra* note 33, at 675-676; and *The Bacolod-Murcia Milling Co., Inc. v. Banco Nacional Filipino*, 74 Phil. 675, 680 (1944).

WE CONCUR:


ESTELA M. PERLAS-BERNABE
Senior Associate Justice
Chairperson



ALEXANDER G. GESMUNDO
Associate Justice


AMY C. LAZARO-JAVIER
Associate Justice


RICARDO R. ROSARIO
Associate Justice

ATTESTATION

I attest that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.


ESTELA M. PERLAS-BERNABE
Senior Associate Justice
Chairperson

CERTIFICATION

Pursuant to Section 13, Article VIII of the Constitution, and the Division Chairperson's Attestation, I certify that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.



DIOSDADO M. PERALTA
Chief Justice