

# THE SUPREME COURT OF APPEAL OF SOUTH AFRICA JUDGMENT

Reportable

Case No: 183/17

In the matter between:

MOHAMED'S LEISURE HOLDINGS (PTY) LTD

**APPELLANT** 

and

SOUTHERN SUN HOTEL INTERESTS (PTY) LTD

RESPONDENT

Neutral Citation: Mohamed's Leisure Holdings (Pty) Ltd v Southern Sun

Hotel Interests (Pty) Ltd (183/17) [2017] ZASCA 176

(1 December 2017)

Coram: Shongwe AP, Willis and Mathopo JJA and Meyer and

Ploos van Amstel AJJA

Heard: 21 November 2017

**Delivered:** 1 December 2017

**Summary:** Contract law – cancellation clause not unfair or unreasonable – doctrine of *pacta sunt servanda* to be enforced and applied – impermissible to infuse principles of ubuntu and good faith in the circumstances.

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### ORDER

**On appeal from**: Gauteng Local Division, Johannesburg (Van Oosten J, sitting as court of first instance):

- 1 The appeal is upheld with costs, such costs to include the costs of two counsel.
- 2 The order of the high court is set aside and substituted with the following:
  - '2.1 The respondent, together with all those persons who occupy the property fully described as Remaining Extent of Erf 13164 Cape Town (hereinafter referred to as 'the Property') by virtue of the respondent's occupation thereof are to vacate the property, on or before 31 March 2018.
  - 2.2 Should the respondent or any persons occupying the property through or under it fail to comply with the order granted in accordance with the order in par 2.1 above, that the sheriff of the above Honourable Court or his lawful deputy is authorised forthwith to evict the respondent and all persons/entities occupying the property through/under it.'

#### **JUDGMENT**

# Mathopo JA (Shongwe AP, Willis JA and Meyer and Ploos van Amstel AJJA concurring):

[1] This is an appeal against the judgment of the Gauteng Local Division of the High Court, Johannesburg (Van Oosten J) (the high court). It arises from an application in which the appellant, Mohamed's Leisure Holdings (Pty) Ltd, the owner and lessor in terms of a written lease agreement (the agreement) of immovable property known as Remaining Extent of Erf 13164, sought an order for the eviction of the respondent, Southern Sun Hotel Interests (Pty) Ltd. The eviction was sought on the basis that the respondent had breached clause 20 of the agreement by failing to make payment of the rental on due date. Although the high court accepted that the respondent had breached the

agreement, it declined to grant an order for eviction. It reasoned that the implementation of the cancellation clause would be manifestly unreasonable, unfair and offend public policy. In doing so it concluded that the common law principle, *pacta servanda sunt*, should be developed by importing or infusing the principles of ubuntu and fairness in the law of contract. The appeal against its order is with the leave of the high court.

- [2] I pause to state that the high court in arriving at its decision was aware of the decision of this court in *Venter v Venter* 1949 (1) SA 768 (A), which dealt with the principle of *pacta sunt servanda*. The high court held that the judicial precedent set in *Venter* is no longer good law and cannot be applied in the new Constitutional era. More about this aspect will follow later in the judgment.
- [3] At this stage it is necessary to set out in the paragraphs that follow the relevant factual background underpinning the respondent's defence.
- [4] The original lease agreement between the parties was concluded in 1982 between the parties' predecessors namely, Cape Town Holiday Inn (Pty) Ltd, as the lessor and Rennies Hotel and Liquor Holdings Ltd, as the lessee. The agreement was varied by the parties over the years. There were about four subsequent written agreements entered into, varying the identities of the parties, duration of the agreement and the amount of rental payable. On 18 July 1996 the appellant purchased the property and it became the registered owner of the premises. On or about 1 November 2001, the appellant concluded a written lease agreement with the respondent as the lessee in respect of the property. The new period of the agreement commenced on 1 January 2002 until 31 December 2011, with an option to renew the agreement for a further period of 10 years, 1 January 2012 to 31 December 2021, which option had been exercised. The rental payable was in the amount of R566 988.38 (inc VAT), being the rental payable during December 2011 and subsequently escalated at the rate of 7% per annum, compounded, with effect from 1 January 2012 and thereafter on 1 January of each successive year of the new option period.

- [5] It was a material term of the agreement that should the respondent fail to pay the rental on due date, then the appellant would be entitled to cancel the lease and retake possession of the property. It is common cause that the respondent and its predecessors have been occupying the premises for purposes of operating commercially as a hotel since 1982. This business has been functioning for an uninterrupted period of approximately 35 years. The respondent's hotel is operated and managed as part of eighteen Garden Court branded hotels in what is known as 'the hospitality industry' and it forms part of the greater Tsogo Sun Hotel Group brand of hotels. The nature of the business of the respondent is hotel accommodation across all market segments, namely corporate, government, leisure, standard tour operators, aircrew, conferencing and food and beverage services.
- [6] Clause 4.5 of the agreement which deals with the respondent's obligation to pay rent provides:
- '4.5 The LESSEE shall make monthly provisional rent payments to the LESSOR by not later than the seventh day of each month...'

The appellant's right to terminate the agreement and take possession of the property is set out in clause 20 of the agreement headed 'Breach' and it provides:

- 20.1 Should the LESSEE
- 20.1.1 fail to pay the rent on due date; or
- 20.1.2 contravene or permit the contravention of any one or more of the conditions of this agreement and fail to remedy such breach within 30 (THIRTY) days after receipt by it of notice in writing calling upon it to remedy such breach; or
- 20.1.3 allow a judgment against it to remain unsatisfied or unopposed for a period of seven days:

Then the LESSOR shall be entitled to terminate this lease and to take possession of the property.'

[7] During the period of the lease the respondent maintained regular and prompt payment of the rental in terms of the agreement. However, in June 2014 the respondent failed to make payment on the 7<sup>th</sup>, as stipulated in the

agreement. On 20 June 2014 when payment was not forthcoming, the appellant wrote a letter to the respondent and afforded it a period of five days within which to remedy the breach. In that letter the appellant pertinently warned the respondent that should it fail to pay rent on due date in the future, no notice to remedy the breach would be given and the agreement will be cancelled forthwith and the respondent will be required to vacate the premises with immediate effect. On 23 June 2014 the respondent's bankers, Nedbank, admitted that it was at fault in not transmitting the payment to the appellant on due date. The letter stated as follows:

'We wish to confirm that non-payment of the rental amount stated herein was caused as a result of a change in Nedbank processes which impacted the payment run for 01 June 2014 and by no omission of the client.'

[8] According to the respondent, as a result of this error, during the next period of three months ie July to September 2014, it monitored its bank statements by ensuring that future payments were debited from its account promptly by the 7<sup>th</sup> of each month. During the month of October, the rental was debited from the respondent's account on 6 October 2014. However, on 7 October 2014, through no fault of the respondent, Nedbank again omitted to transfer the rental amount due to the appellant. The explanation given by Nedbank was that the funds were credited into a wrong account instead of the appellant's account. As a result of this breach, the appellant's attorneys invoked the provisions of clause 20 of the agreement and addressed a notice of cancellation of the lease agreement to the respondent on 20 October 2014 and afforded it until 31 October 2014 to vacate the premises. Once again, as in the month of June, Nedbank accepted responsibility for the delay and stated that due to a 'processing error', it transferred the money from the respondent's account, not to the appellant's account but to an incorrect bank account. The rent was eventually paid on 21 October 2014. In an attempt to demonstrate its bona fides the respondent transferred an amount of R3 844.65 representing interest to the appellant's account. In response to the cancellation of the lease and the threatened eviction, the respondent's attorney informed the appellant's attorneys that cancellation of the lease was unreasonable because the breach occurred as a result of its banker's error

and contended that the purported cancellation was contrary to the concepts of ubuntu, good faith and reasonableness as enshrined in the Constitution.

- [9] It is against this background that I now turn to construe the relevant implications of clause 20 with a view to determine whether the respondent's contention has merit or not. The high court correctly found that the appellant was entitled in terms of clause 20 to cancel the agreement on the ground of non-payment of the October rental on due date and that in itself triggered the right to be restored into possession of the leased property. The high court further found that no hardship is caused by the impugned clause and that the respondent agreed to the specified time for the payment of monthly rentals, which the respondent complied with easily. The high court characterised the issue to be whether in the circumstances of this case, the implementation of the cancellation clause contained in the agreement will be manifestly unreasonable and offend against public policy.
- [10] The parties were ad idem that this was a proper characterisation of the issues. The appellant contended before the high court that, on a proper construction of clause 20, once it is established that the lessee had committed a material breach entitling it to cancel the agreement, the high court was obliged to enforce the cancellation of the agreement and grant an order for the eviction of the respondent from its premises.
- [11] In this court, the case advanced for the appellant is that the respondent committed a material breach of the agreement when it defaulted in paying rental on due date and it was thus entitled to cancel the agreement, as set out in clause 20. It was further emphasised that the appellant did not, after the first breach in June, cancel the agreement. Furthermore the appellant pertinently cautioned the respondent that a further breach would result in the cancellation of the agreement. Counsel for the appellant also submitted that, although the appellant was entitled to cancel the agreement forthwith when the respondent defaulted in its payment, the appellant did not cancel nor communicate its intention to cancel immediately. Instead it waited for a period of 12 days to lapse before cancelling the agreement. It was submitted that if

courts were to embark on the course of action, claimed by the respondent, it would be imposing its own sense of fairness and make contracts for the parties.

[12] Counsel for the respondent contended that even though it accepts that the payment was late, it disputed the appellant's entitlement to cancel the agreement on the ground of non-payment of the October rental on due date and seek an eviction order. The impugned clause, it was submitted, should be interpreted to mean that parties to a contract ought to act in good faith. This construction, according to the respondent, rendered the clause flexible to accommodate the circumstances where a party is prevented by factors beyond his control from complying with the requirements of the clause. First, it was argued that its implementation is so manifestly unreasonable that it offends public policy and secondly, the clause is unreasonable because it insists on compliance with its provisions regardless of the circumstances which prevented compliance thereof. It was urged upon us that public policy is informed by the concept of good faith, ubuntu, fairness and simple justice between individuals. The respondent contended that we are obliged, in construing the impugned clause, to promote the spirit, purport and objects of the Bill of Rights as contemplated in s 39(2) of the Constitution. In other words we must interpret it through the prism of the Bill of Rights. In essence, the case advanced for the respondent is that the principle of pacta sunt servanda is not a sacred cow that should trump all other considerations.

[13] The main thrust of the respondent's argument is that having regard to the duration of the lease, the circumstances leading to the alleged breach and the timeous efforts by the respondent to purge the default, it cannot be said that it adopted a supine attitude. It was argued that because the respondent relied on Nedbank to transfer the rental amount to the appellant on due date, it was impossible for the respondent to comply with the impugned clause given the fact that it had no control over the Nedbank's internal system. It was submitted that by reason of the fact that in the past three months preceding the second breach, the respondent regularly monitored and checked its bank statements to ensure that payments were made on time to avoid the breach

that occurred in June. Thus, it was contended, the implementation of the impugned clause in the circumstances of this case is not only objectively unreasonable but it is also unfair and contrary to public policy.

[14] The respondent relied essentially on the judgment of the Constitutional Court in *Barkhuizen v Napier*<sup>1</sup> where Ngcobo J writing for the majority, said the following:

The second question involves an inquiry into the circumstances that prevented compliance with the clause. It was unreasonable to insist on compliance with the clause or impossible for the person to comply with the time limitation clause. Naturally, the onus is upon the party seeking to avoid the enforcement of the time limitation clause. What this means in practical terms is that once it is accepted that the clause does not violate public policy and non-compliance with it is established, the claimant is required to show that, in the circumstances of the case there was a good reason why there was a failure to comply.'

[15] Barkhuizen shed light on the manner in which the question of substantive fairness of a contract (or a contractual clause) is to be approached in its application of the contractual doctrine of the public policy test. The Constitutional Court introduced a second (subjective) stage to the public policy test in terms of which a contract (or contractual clause) must not only be objectively reasonable in order for it to be valid but its effect must also be subjectively reasonable in the particular circumstances in order for it to be enforceable. This approach facilitates a more purposive adjudication and a substantively fair outcome for contracting parties.

[16] Reverting to the circumstances leading to the breach of the agreement as well as Nedbank's admission that it was remiss, the argument for the respondent was that on the authority of the quoted passage in *Barkhuizen*, once it is established that there were circumstances which prevented compliance with the contractual provisions, insisting on compliance thereof would be unfair and unreasonable. The spirit of good faith, ubuntu and

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<sup>&</sup>lt;sup>1</sup> Barkhuizen v Napier [2007] ZACC 5; 2007 (5) SA 323 (CC) at para 58.

fairness require that parties should take a step back, reconsider their position and not snatch at a bargain at the slightest contravention.

[17] In support of its argument it called to aid the decision of the Constitutional Court in *Everfresh Market Virginia (Pty) Ltd v Shoprite Checkers (Pty) Ltd* [2011] ZACC 30; 2012 (1) SA 256 (CC), where Yacoob J writing for the minority, said the following:

'Good faith is a matter of considerable importance in our contract law and the extent to which our courts enforce the good faith requirement in contract law is a matter of considerable public and constitutional importance. The question whether the spirit, purport and objects of the Constitution require courts to encourage good faith in contractual dealings and whether our Constitution insists that good faith requirements are enforceable should be determined sooner rather than later. Many people enter into contracts daily and every contract has the potential not to be performed in good faith. The issue of good faith in contract touches the lives of many ordinary people in our country.

The values embraced by an appropriate appreciation of ubuntu are also relevant in the process of determining the spirit, purport and objects of the Constitution. The development of our economy and contract law has thus far predominantly been shaped by colonial legal tradition represented by English law, Roman law and Roman Dutch law. The common law of contract regulates the environment within which trade and commerce take place. Its development should take cognisance of the values of the vast majority of people who are now able to take part without hindrance in trade and commerce. And it may well be that the approach of the majority of people in our country place a higher value on negotiating in good faith than would otherwise have been the case. Contract law cannot confine itself to colonial legal tradition alone.'

[18] In contrast to the minority, the majority judgment of Moseneke DCJ declined to deal with the issue of good faith because *Everfresh* failed to raise this constitutional argument before the high court and this court. The majority was rightly concerned that if the Constitutional Court were to grant leave, it would be in the undesirable position of sitting as a court of first and last instance. Moreover, it would not have had the benefit of the arguments before the high court and in this court. Consequently it dismissed the application.

- [19] Finally, it was submitted that the prejudice that the respondent will suffer by the cancellation is far greater than that of the appellant. The upshot of the respondent's argument is that the conduct of the appellant ignores the reality that the respondent and its predecessors have been occupying the premises since 1982 and the respondent employs 91 permanent employees, plus casual staff. It also provides indirect employment to secondary staff and service providers such as Bidvest and other companies. In essence, it was contended that evicting the respondent would not only affect its reputation in the hospitality industry, but it would also lead to job losses. Consequently, it was submitted that the principle of *pacta sunt servanda* should be relaxed and clause 20 should not be enforced.
- [20] It was furthermore submitted that if the appellant was bona fide, it would have notified the respondent of the breach and required the respondent to rectify the non-payment within a short space of time (which the respondent did in any event) instead of summarily cancelling the agreement. The submission made is that the respondent would have made payment and the implementation of clause 20 would have been ameliorated without any hardship to the parties.
- [21] What must be decided in this case is whether the implementation of clause 20 is manifestly unreasonable or unfair to the extent that it is contrary to public policy. To answer that question the enquiry must be directed at the objective terms of the agreement, in the light of the relative situation of the parties. This, without doubt, calls for a balancing and weighing-up of two considerations, namely the principle of *pacta sunt servanda* and the considerations of public policy, including of course constitutional imperatives.
- [22] Before these arguments are considered, it is necessary to place the issue in its proper perspective with regard to the legal principles governing contractual obligations. This court in *Sasfin (Pty) Ltd v Beukes* 1989 (1) SA 1 (AD) said:

'The power to declare contracts contrary to public policy should, however, be exercised sparingly and only in the clearest of cases, lest uncertainty as to the validity of contracts result from an arbitrary and indiscriminate use of the power. One must be careful not to conclude that a contract is contrary to public policy merely because its terms (or some of them) offend one's individual sense of propriety and fairness.'

[23] The privity and sanctity of contract entails that contractual obligations must be honoured when the parties have entered into the contractual agreement freely and voluntarily. The notion of the privity and sanctity of contracts goes hand in hand with the freedom to contract. Taking into considerations the requirements of a valid contract, freedom to contract denotes that parties are free to enter into contracts and decide on the terms of the contract. This court in *Wells v South African Alumenite Company* 1927 AD 69 at 73 held as follows:

'If there is one thing which, more than another, public policy requires, it is that men of full age and competent understanding shall have the utmost liberty of contracting, and that their contracts, when entered into freely and voluntarily, shall be held sacred and enforced by the courts of justice.'

[24] Parties enter into contractual agreements in order for a certain result to materialise. The fact that parties enter into an agreement gives effect to their constitutional right of freedom to contract, however, the carrying out of the obligations in terms of that contractual agreement relates to the principle of pacta sunt servanda. In Brisley v Drotsky [2002] ZASCA 35, 2002 (4) SA 1 (SCA) Cameron JA held that judges must exercise 'perceptive restraint' lest contract law becomes unacceptably uncertain. Cameron JA noted that the judicial enforcement of terms, as agreed to, is underpinned by 'weighty considerations of commercial reliance and social certainty'. In the majority judgment in Barkhuizen, Ngcobo J endorsed Cameron JA's broader conception of the law of contract as reflected in Brisley and affirmed that the Constitution requires parties to honour contractual obligations that were freely and voluntarily undertaken. The court further went on to say:

'While it is necessary to recognise the doctrine of *pacta sunt servanda*, courts should be able to decline the enforcement of ... a clause if it would result in unfairness or would be unreasonable.'

[25] In *Bredenkamp* & others v Standard Bank of South Africa Ltd, [2010] ZASCA 75; 2010 (4) SA 468 (SCA) Harms DP interpreted Ngcobo J's reference to public policy importing notions of 'fairness, justice and reasonableness' as not extending these notions beyond instances in which public policy considerations found in the Constitution or elsewhere would be implicated:

This all means that, as I understand the judgment, if a contract is prima facie contrary to constitutional values questions of enforcement would not arise. However, enforcement of a prima facie innocent contract may implicate an identified constitutional value. If the value is unjustifiably affected, the term will not be enforced. An example would be where a lease provides for the right to sublease with the consent of the landlord. Such a term is prima facie innocent. Should the landlord attempt to use it to prevent the property being sublet in circumstances amounting to discrimination under the equality clause, the term will not be enforced.'

Harms DP went on to say:

With all due respect, I do not believe that the judgment held or purported to hold that the enforcement of a valid contractual term must be fair and reasonable even if no public policy consideration found in the Constitution or elsewhere is implicated. Had it been otherwise I do not believe that Ngcobo J would have said this (para 57):

"Self-autonomy, or the ability to regulate one's own affairs, even to one's own detriment, is the very essence of freedom and a vital part of dignity. The extent to which the contract was freely and voluntarily concluded is clearly a vital factor as it will determine the weight that should be afforded to the values of freedom and dignity. The other consideration is that all persons have a right to seek judicial redress."

[26] Davis J made a similar point in *Mozart Ice Cream Franchises (Pty) Ltd v Davidoff & another* [2008] ZAWCHC 118; 2009 (3) SA 78 (C) at 85A, when he held that '[m]anifestly, without this principle, the law of contract would be

subject to gross uncertainty, judicial whim and an absence of integrity between the contracting parties'. And in the same vein Brand JA remarked in Fourways Haulage SA (Pty) Ltd v SA National Roads Agency Ltd 2009 (2) SA 150 (SCA) at 158E-F that '[a] legal system in which the outcome of litigation cannot be predicted with some measure of certainty would fail in its purpose'.

### [27] In Barkhuizen, Ngcobo J said:

'If it is found that the objective terms [of the contract] are not inconsistent with public policy on their face, the further question will then arise which is whether the terms are contrary to public policy in the light of the relative situation of the contracting parties.' He goes on to say that where the enforcement of a time-limitation clause on the basis that non-compliance with it was caused by factors beyond his or her control, it is inconceivable that a court would hold the claimant to such a clause. Ngcobo J considered the principle of *lex non cogit ad impossibilia* to be relevant in this regard.<sup>4</sup>

[28] The following facts are critically relevant in the present case in applying the judgment of the Constitutional Court in *Barkhuizen*: (a) the terms of the contract are not, on their face, inconsistent with public policy; (b) the relative position of the parties was one of bargaining equality; the parties could have negotiated a clause in terms of which the respondent was given notice to remedy a breach before the contract was cancelled; and (c) the performance on time was not impossible because the respondent could have diarised well ahead of time to monitor this important monthly payment and it could have effected other means of payment such as an electronic funds transfer. Against this background, it cannot be against public policy to apply the principle of pacta sunt servanda in this case.

[29] In this case there is no complaint that the impugned clause is objectively unconscionable. No allegation is made that the lease agreement was not concluded freely. There is also no evidence or contention advanced

<sup>&</sup>lt;sup>2</sup> Barkhuizen v Napier (supra) para 59.

<sup>&</sup>lt;sup>3</sup> Para 73.

<sup>&</sup>lt;sup>4</sup> Para 75.

by either of the parties that there was an unequal bargaining power between them. On the contrary, there is ample evidence that the parties contracted with each other on the same equal footing. In other words it cannot and neither was the respondent's case that there was an injustice which may have been caused by the inequality of bargaining power. Evidently the respondent was at all material times aware or must have been aware of the implications of the cancellation clause. When the respondent committed the first breach in June 2014, its attention was drawn to the fact that in the event of a further breach in the future, the appellant will invoke the provisions of clause 20 and cancel the agreement and evict them from the premises. It is disingenuous on the part of the respondent to now contend that by cancelling the agreement and not affording them an opportunity to remedy the breach, the appellant wanted to snatch at a bargain. The facts demonstrate that the appellant did not cancel the agreement or communicate its intention to do so immediately upon non-payment of the October rental. It waited for a period of 12 days to lapse before it cancelled the agreement.

- [30] The fact that a term in a contract is unfair or may operate harshly does not by itself lead to the conclusion that it offends the values of the Constitution or is against public policy. In some instances the constitutional values of equality and dignity may prove to be decisive where the issue of the party's relative power is an issue. There is no evidence that the respondent's constitutional rights to dignity and equality were infringed. It was impermissible for the high court to develop the common law of contract by infusing the spirit of ubuntu and good faith so as to invalidate the term or clause in question.
- [31] Nedbank acted as the respondent's agent to implement the mandate conferred upon it by transferring the money on due date to the appellant. Before the appellant could cancel the lease, there was no obligation on its part to either issue a demand/ultimatum requiring the respondent to make payment. It was also not the appellant's duty to inform the respondent of its default. I do not think that such a duty can be imposed on the appellant. The terms of the agreement made it clear that the appellant was entitled to enforce

clause 20 in the event that the respondent fails to pay the rent on due date. A person who promised to pay rental on a certain date and upon failure to do so, faces the possibility of an eviction, cannot be heard to say he was not warned; he should remember his obligation. In this case the respondent was forewarned in June that any default in payment would result in the cancellation of the lease and possible eviction. This notwithstanding it failed to comply with its obligation.

- The result may well be unpalatable to the respondent. It must therefore bear the consequences of its agent's (bank) failure in paying the October rental on due date. Its defence was clearly to restrict the lawful reach of the contract and to limit what can be regulated by way of a contractual agreement between parties, in circumstances where the terms of the contract were clear and unambiguous. In this case the parties freely and with the requisite *animus contrahendi* agreed to negotiate in good faith and to conclude further substantive agreements which were renewed over a period of time. It would be untenable to relax the maxim *pacta sunt servanda* in this case because that would be tantamount to the court then making the agreement for the parties.
- [33] In all the circumstances of this matter, it would be appropriate for the court to include in its order a notice period of three months in which to vacate the property. In order to avoid any confusion and taking into account the time of year when this judgment will be handed down, it seems best to fix the date upon which the respondent is to vacate the property as 31 March 2018.
- [34] For these reasons it is ordered that:
- 1 The appeal is upheld with costs, such costs to include the costs of two counsel.
- 2 The order of the high court is set aside and substituted with the following:
  - '2.1 The respondent, together with all those persons who occupy the property fully described as Remaining Extent of Erf 13164 Cape Town (hereinafter referred to as 'the Property') by virtue of the respondent's occupation thereof are to vacate the property, on or before 31 March 2018.

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2.2 Should the respondent or any persons occupying the property through or under it fail to comply with the order granted in accordance with the order in par 2.1 above, that the sheriff of the above Honourable Court or his lawful deputy is authorised forthwith to evict the respondent and all persons/entities occupying the property through/under it.'

R S Mathopo Judge of Appeal

## APPEARANCES:

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