

## **FIRST DIVISION**

**[ G.R. No. 161718, December 14, 2011 ]**

**MANILA INTERNATIONAL AIRPORT AUTHORITY, PETITIONER,  
VS. DING VELAYO SPORTS CENTER, INC., RESPONDENT.**

### **D E C I S I O N**

**LEONARDO-DE CASTRO, J.:**

Before Us is a Petition for Review under Rule 45 of the Rules of Court of the Decision<sup>[1]</sup> dated January 8, 2004 of the Court Appeals in CA-G.R. CV No. 68787, affirming the Decision<sup>[2]</sup> dated October 29, 1999 of Branch 111 of the Regional Trial Court (RTC) of Pasay City in Civil Case No. 8847, which granted the Complaint for Injunction, Consignation, and Damages with prayer for a Temporary Restraining Order filed by respondent Ding Velayo Sports Center, Inc. against petitioner Manila International Airport Authority (MIAA), and essentially compelled petitioner to renew the lease of respondent over a parcel of land within the airport premises.

Below are the facts as culled from the records of the case:

On February 15, 1967, petitioner (then still called the Civil Aeronautics Administration or CAA) and Salem Investment Corporation (Salem) entered into a Contract of Lease whereby petitioner leased in favor of Salem a parcel of land known as Lot 2-A, with an area of 76,328 square meters, located in front of the Manila International Airport (MIA) in Pasay City, and registered under Transfer Certificate of Title (TCT) No. 6735 in the name of the Republic (Lot 2-A). Petitioner and Salem entered into said Contract of Lease for the following reasons:

WHEREAS, this particular portion of land is presently an eyesore to the airport premises due to the fact that a major portion of it consists of swampy and talahib infested silt and abandoned fishponds and occupied by squatters and some [petitioner's] employees with ungainly makeshift dwellings;

WHEREAS, the LESSOR, in accordance with its general plan to improve and beautify the airport premises, is interested in developing this particular area by providing such facilities and conveniences as may be necessary for the comfort, convenience and relaxation of transients, tourists and the general public;

WHEREAS, the LESSEE, a corporation engaged in hostelry and other allied business, is ready, willing and able to cooperate with the LESSOR in the implementation of this general development plan for the airport premises;

WHEREAS, the LESSEE's main interest is to have a sufficient land area within which to construct a modern hotel with such facilities as would ordinarily go with modern hostelry, including recreation halls, facilities for banks, tourist agencies, travel bureaus, laundry shops, postal stations, curio and native shops and other allied business calculated to make the hotel and its facilities comfortable, convenient and attractive, and for this purpose, an initial land area of some Thirty[-]Five Thousand Ten (35,010) square meters would be first utilized.<sup>[3]</sup>

The term of the lease and renewal thereof as stipulated upon by petitioner and Salem are as follows:

3. That the term of the lease shall be for a period of Twenty-Five (25) years, commencing from the date of receipt of approval of this Contract by the Secretary of Public Works and Communications, and at the option of the LESSEE, renewable for another Twenty-Five (25) years. It is understood, that after the first 25 years lease, the ownership of, and full title to, all the buildings and permanent improvements introduced by the LESSEE on the leased premises including those introduced on the Golf Driving Range shall automatically vest in the LESSOR, without cost.

Upon the termination of the lease or should the LESSEE not exercise this option for renewal, the LESSEE shall deliver the peaceful possession of all the building and other permanent improvements herein above referred to, with the understanding that the LESSEE shall have the right to remove from the premises such equipment, furnitures, accessories and other articles as would ordinarily be classified as movable property under pertinent provisions of law.

4. That the renewal of this lease contract shall be for another period of Twenty-Five (25) years, under the same terms and conditions herein stipulated; provided, however that, since the ownership of the hotel building and permanent improvement have passed on the LESSOR, the LESSEE shall pay as rental, in addition to the rentals herein agreed upon, an amount equivalent to One percent (1%) of the appraised value of the hotel building and permanent improvements at the time of expiration of Twenty-Five (25) years lease period, payable annually.<sup>[4]</sup>

Subsequently, in a Transfer of Lease Rights and Existing Improvements dated September 30, 1974, Salem conveyed in favor of Ding Velayo Export Corporation (Velayo Export), for the consideration of P1,050,000.00, its leasehold rights over a portion of Lot 2-A, measuring about 15,534 square meters, with the improvements thereon, consisting of an unfinished cinema-theater. Accordingly, petitioner and Velayo Export executed a Contract of Lease dated November 26, 1974 pertaining to the aforementioned leased portion of Lot 2-A.

In turn, Velayo Export executed a Transfer of Lease Rights dated April 27, 1976 by

which it conveyed to respondent, for the consideration of P500,000.00, its leasehold rights over an 8,481-square meter area (subject property) out of the 15,534-square meter portion it was leasing from petitioner. As a result, petitioner and respondent executed another Contract of Lease<sup>[5]</sup> dated May 14, 1976 covering the subject property.

The Contract of Lease dated May 14, 1976 between petitioner (as lessor) and respondent (as lessee) specified how respondent shall develop and use the subject property:

2. That the LESSEE shall utilize the premises as the site for the construction of a Sports Complex facilities and shopping centers in line with the Presidential Decree for Sports Development and Physical Fitness, including the beautification of the premises and providing cemented parking areas.

3. That the LESSEE shall construct at its expense on the leased premises a parking area parallel to and fronting the Domestic Airport Terminal to be open to the traveling public free of charge to ease the problem of parking congestion at the Domestic Airport.<sup>[6]</sup>

Pursuant to the aforequoted objectives, respondent agreed to the following:

9. Physical improvements on building spaces and areas subject of this agreement may be undertaken by and at the expenses of the LESSEE. However, no improvements may be commenced without prior approval of the plans by the LESSOR and, whenever deemed necessary a cash deposit shall be made in favor of the LESSOR which shall be equivalent to the cost of restoration of any portion affected by such alteration or improvements;

10. The LESSEE agrees and binds himself to complete the physical improvements or contemplated structures within the leased premises for a period of one (1) year. Failure on the part of the LESSEE to do so within said period shall automatically revoke the Contract of Lease without necessity of judicial process.<sup>[7]</sup>

The lease rental shall be computed as follows:

5. That the LESSEE shall pay to the LESSOR as monthly rentals for the leased premises the rate of P0.45 per square meter for the first 300 square meters, P0.30 per square meter for the next 500 square meters, and P0.25 per square meter for the remaining area pursuant to Part VIII, Section 4 of Administrative Order No. 4, Series of 1970, which in the case of the 8,481 square meters herein leased shall amount to P2,205.25 per month, or a royalty equivalent to one percent (1%) of the monthly gross income of the LESSEE, whichever is higher.

6. That for the purpose of accurately determining the monthly gross income, the LESSEE hereby gives its consent for the examination of the books by authorized representatives of the LESSOR or the Commission on Audit;

x x x x

13. If, during the lifetime of this agreement and upon approval by the LESSOR, the leased area is increased or diminished, or the LESSEE is relocated to another area, rentals, fees, and charges imposed shall be amended accordingly. Subsequent amendments to the Administrative Order which will affect an increase of the rates of fees, charges and rentals agreed upon in this contract shall automatically amend this contract to the extent that the rates of fees, rentals, and charges are increased.

In the event of relocation of the LESSEE to other areas, the cost of relocation shall be shouldered by the LESSEE.<sup>[8]</sup>

Nonpayment of lease rentals shall have the following consequence:

8. Failure on the part of the LESSEE TO PAY ANY fees, charges, rentals or the royalty of one percent (1%) within thirty (30) days after receipt of written demand, the LESSOR shall deny the LESSEE of the further use of the leased premises and /or any of its facilities, utilities and services. x x x.<sup>[9]</sup>

The Contract of Lease prohibits respondent from transferring its leasehold rights, engaging in any other business outside those mentioned in said Contract, and subletting the premises whether in whole or in part, thus:

16. The LESSEE agrees not to assign, sell, transfer or mortgage his rights under this agreement or sublet the whole or part of premises covered by it to a third party or parties nor engage in any other business outside of those mentioned in this contract. Violation of this provision shall also be a ground for revocation of the lease contract without need of judicial process.<sup>[10]</sup>

Period of the lease and renewal thereof are governed by paragraphs 4 and 17 of the Contract of Lease that read:

4. That the period of this lease shall take effect from June 1, 1976 up to February 15, 1992 which is equivalent to the unexpired portion of the lease contract executed between [petitioner] and Ding Velayo Export Corporation.

x x x x

17. The LESSEE, if desirous of continuing his lease, should notify the LESSOR sixty (60) days prior to expiration of the period agreed upon for the renewal of the Contract of Lease.<sup>[11]</sup>

The lease may be revoked/terminated under the following conditions:

15. This contract of lease may be terminated by other party upon thirty (30) days notice in writing. Failure on the part of the LESSEE to comply with any of the provisions of this lease contract or any violation of any rule or regulations of the Airport shall give the LESSOR the right to revoke this contract effective thirty (30) days after notice of revocation without need of judicial demand. However, the LESSEE shall remain liable and obligated to pay rentals and other fees and charges due and in arrears with interest at the rate of twelve percent (12%) per annum;

x x x x

18. Upon termination or revocation of this contract of lease as herein provided, the LESSEE shall deliver possession of the premises to the LESSOR in the same condition that they were received giving allowance to normal wear and tear and to damage or destruction caused by act of God. All permanent improvements, however, which the LESSEE might have constructed in the premises by virtue hereof shall upon the termination of this lease automatically become the absolute property of the LESSOR without cost;

19. In the event that the LESSOR shall need the leased premises in its airport development program, the LESSEE agrees to vacate the premises within thirty (30) days from receipt of notice. All improvements not removed by the LESSEE within the thirty (30) day period shall become the property of the LESSOR without cost.<sup>[12]</sup>

Respondent began occupying the subject property and paying petitioner the amount of P2,205.25 per month as rental fee. Respondent then constructed a multi-million plaza with a three-storey building on said property. Respondent leased spaces in the building to various business proprietors.

In a Letter<sup>[13]</sup> dated April 11, 1979, petitioner requested respondent for a copy of the latter's Gross Income Statement from December 1977 to December 1978, duly certified by a certified public accountant, for the purpose of computing the royalty equivalent to 1% of the monthly gross income of respondent. Acceding to this request, respondent sent petitioner a Letter<sup>[14]</sup> dated May 31, 1979 and appended therewith the requested income statements which disclosed that the total gross income of respondent for the period in question amounted to P1,972,968.11. Respondent also submitted to petitioner and the Commission on Audit (COA) its duly audited financial statements<sup>[15]</sup> for the years 1984 to 1988. Meanwhile, petitioner had continued billing respondent the amount of P2,205.25 as monthly rental fee, which the latter obediently paid.