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SO ORDERED.

Fernando, C.J., Teehankee, Abad Santos, Plana, Escolin, Relova, de la Fuente, and *Cuevas, JJ.,* concur.

Makasiar, J., I reserve my vote.

Aquino, Concepcion Jr., and *Melencio-Herrera, JJ.,* no part.

FIRST DIVISION

[G.R. No. 55998. January 17, 1985]

RAMON MAGSAYSAY AWARD FOUNDATION, *petitioner,* *vs.* THE COURT OF APPEALS and SALCEDO, DEL ROSARIO, BITO, MISA & LOZADA, *respondents.*

SYLLABUS

1. **CIVIL LAW; OBLIGATIONS AND CONTRACTS; LEASE CONTRACT; MEETING OF THE MINDS ON THE RENEWAL THEREOF; CASE AT BAR.**— The Court finds this ruling that the parties had in fact agreed on the two-year renewal of the lease thru their exchanges of letters and implementing acts as above recited — notwithstanding that the draft renewal contract had not been signed by petitioner — to be in accordance with the facts and the law. The only point of disagreement was with reference to the deficiency rental arrearages based on the previous adjusted rate of P16.00 per square meter but we find no reason to disturb the appellate court's observation that "during the negotiations, although petitioner adverted to the arrearages in rental still due from the private respondent, it appears that said claim had been treated as a distinct or separate matter such that its resolution was not considered a condition precedent to the renewal under negotiation."

2. **ID.; ID.; ID.; HELD NOT RENEWED BY IMPLICATION, UPON ITS EXPIRATION.**— But the appellate court erred in upholding the trial court's judgment that after the expiration of the two-year period of the renewed lease on March 10, 1975, there was an

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implied new lease under the provisions of Art. 1670 of the Civil Code at the same no longer adequate rental rate of P17.00 per square meter. The appellate court equally erred in not awarding the petitioner the reasonable compensation for respondent's detention of the leased premises after March 10, 1975 in accordance with the adjusted increased rentals charged by petitioner against all other tenants of its Ramon Magsaysay Award Foundation Building. The appellate court, misappreciated the facts of record when it affirmed the court *a quo's* erroneous finding that respondent's renewed two-year lease upon its expiration on March 10, 1975 was deemed impliedly renewed and the rental pegged at the unconscionable rate of P17.00 per square meter for the period of over five years that respondent continued wrongfully detaining the premises. There could be no such implied renewal or right to ask the courts to fix a longer term (Articles 1670 and 1687, Civil Code) in the face of the express stipulation in the basic and fixed five-year contract that the lease shall not be deemed extended or renewed by implication beyond the stipulated contractual period for any cause or reason whatsoever but only by negotiations on or before 90 days prior to the expiration date and that the rental provided was subject to review at the end of the second year and every two years thereafter, commensurate with increases in operating expenses including the cost of labor, utilities, essential materials and insurance. The Court has held that upon expiration of the original lease in favor of a lessee, "the mere fact that (the lessee) was willing to pay what he claimed to be a reasonable rent — which was less than that demanded by the lessor — did not operate in any sense to extend said contract (Teresa Realty, Inc. *vs.* Sison, 4 SCRA 958).

3. **ID.; ID.; ID.; FIXING OF RENTAL, PREROGATIVE OF OWNER.**— The appellate court's ruling that the stipulated and legal right on the part of petitioner-lessor to adjust or collect a rental rate commensurate with increases in operating costs including electricity and other utilities could not be unilaterally exercised without acceptance by the respondent was, therefore, in error. As the Court held in *Vda. de Roxas vs. Court of Appeals,* 63 SCRA 302, 311, which is applicable here, *mutatis mutandis,* "it is the owner's prerogative to fix the rental for which he wishes to lease his property and the occupant or lessee has the option of accepting the rent as fixed or negotiating with the owner and in the event of failure to come to an agreement to leave the property so as not to be liable for the rental fixed and demanded by the owner. Only where the rental demanded is clearly exorbitant or unreasonable

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would the courts intervene as a matter of fairness and equity. The burden of proof to show that the rental demanded is exorbitant and unreasonable rested upon respondent, and since respondent presented no evidence in substantiation of his claim other than the original cost to petitioner of the property, he has manifestly failed to discharge his burden."

APPEARANCES OF COUNSEL

Norberto J. Quisumbing & Associates for petitioner.
Bito, Misa & Lozada for respondents.

DECISION

TEEHANKEE, *J.*:

The case was argued and heard on the merits and submitted for resolution as per the Court's Resolution of November 24, 1982 issued after the hearing.

Private respondent law firm of Salcedo, Del Rosario, Bito, Misa and Lozada (now Bito, Misa and Lozada) was the lessee of the whole 9th floor of petitioner's building with an area of 839.9 sq. m. on Roxas Blvd., Manila under a written five-year lease contract commencing March 11, 1968 and expiring on March 10, 1973 with express provisos against any extension or renewal by implication of the lease and for the review of the rental rate at the end of the second year of the lease and every two years thereafter, as follows:

"This Contract shall not be deemed extended or renewed by implication beyond the aforesaid period (5 years) for any cause or reason whatsoever, but only by negotiations on or before ninety (90) days prior to the expiration of this Contract.

"3. The rent herein provided shall be subject to review at the end of the second year from the effective date of this Contract, and every two (2) years thereafter. Adjustment shall be effected in the rental rate commensurate with increase(s) in operating expenses, including costs of labor, utilities, essential materials and insurance.

"The rental rate may also be adjusted as necessary to take account of any change in the official dollar/peso exchange of the Central Bank of the Philippines from the rate which was in effect on date of this Contract.

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"The adjusted rent shall apply only to the two-year period following each review."

The stipulated rental rate included costs of electricity, water, maintenance contracts (elevator, security and janitors), building insurance, personnel (maintenance, building administration, cleaning supplies, etc.), all of which were borne and paid by petitioner-lessor.

The original stipulated rental was P11,744.60 per month computed on the basis of P14.00 per square meter. On January 14, 1972, before the end of the fourth year of the lease, petitioner notified respondent that in accordance with the above-cited rental adjustment clause, it was increasing the monthly rental rate from P14.00 to P16.00 per square meter or a total monthly rental of P13,422.20. Meantime, there were negotiations for the renewal of the five-year lease contract. Petitioner sent on May 16, 1973 the draft of a renewal lease contract covering a period of two years from March 11, 1973 and providing for a rental rate of P17.00 per square meter or a total of P14,261.30 per month. The parties negotiated and practically agreed with regard to the rate per square meter but disagreed on the question of back rentals due from respondent on the basis of the adjusted rate of P16.00 per square meter corresponding to the last nine months of 1972. What transpired thereafter is substantially set forth in the appellate court's decision, as follows:

"On June 8, 1973, the private respondent returned the said draft to the petitioner requesting that it be finalized but with the last sentence of paragraph 2 thereof to read as follows: 'The period from March 11, 1973 to June 10, 1973 shall be at the rate of P16.00 per sq. m. or P13,422.40 per month' (Exh. K). On June 13, 1973, the petitioner sent back the final draft to the private respondent with the correction suggested by the latter, but with an added footnote reading: 'Following the same rate of P16.00 per square meter or P13,422.20 per month which took effect March 11, 1972.' (Exhs. L and L-1).

"On June 16, 1973, the private respondent returned to the petitioner said new lease contract already signed by private respondent, after its deletion of the footnote (Exh. M-1). The agreed monthly rental appearing on the said contract of lease was P14,261.30 at the rate of P17.00 per square meter effective June 11, 1973. However, the monthly rental for

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the period of three months from March 11, 1973 to June 10, 1973 was P13,422.20, based on the P16.00 per square meter (Exh. M).

"The private respondent began paying the new monthly rental based on P17.00 per square meter starting June 11, 1973 (Exhs. 16 to 16-A). It also gave the additional sum for the three months' deposit based on the new monthly rent (Exhs. 17, 17-A and 17-B).

"On September 18, 1973, the petitioner wrote a letter to the private respondent inquiring as to what decision it has arrived at, after the arrival of Atty. Bito, regarding the settlement of its *arrearages*, with the information that its occupancy of the premises on a month-to-month lease was against the policy of the petitioner's Board of Trustees (Exh. X).

"On September 19, 1973, the private respondent replied with a disclaimer of the alleged unpaid back rentals, and a request for a copy of the lease contract as renewed duly signed by the Chairman of the petitioner's Board of Trustees (Annex N).

"On September 29, 1973, the petitioner replied by letter to the effect that, as it appeared that there was no meeting of the minds on the matter, it has no recourse but to refer the same to its counsel (Exh. 0-1).

"On April 6, 1974, the petitioner wrote a letter advising the private respondent that it found it necessary to increase the rate of P25.00 per square meter, effective April 1, 1974, in view of increased expenses of operation (Exh. P). However, the private respondent continued its payment of the monthly rental at the rate of P17.00 per square meter.

"On October 21, 1974, the petitioner's counsel wrote a letter to the private respondent stating that, if it was agreeable to pay the rental arrearages at the rate of P16.00 per square meter from March 11, 1972 to December 31, 1972, and to pay the rentals at P25.00 per square meter a month from April 1, 1974, less its remittances of P17.00 per square meter a month, the petitioner was willing to sign a new lease contract for a period of *two* years, effective April 1, 1974, subject to the new provisions which have been forwarded to the private respondent earlier (Exhs. R and R-1).

"On January 3, 1975, the petitioner again notified the private respondent that it was increasing the rental rate to P30.00 per square meter effective January 1, 1975 (Exh. S).

"On January 20, 1975, the petitioner's counsel sent a letter to the private respondent demanding that it vacate the premises not later than

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January 31, 1975, and that it pay the rental in arrears amounting to P110,212.21 (Exh. T).

"On January 23, 1975, the private respondent wrote back stating that the petitioner has not given any factual or legal basis for its claim for back rents and that the private respondent had earlier given its position on the matter (Exh. 11).

"On June 27, 1975, the petitioner filed a complaint for ejectment against the private respondent before the City Court of Manila (Civil Case No. 001074 CV), whose decision thereon, as earlier stated, was modified on appeal by the Court of First Instance of Manila (Civil Case No. 12076). The judgment of said court is now the subject of this petition for review.

"In resolving the issues raised by both parties, the Court *a quo* made the following factual findings and conclusions: (1) that a renewal of the contract of lease was perfected by the parties covering a period of two years, from March 11, 1973 to March 10, 1975, with the rate of rental fixed at P17.00 per square meter effective June 11, 1973; (2) that after the expiration of the said two-year period, there was an implied new lease under the provisions of Art. 1670 of the Civil Code; (3) that private respondent, as lessee, having occupied the premises for over one year, the court, under Art. 1687 of the Civil Code may fix a longer term for the lease, which it did by giving the private respondent a period of one year from the finality of the judgment before vacating and delivering possession thereof to the petitioner, as lessor; and (4) that the private respondent is not liable to pay the petitioner deficiency rentals in the amount of P16,276.11 corresponding to March 11, 1972 to December 3, 1972." (Record, pp. 26-27)

On appeal by petitioner, respondent appellate court affirmed the court *a quo's* judgment dismissing petitioner's complaint praying for reasonable compensation for the use of the leased premises beyond the contracted period and set aside only the fourth ruling of said court disallowing petitioner's claim of deficiency rentals for 1972 and instead ordered respondent "to pay said petitioner as deficiency rentals for the months of April, May, June, July, August, September, October, November and December 1972, the sum of P16,236.00, with interest at the legal rate from the filing of the complaint."

1. The first issue is whether under the above-recited facts, there had been a meeting of the minds between the parties on the two-year

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renewal of their lease contract at the rate of P17.00 per square meter for the period from March 11, 1973 thru March 10, 1975. On this point, the appellate court ruled against petitioner, holding as follows:

"x x x It is noted that, even before the expiration on March 10, 1973, of the original 5-year term of the lease (Exh. A), the parties had been exchanging communications regarding its renewal. These exchanges reached the point of agreement on the conditions therefor, to wit:

'1. The period of this Contract shall be for two (2) year(s) beginning March 11, 1973 and terminating March 10, 1975, unless sooner terminated as elsewhere provided herein.

'This Contract shall not be deemed extended or renewed by implication beyond the aforesaid period for any cause or reason whatsoever, but only by negotiations on or before ninety (90) days prior to the expiration of this Contract.

'2. LESSEE shall pay LESSOR for the use and occupancy of the premises hereby leased a monthly rent of Pesos Fourteen Thousand Two Hundred Sixty-One & 30/100 (P14,261.30), Philippine Currency, during the term of this Contract effective June 11, 1973. This monthly rent is based on Pesos Seventeen (P17.00) per square meter. The period from March 11, 1973 to June 10, 1973 shall be at the rate of P16.00 per square meter or P13,422.20 per month.' (Exhibit M).

The unilateral deletion of the footnote made by the private respondent (Exh. L-1) from the final draft of the new lease contract cannot detract from the meeting of the minds reached by the parties insofar as its consideration and terms are concerned. We concur in the observation of the court *a quo*, that the parties' dispute over the increase of rental rate from P14.00 to P16.00 per square meter had no relevance to the perfection of the agreement to renew the lease. In fact, during the negotiations, although petitioner adverted to the arrearages in rental still due from the private respondent, it appears that said claim had been treated as a distinct or separate matter such that its resolution was not considered a condition precedent to the renewal under negotiation.

"That the parties had reached an agreement on the renewal of the lease contract finds support in the fact that it was even *implemented* by the parties. Thus, with RMC Bill No. 2367 (Exh. 16-A), the petitioner started billing the private respondent at the rate of P17.00 per square meter starting June 11, 1973, and this was paid by the petitioner (Exh. 16). And,

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under RMC Bill No. 2370 (Exh. 17), the petitioner billed the private respondent the additional sum of P7,550.10 for the three months' deposit due to increase in rental rate effective June 11, 1973, which amount was paid by the petitioner (Exh. 17-A)." (Record, pp. 28-28-A; italics copied)

The Court finds this ruling that the parties had in fact agreed on the two-year renewal of the lease thru their exchanges of letters and implementing acts as above recited — notwithstanding that the draft renewal contract had not been signed by petitioner — to be in accordance with the facts and the law. The only point of disagreement was with reference to the deficiency rental arrearages based on the previous adjusted rate of P16.00 per square meter but we find no reason to disturb the appellate court's observation that "during the negotiations, although petitioner adverted to the arrearages in rental still due from the private respondent, it appears that said claim had been treated as a distinct or separate matter such that its resolution was not considered a condition precedent to the renewal under negotiation." As already indicated hereinabove, the appellate court did in its decision overrule the court *a quo* and ordered the payment of the deficiency rentals claimed by petitioner for 1972 in the total sum P16,236.00.

2. But the appellate court erred in upholding the trial court's judgment that after the expiration of the two-year period of the renewed lease on March 10, 1975, there was an implied new lease under the provisions of Art. 1670 of the Civil Code at the same no longer adequate rental rate of P17.00 per square meter. The appellate court equally erred in not awarding the petitioner the reasonable compensation for respondent's detention of the leased premises after March 10, 1975 in accordance with the adjusted increased rentals charged by petitioner against all other tenants of its Ramon Magsaysay Award Foundation Building and duly accepted and paid by said tenants which amounted to P25.00 per square meter from April 1, 1974, P30.00 from January 1, 1975, P35.00 from July 1, 1975, P40.00 from July 1, 1976 and P42.50 from Janary 1, 1979. These adjusted rates were duly specified by petitioner in supplemental complaints and pleadings praying for their payment in the detainer case. As stated in respondent's own memorandum of facts, "the last rental rate petitioner demanded from respondent to pay was

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P30.00/sq.m. effective January 1, 1975 and, since then, no demand for rental increases were made. However, in its Supplemental Complaint filed in the City Court dated December 17, 1975, petitioner prayed that respondent be ordered to pay P35.00/sq.m. from July 1975, and in its Second Supplemental Complaint dated August 21, 1976, P40.00/sq.m. from July 1976." (Record, p. 255)

After respondent during the pendency of the detainer case in the appellate court vacated the detained premises on June 15, 1980, petitioner duly filed a manifestation and motion dated September 11, 1980 with the said court advising it of the return of the possession of the premises which thereby rendered moot the issue of any authority on the part of the court *a quo* to recognize any implied lease or to fix a period of the lease for one year more (after its expiration on *March 10, 1975)* and pursued its claim to the reasonable compensation for use and occupation of the premises wrongfully detained by respondent as per adjusted billings sent by petitioner to all its building's occupants as of the date of the effectivity of the adjusted rentals, and submitted that as of June 16, 1980, respondent's liability to petitioner was in the total sum of P2,142,620.55 broken down as follows:

"March 11, 1972 - December 31, 1972			P 39,182.32
April 1, 1974 - December 31, 1974	P25,00)	(per sq.m.)	165,172.70
January 1, 1975 - March 10, 1975	30.00)		
March 11, 1975 - June 30, 1975	30.00)		
July 1, 1975 - June 30, 1976	35.00)		1,911,918.41
July 1, 1976 - December 31, 1978	40.00)		
January 1, 1979 - June 15, 1980	42.50)		
Pest Control & Maintenance supplies, extra power & lighting			26,347.12
Total			P2,142,620.55"

3. The appellate court in its original appealed judgment of October 20, 1980 made no ruling whatsoever on this issue of petitioner being entitled to reasonable compensation for the occupancy and detention of the premises. Pressed by petitioner in a motion for reconsideration, the appellate court in its resolution of December 29, 1980 ruled, as follows:

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"The issue of increases in rentals, which the petitioner claims as reasonable compensation for the use and occupation of the premises in question, is anchored to its letter of April 6, 1972 (Exh. P), notifying the private respondent of the increase in rental rate to P25.00 per square meter effective April 1, 1974; its letter of January 3, 1975 (Exh. S) informing the private respondent that the rental rate was to be increased to P30.00 per square meter effective January 1, 1975; and its counsel's letter of January 20, 1975 (Exh. T) demanding that the private respondent vacate the premises not later than January 31, 1975. Actually, said issue was resolved by the Court *a quo* in this wise: '.... all these did not have any legal effect upon the defendant's right of occupation as lessee, because insofar as these referred to increase in rental, the renewed contract had not yet expired, hence rental as fixed therein could not yet be altered unilaterally, and as far as the notice to vacate was concerned, it has reference to the expiration of the original contract on March 10, 1973, and not to the yet to come expiry of the renewed contract' (pages 14-15 of Decision; Annex H, Petition). The petitioner did not specifically assign said pronouncement as one of the errors committed by the Court *a quo*. A manifestation and motion was filed (*Rollo*, p. 213) to bring out this matter.

"The petitioner's contention is untenable. In the first place, from the time the renewed lease contract became effective to the day it voluntarily left the leased property, the private respondent had been paying the petitioner the monthly rental of P17.00 per square meter. In the second place, the power of the petitioner under paragraph 2 of the original contract of lease (Exh. A) to review the rental therein provided at the end of the second year and of every two years thereafter, cannot be done by the lessor unilaterally. As pointed out in our decision (page 10), there must be good reason therefor and that the increase should be accepted by the private respondent."

This was error. While we have upheld the appellate court's judgment insofar as it held that there had been in effect a renewed two-year lease contract between the parties at the agreed rate of P17.00 per square meter up to March 10, 1975, this stipulated rate of P17.00 per square meter could not possibly remain the same for the period of over five years thereafter that respondent continued wrongfully detaining the premises, since such stipulated rental rate included the costs of electricity, water, maintenance contracts for elevator service, security and janitors, etc., which as will be presently shown had risen by hundreds of percent during the same period. If the rental

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rate were not adjusted, petitioner would have actually paid in effect for respondent's consumption of electricity, water and other facilities at ever-increasing rates without reimbursement, unjustly resulting in granting said respondent practically free occupancy of the entire 9th floor detained by it for the detainer period of over 5 years - in violation of the fundamental principle that no one shall unjustly enrich himself at the expense of another.

4. As already indicated above, upon the expiration of the renewed two-year lease contract on March 10, 1975, petitioner billed respondent the same adjusted and increased rental rate per square meter that all the other building tenants were paying, to wit, at the rate of P30.00 per square meter for the period from March 11, 1975 to June 30, 1975; at the rate of P35.00 per square meter for the period from July 1, 1975 to June 30, 1976; at the rate of P40.00 per square meter for the period from July 1, 1976 to December 31, 1978; and at the rate of P42.50 per square meter for the period from January 1, 1979 until June 15, 1980 when respondent finally vacated the premises during the pendency of the case in the appellate court. That these were the prevailing rentals charged by petitioner to all its other building tenants has not been disputed or rebutted by respondent. Similarly, petitioner's corroborative statement per Annex A of its motion for reconsideration that "The six (6) sections comprising the entire 9th floor occupied by Salcedo, et al. were immediately rented out after this tenant vacated the premises last June 16, 1980. One middle, one back and two Bay sections were rented out in July, 1980; one middle section in December, 1980; and the last back section last March, 1981, all at the prevailing rental rates of P50.00 per sq.m. for middle and back sections and P51.00 for Bay sections. The last back section was rented out at P55.00, which was the new rental rate as of March, 1981," has neither been disputed nor rebutted.

The figures submitted by petitioner in their tabulation of cost increases (Record, p. 206), show that the utilities and operating costs for the maintenance of the building, all borne by petitioner as the lessor, had progressively spiralled every half year during the period from June, 1973 through June, 1980, as follows:

- For *electricity*, P207,817.92 as of December, 1973, an increase of 13.36% from the previous base cost as of June, 1973

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of P183,322.50, with periodic increases to P639,176.85 as of December, 1979 (or a 248.66% increase) and to P797,775.00 as of June, 1980 (or an increase of 335.17%);

- For *water,* P4,704.92 as of December, 1973 or an increase of 52.95% from the previous base costs as of June, 1973 of P3,076.00, with periodic increases to P22,098.50 as of December, 1979 (or a 618.42% increase) to P25,347.90 as of June, 1980 (or an increase of 724.05%);

- For *maintenance contracts for elevator service, security and janitors,* P93,398.00 as of December, 1973, an increase of 2% as of December, 1973 from the previous base cost as of June, 1973 of P91,416.13 to P218,866.78 as of December, 1979 (or an increase of 139.42%) to P242,427.72 as of June, 1980 (or an increase of 165.19%); and

- For *personnel (maintenance and building administration),* P101,293.90 as of December, 1973 or an increase of 53.26% from the previous base cost of P66,090.61 as of June, 1973 to P204,581.84 as of December, 1979 (or an increase of 209.55%) to P211,814.96 as of June, 1980 (or an increase of 220.49%).

5. The appellate court, therefore, misappreciated the facts of record when it affirmed the court *a quo's* erroneous finding that respondent's renewed two-year lease upon its expiration on March 10, 1975 was deemed impliedly renewed and the rental pegged at the unconscionable rate of P17.00 per square meter for the period of over five years that respondent continued wrongfully detaining the premises. There could be no such implied renewal or right to ask the courts to fix a longer term (Articles 1670 and 1687, Civil Code) in the face of the express stipulation in the basic and fixed five-year contract that the lease shall not be deemed extended or renewed by implication beyond the stipulated contractual period for any cause or reason whatsoever but only by negotiations on or before 90 days prior to the expiration date and that the rental provided was subject to review at the end of the second year and every two years thereafter, commensurate with increases in operating expenses including the cost of labor, utilities, essential materials and insurance. Even in the exchange of letters between the parties

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which led to the ruling that the contract had been renewed for a stipulated two-year period ending on March 10, 1975 as upheld herein, such express stipulation against any extension or renewal by implication of the lease had been expressly agreed between the parties. In such cases, the Court has held that upon expiration of the original lease in favor of a lessee, "the mere fact that (the lessee) was willing to pay what he claimed to be a reasonable rent — which was less than that demanded by the lessor — did not operate in any sense to extend said contract (Teresa Realty, Inc. *vs.* Sison, 4 SCRA 958). To hold that there had been such an implied renewal of the lease simply because respondent continued wrongfully detaining the premises after the expiration of the fixed period of the lease on March 10, 1975 and resisted the detainer and ejectment action filed on June 27, 1975 by petitioner against it in the City Court of Manila would lead to the absurd consequence that all that an overstaying tenant or occupant would have to do to defeat the right of the lessor to charge the prevailing rentals specially in cases like that at bar where the rental rate includes the cost of electricity, water, maintenance service, elevator, security, janitors, personnel, cleaning supplies, etc., would be to resist and delay the ejectment action, continue wrongfully detaining the premises and depositing the old unconscionable rates and thereafter voluntarily vacate the premises without having to pay deficiency rentals and reasonable compensation for the detained premises at the established prevailing rates. As already stated, petitioner lessor would thereby in effect have actually paid for respondent's consumption of electricity, water and other facilities without reimbursement, resulting in respondent's unlawfully benefitting to the extent of almost free occupancy of the entire 9th floor of petitioner's builidng for the detainer period of more than five years, while all the other building tenants of petitioner had accepted and paid the adjusted increased rentals during the period in question and paid lessor the reasonable compensation that it was entitled for the occupancy of its building. It was clear error for the appellate court to declare the case as having become moot and academic simply because respondent during the course of the appeal vacated the premises in June, 1980 (which was rendered moot only insofar as the ejectment of respondent from the premises and their return to petitioner were thereby effected) without resolving the remaining principal issue of the payment of just and reason-

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able compensation in accordance with the prevailing rates duly claimed and owing to petitioner.

6. The appellate court's ruling that the stipulated and legal right on the part of petitioner-lessor to just or collect a rental rate commensurate with increases in operating costs including electricity and other utilities could not be unilaterally exercised without acceptance by the respondent was, therefore, in error. As the Court held in *Vda. de Roxas vs. Court of Appeals,* 63 SCRA 302, 311, which is applicable here, *mutatis mutandis,* "it is the owner's prerogative to fix the rental for which he wishes to lease his property and the occupant or lessee has the option of accepting the rent as fixed or negotiating with the owner and in the event of failure to come to an agreement to leave the property so as not to be liable for the rental fixed and demanded by the owner. Only where the rental demanded is clearly exorbitant or unreasonable would the courts intervene as a matter of fairness and equity. The burden of proof to show that the rental demanded is exorbitant and unreasonable rested upon respondent, and since respondent presented no evidence in substantiation of his claim other than the original cost to petitioner of the property, he has manifestly failed to discharge his burden."

7. Consequently, respondent's rental liability to petitioner may be summarized, as follows:

(a) Deficiency rentals for the months of April thru Dec., 1972 at the adjusted rate of P16.00 per square meter, or a total deficiency of P16,236.00, as per the portion of the appellate court's judgment herein affirmed;

(b) Monthly rentals for the period from January 1, 1973 to June 10, 1973, at the same adjusted rate of P16.00 per square meter (see Exh. M, *supra*, page 5 hereof);

(c) Monthly rentals from June 11, 1973 to the expiration on March 10, 1975 of the two-year renewed lease contract at the rate of P17.00 per square meter (see Exh. M, *supra*); and

(d) Monthly rentals or reasonable compensation for the occupancy of the detained premises for the period from March

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11, 1975 thru June 16, 1980 when respondent finally vacated the premises, as follows:

March 11, 1975 - June 30, 1975 at the rate of P30.00 per sq. m.
July 1, 1975 - June 30, 1976 " of P35.00 per sq. m.
July 1, 1976 - Dec. 31, 1978 " of P40.00 per sq. m.
January 1, 1979 - June 15, 1980 " of P42.50 per sq. m.
(*Supra*, page 7 hereof)

It is understood that any deposits on account of rentals made by respondent with the Court of First Instance of Manila during the pendency of the case and which were ordered to be paid to petitioner per the Court's resolution of February 14, 1983 shall be credited in favor of respondent.

ACCORDINGLY, judgment is hereby rendered setting aside the appealed judgment which dismissed petitioner's comlaint praying for reasonable compensation for the use of the leased premises (except as to the last portion thereof ordering respondent to pay petitioner the sum of P16,236.00 as deficiency rentals for 1972 with interest at the legal rate from the filing of the compliant which is herein affirmed) and instead sentencing respondent to pay petitioner as such compensation for the use of the premises the amounts at the specified monthly rental rates per square meter corresponding to the specific periods stated in the preceding paragraph 7 from March 11, 1975 thru June 15, 1980, with interest of twelve (12%) per annum thereon computed from June 16, 1980 as prayed for by petitioner. Without costs.

IT IS SO ORDERED.

Melencio Herrera, Plana, Relova, and *Gutierrez, Jr., JJ.,* concur.

de la Fuente, J., took no part.