

SECOND DIVISION

[G.R. No. 198075, September 04, 2013]

**KOPPEL, INC. (FORMERLY KNOWN AS KPL AIRCON, INC.),
PETITIONER, VS. MAKATI ROTARY CLUB FOUNDATION, INC.,
RESPONDENT.**

D E C I S I O N

PEREZ, J.:

This case is an appeal^[1] from the Decision^[2] dated 19 August 2011 of the Court of Appeals in C.A.-G.R. SP No. 116865.

The facts:

The Donation

Fedders Koppel, Incorporated (FKI), a manufacturer of air-conditioning products, was the registered owner of a parcel of land located at Km. 16, South Superhighway, Parañaque City (subject land).^[3] Within the subject land are buildings and other improvements dedicated to the business of FKI.^[4]

In 1975, FKI^[5] bequeathed the subject land (exclusive of the improvements thereon) in favor of herein respondent Makati Rotary Club Foundation, Incorporated by way of a *conditional* donation.^[6] The respondent accepted the donation with all of its conditions.^[7] On 26 May 1975, FKI and the respondent executed a *Deed of Donation*^[8] evidencing their consensus.

The Lease and the Amended Deed of Donation

One of the conditions of the donation required the respondent to lease the subject land back to FKI under terms specified in their *Deed of Donation*.^[9] With the respondent's acceptance of the donation, a lease agreement between FKI and the respondent was, therefore, effectively incorporated in the *Deed of Donation*.

Pertinent terms of such lease agreement, as provided in the *Deed of Donation*, were as follows:

1. The period of the lease is for twenty-five (25) years,^[10] or until the 25th of May 2000;
2. The amount of rent to be paid by FKI for the first twenty-five (25) years is P40,126.00 per *annum*.^[11]

The *Deed of Donation* also stipulated that the lease over the subject property is renewable for another period of twenty-five (25) years “upon mutual agreement” of FKI and the respondent.^[12] In which case, the amount of rent shall be determined in accordance with item 2(g) of the *Deed of Donation*, viz:

g. The rental for the second 25 years shall be the subject of mutual agreement and in case of disagreement the matter shall be referred to a Board of three Arbitrators appointed and with powers in accordance with the Arbitration Law of the Philippines, Republic Act 878, whose function shall be to decide the current fair market value of the land excluding the improvements, provided, that, any increase in the fair market value of the land shall not exceed twenty five percent (25%) of the original value of the land donated as stated in paragraph 2(c) of this Deed. The rental for the second 25 years shall not exceed three percent (3%) of the fair market value of the land excluding the improvements as determined by the Board of Arbitrators.^[13]

In October 1976, FKI and the respondent executed an *Amended Deed of Donation*^[14] that reiterated the provisions of the *Deed of Donation*, including those relating to the lease of the subject land.

Verily, by virtue of the lease agreement contained in the *Deed of Donation* and *Amended Deed of Donation*, FKI was able to continue in its possession and use of the subject land.

2000 Lease Contract

Two (2) days before the lease incorporated in the *Deed of Donation* and *Amended Deed of Donation* was set to expire, or on 23 May 2000, FKI and respondent executed another contract of lease (*2000 Lease Contract*)^[15] covering the subject land. In this *2000 Lease Contract*, FKI and respondent agreed on a new five-year lease to take effect on the 26th of May 2000, with annual rents ranging from P4,000,000 for the first year up to P4,900,000 for the fifth year.^[16]

The *2000 Lease Contract* also contained an arbitration clause enforceable in the event the parties come to disagreement about the “*interpretation, application and execution*” of the lease, viz:

19. Governing Law – The provisions of this [2000 Lease Contract] shall be governed, interpreted and construed in all aspects in accordance with the laws of the Republic of the Philippines.

Any disagreement as to the interpretation, application or execution of this [2000 Lease Contract] shall be submitted to a board of three (3) arbitrators constituted in accordance with the arbitration law of the Philippines. The decision of the majority of the arbitrators shall be binding upon [FKI and respondent].^[17]
(Emphasis supplied)

2005 Lease Contract

After the *2000 Lease Contract* expired, FKI and respondent agreed to renew their

lease for another five (5) years. This new lease (*2005 Lease Contract*)^[18] required FKI to pay a fixed annual rent of P4,200,000.^[19] In addition to paying the fixed rent, however, the *2005 Lease Contract* also obligated FKI to make a yearly “*donation*” of money to the respondent.^[20] Such donations ranged from P3,000,000 for the first year up to P3,900,000 for the fifth year.^[21]

Notably, the *2005 Lease Contract* contained an arbitration clause similar to that in the *2000 Lease Contract*, to wit:

19. Governing Law – The provisions of this [2005 Lease Contract] shall be governed, interpreted and construed in all aspects in accordance with the laws of the Republic of the Philippines.

Any disagreement as to the interpretation, application or execution of this [2005 Lease Contract] shall be submitted to a board of three (3) arbitrators constituted in accordance with the arbitration law of the Philippines. The decision of the majority of the arbitrators shall be binding upon [FKI and respondent].^[22]
(Emphasis supplied)

The Assignment and Petitioner’s Refusal to Pay

From 2005 to 2008, FKI faithfully paid the rentals and “*donations*” due it per the *2005 Lease Contract*.^[23] But in June of 2008, FKI sold all its rights and properties relative to its business in favor of herein petitioner Koppel, Incorporated.^[24] On 29 August 2008, FKI and petitioner executed an *Assignment and Assumption of Lease and Donation*^[25]—wherein FKI, with the conformity of the respondent, formally assigned all of its interests and obligations under the *Amended Deed of Donation* and the *2005 Lease Contract* in favor of petitioner.

The following year, petitioner discontinued the payment of the rent and “*donation*” under the *2005 Lease Contract*.

Petitioner’s refusal to pay such rent and “*donation*” emanated from its belief that the rental stipulations of the *2005 Lease Contract*, and even of the *2000 Lease Contract*, cannot be given effect because they violated one of the “*material conditions*” of the donation of the subject land, as stated in the *Deed of Donation* and *Amended Deed of Donation*.^[26]

According to petitioner, the *Deed of Donation* and *Amended Deed of Donation* actually established not only one but two (2) lease agreements between FKI and respondent, *i.e.*, one lease for the first twenty-five (25) years or from 1975 to 2000, and another lease for the next twenty-five (25) years thereafter or from 2000 to 2025.^[27] Both leases are material conditions of the donation of the subject land.

Petitioner points out that while a definite amount of rent for the second twenty-five (25) year lease was not fixed in the *Deed of Donation* and *Amended Deed of Donation*, both deeds nevertheless prescribed rules and limitations by which the same may be determined. Such rules and limitations ought to be observed in any succeeding lease agreements between petitioner and respondent for they are, in

themselves, material conditions of the donation of the subject land.^[28]

In this connection, petitioner cites item 2(g) of the *Deed of Donation* and *Amended Deed of Donation* that supposedly limits the amount of rent for the lease over the second twenty-five (25) years to only “three percent (3%) of the fair market value of the [subject] land excluding the improvements.”^[29]

For petitioner then, the rental stipulations of both the *2000 Lease Contract* and *2005 Lease Contract* cannot be enforced as they are clearly, in view of their exorbitant exactions, in violation of the aforementioned threshold in item 2(g) of the *Deed of Donation* and *Amended Deed of Donation*. Consequently, petitioner insists that the amount of rent it has to pay thereon is and must still be governed by the limitations prescribed in the *Deed of Donation* and *Amended Deed of Donation*.^[30]

The Demand Letters

On 1 June 2009, respondent sent a letter (*First Demand Letter*)^[31] to petitioner notifying the latter of its default “per Section 12 of the [2005 Lease Contract]” and demanding for the settlement of the rent and “donation” due for the year 2009. Respondent, in the same letter, further intimated of cancelling the *2005 Lease Contract* should petitioner fail to settle the said obligations.^[32] Petitioner received the *First Demand Letter* on 2 June 2009.^[33]

On 22 September 2009, petitioner sent a reply^[34] to respondent expressing its disagreement over the rental stipulations of the *2005 Lease Contract*—calling them “severely disproportionate,” “unconscionable” and “in clear violation to the nominal rentals mandated by the Amended Deed of Donation.” In lieu of the amount demanded by the respondent, which purportedly totaled to P8,394,000.00, exclusive of interests, petitioner offered to pay only P80,502.79,^[35] in accordance with the rental provisions of the *Deed of Donation* and *Amended Deed of Donation*.^[36] Respondent refused this offer.^[37]

On 25 September 2009, respondent sent another letter (*Second Demand Letter*)^[38] to petitioner, reiterating its demand for the payment of the obligations already due under the *2005 Lease Contract*. The *Second Demand Letter* also contained a demand for petitioner to “immediately vacate the leased premises” should it fail to pay such obligations within seven (7) days from its receipt of the letter.^[39] The respondent warned of taking “legal steps” in the event that petitioner failed to comply with any of the said demands.^[40] Petitioner received the *Second Demand Letter* on 26 September 2009.^[41]

Petitioner refused to comply with the demands of the respondent. Instead, on 30 September 2009, petitioner filed with the Regional Trial Court (RTC) of Parañaque City a complaint^[42] for the rescission or cancellation of the *Deed of Donation* and *Amended Deed of Donation* against the respondent. This case is currently pending before Branch 257 of the RTC, docketed as Civil Case No. CV 09-0346.

The Ejectment Suit

On 5 October 2009, respondent filed an unlawful detainer case^[43] against the petitioner before the Metropolitan Trial Court (MeTC) of Parañaque City. The ejectment case was raffled to Branch 77 and was docketed as Civil Case No. 2009-307.

On 4 November 2009, petitioner filed an *Answer with Compulsory Counterclaim*.^[44] In it, petitioner reiterated its objection over the rental stipulations of the *2005 Lease Contract* for being violative of the material conditions of the *Deed of Donation* and *Amended Deed of Donation*.^[45] In addition to the foregoing, however, petitioner also interposed the following defenses:

1. The MeTC was not able to validly acquire jurisdiction over the instant unlawful detainer case in view of the insufficiency of respondent's demand.^[46] The *First Demand Letter* did not contain an actual demand to vacate the premises and, therefore, the refusal to comply therewith does not give rise to an action for unlawful detainer.^[47]
2. Assuming that the MeTC was able to acquire jurisdiction, it may not exercise the same until the disagreement between the parties is first referred to arbitration pursuant to the arbitration clause of the *2005 Lease Contract*.^[48]
3. Assuming further that the MeTC has jurisdiction that it can exercise, ejectment still would not lie as the *2005 Lease Contract* is void *ab initio*.^[49] The stipulation in the *2005 Lease Contract* requiring petitioner to give yearly "*donations*" to respondent is a simulation, for they are, in fact, parts of the rent.^[50] Such grants were only denominated as "*donations*" in the contract so that the respondent—a non-stock and non-profit corporation—could evade payment of the taxes otherwise due thereon.^[51]

In due course, petitioner and respondent both submitted their position papers, together with their other documentary evidence.^[52] Remarkably, however, respondent failed to submit the *Second Demand Letter* as part of its documentary evidence.

Rulings of the MeTC, RTC and Court of Appeals

On 27 April 2010, the MeTC rendered judgment^[53] in favor of the petitioner. While the MeTC refused to dismiss the action on the ground that the dispute is subject to arbitration, it nonetheless sided with the petitioner with respect to the issues regarding the insufficiency of the respondent's demand and the nullity of the *2005 Lease Contract*.^[54] The MeTC thus disposed:

WHEREFORE, judgment is hereby rendered dismissing the case x x x, without pronouncement as to costs.

SO ORDERED.^[55]

The respondent appealed to the Regional Trial Court (RTC). This appeal was assigned to Branch 274 of the RTC of Parañaque City and was docketed as Civil Case