

SECOND DIVISION

[G.R. No. 142383, August 29, 2003]

**ASIAN TRANSMISSION CORPORATION, PETITIONER, VS.
CANLUBANG SUGAR ESTATES, RESPONDENT.**

D E C I S I O N

CALLEJO, SR., J.:

This is a petition for review on *certiorari* under Rule 45 of the 1997 Rules of Civil Procedure filed by Asian Transmission Corporation for the nullification of the Decision^[1] of the Court of Appeals dated August 19, 1999 dismissing the petition for review of the petitioner in CA-G.R. SP No. 40757 and its Resolution dated March 14, 2000 denying the petitioner's motion for reconsideration of the said decision.

Antecedents

The respondent Canlubang Sugar Estates (CSE) is a domestic corporation duly organized and existing under the laws of the Philippines. Controlled by the Yulo family, the CSE is the owner of a parcel of land covered by Transfer Certificate of Title No. 76420 with an area of fifty thousand square meters located within the Canlubang Industrial Park in Canlubang, Laguna. The Yulo family managed another corporation, the CARCO, a domestic corporation engaged in car manufacturing.

Sometime in 1972, Nisho-Iwai Co., Ltd., Mitsubishi Motors Corporation and Chrysler Philippines, at the initiative of CARCO, formed a joint venture for the purpose of establishing and operating a transmission manufacturing plant in the Philippines in line with the car manufacturing program of the government.

On December 13, 1972, the three corporations, as lessees, executed a lease contract, with the CSE as lessor, over the aforecited property for a period of twenty-five years renewable at the option of the lessees under the same terms and conditions. The parties further agreed that the annual rent shall be P150,000 payable on or before April 30, 1973 and every year thereafter, with a provision that-

... a reasonable adjustment of the rental shall be agreed upon by the parties upon the renewal and on the fifteenth year of the original and the renewal terms of this lease.^[2]

In the meantime, Nisho-Iwai Co., Ltd., Mitsubishi Motors Corp., and Chrysler Philippines organized themselves into a corporation known as the Asian Transmission Corporation (ATC). On May 30, 1978, the CSE and the ATC executed a deed denominated as an Adoption of Lease Agreement (with amendments), over the same property under which the parties agreed *inter alia* that (a) the lease shall be for a period of twenty-five years effective July 1, 1973, subject to renewal at the

option of the lessee for another term of twenty-five years under the same terms and conditions except only as to the annual rental payable; (b) the annual rental for the first five years shall be P62,473.20 or P1.20 per square meter. The following provision was also incorporated in the lease agreement:

... The annual rental shall be reviewed by the parties, and if indicated reasonably adjusted by their mutual agreement, every five (5) years during the effectivity of the lease, both in the rental term thereof and in the additional term of twenty-five (25) years upon the renewal that the LESSEE may elect to effect pursuant to the option given to it in Paragraph 2 of this agreement, above.^[3]

In 1991, the ATC and the CSE negotiated and agreed to adjust the annual rental for the leased premises. On July 24, 1991, the ATC and the CSE executed a Memorandum of Agreement (MOA) under which the annual rental for the property was increased to P3,373,552.80 for the period of July 1, 1991 to June 30, 1992. The rental from July 1, 1992 to June 30, 1993 was increased by 8%, or P3,642,187.50. ^[4] There was, however, no agreement as to the annual rental subsequent to 1993. The parties agreed that the other terms and conditions of the amended lease agreement formed part of the MOA.

In the meantime, the CSE proposed a reduction of the leased area by 14.4% or seven thousand five hundred (7,500) square meters and the increase of the annual rental to P15,000,000. Negotiations forthwith ensued. The CSE offered to give a corresponding adjustment in the annual rental. For its part, the ATC engaged the services of the General Appraisal Company (GAC) to conduct an appraisal of the fair rental value of the property. On April 27, 1993, the GAC submitted the following report:

After an analysis of the foregoing we have estimated the capitalization rate to be 3%. Relating this rate to the indicated value of the land, the fair rental value of the property is estimated as follows:

| | |
|------------------------|------------------------|
| Land Value | P41,649,000 |
| <hr/> | |
| Interest on Land Value | |
| P41,649,000 @ 3% | = P 1,249,470.00 |
| Real Estate Tax | = 46,854.90 |
| | ----- |
| | P 1,296,324.90 |
| | P1,296,000 per year or |
| SAY | P 108,000 per month |

Based on Assessed Value of the property gathered from the Assessor's office of the Province of Laguna which has a value of P1,561,830.

Applying a 3% rate tax is computer (*sic*) as P46,854.90 per annum.^[5]

On August 26, 1993, the ATC tendered the amount of P3,461,265.17 to the CSE in payment of the annual rental for the period of July 1, 1993 to June 30, 1994 pending agreement on the new lease rate.^[6]

In a Letter dated September 3, 1993, the CSE informed the ATC that it was accepting the amount as partial payment for the rental for the said period subject to the outcome of the on-going negotiations.^[7]

On October 11, 1993, the ATC wrote the CSE, objecting to the reduction of the area of the leased property and the increase of the annual rental by 500% or to P15,000,000 for the following reasons: (a) the area of the property to be excluded was already being used by the ATC for storage and expansion of warehouse facilities, and the exclusion of the said portion of the property from the lease contract would derail its expansion plan; (b) the proposed rental rate of P15,000,000 a year for the period of July 1, 1992 to June 30, 1993 and subsequent thereto was excessive considering that the rental for the preceding year was P3,642,187.50; (c) under the contract, no term or condition other than the rental may be reviewed or adjusted and only once every five years, and since the last review and adjustment was made in 1991, the annual rental could be reviewed after five years thereafter, or in 1996. The ATC offered to return not more than 2,061 square meters for the construction of the road to serve as ingress and egress points to the Silangang Canlubang Industrial Park from the superhighway, and to increase the annual rental for the property to not more than P3,642,187.50. The ATC even offered to buy the property as an alternative. In closing, the ATC remarked, "thus we shall of course appreciate your thoughts on the matter as well."^[8]

The CSE considered the October 11, 1993 letter of the ATC as a rejection of its proposal for a revised annual rental of the leased premises and a violation of the MOA and their lease agreement. On October 25, 1993, the CSE notified the ATC of the termination of the lease agreement effective October 26, 1993 and requested the ATC to vacate the property within fifteen days from notice.^[9] The CSE stated that the ATC's stand was a manifestation of bad faith. The CSE did not demand the payment of back rentals.

On November 4, 1993, ATC Senior Vice-President Gregorio Eleosida met with Atty. Jose Enrique Yulo of the CSE to negotiate the lease agreement, to no avail. Nevertheless, on November 5, 1993, the ATC, represented by counsel, wrote the CSE proposing a meeting to further negotiate the terms of the lease agreement, preferably before November 8, 1993, in the hope of finding a mutually acceptable solution. The ATC requested the CSE to withhold any action pending the result of the meeting.^[10]

On November 11, 1993, the ATC filed a complaint for specific performance with damages against the CSE with application for temporary restraining order and/or writ of preliminary injunction before the Regional Trial Court of Calamba, Laguna, Branch 37, docketed as Civil Case No. 2052-93-C.^[11] The ATC alleged *inter alia* that (a) by unilaterally terminating the lease upon its insistence that a new annual rental of P15,000,000 be imposed, the CSE breached the contract of lease, more particularly the provision allowing the review of the annual rental only after every five years upon mutual agreement, and after the rent has been proven to be unreasonable; (b) the unilateral termination of the contract would disturb the ATC's peaceful possession of the property, thus violating the lease agreement in a wanton, fraudulent, reckless, oppressive and malevolent manner necessitating the award of exemplary damages of at least P500,000; (c) the ATC was compelled to litigate to protect its rights because of the CSE's unilateral termination of the lease and its

demand to vacate the property; (d) due to the irreparable damage that would arise out of the termination of the contract, a temporary restraining order or a writ of preliminary injunction should be granted. The ATC alleged that--

3.4 CSE should, therefore, be directed to comply with the conditions of the Lease Agreement, the Adoption of Lease, and the MOA which granted [the] lessee peaceful use and possession of a fixed area of property for a fixed term for 25 years (until 1998) at the last agreed rental of P3,461,265.17.^[12]

It prayed that, after due proceedings, judgment be rendered in its favor, thus:

3. After trial on the merits, this Court render judgment:
 - a. In favor of plaintiff and against defendant compelling defendant to comply with the terms and conditions of the lease and allow plaintiff to continue in peaceful possession of the leased premises during the term of the lease;
 - b. Convert the preliminary injunction into a permanent injunction; and
 - c. Ordering defendant to pay plaintiff:
 - Actual damages in the amount of P500,000;
 - Moral damages in the amount of P500,000;
 - Exemplary damages in the amount of P500,000; and
 - Attorney's fees and appearances in litigation in the amount of P200,000.^[13]

For its part, the CSE filed on November 25, 1993 a civil complaint for unlawful detainer against the ATC with the Municipal Trial Court of Calamba, Laguna, alleging *inter alia* that the ATC violated its lease agreement by refusing, per its October 11, 1993 Letter, to review the annual rental rate over the leased property on or before July 1, 1993. The CSE did not, however, claim reasonable compensation for the ATC's use of the property from July 1, 1993. The CSE prayed that after due proceedings judgment be rendered in its favor, to wit:

WHEREFORE, after due process, it is respectfully prayed that judgment be rendered in favor of plaintiff:

- A. Ordering defendant and all other persons claiming right under it to VACATE the subject premises.
- B. For other just reliefs.^[14]

The case was docketed as Civil Case No. 3215. The ATC filed a supplemental complaint in Civil Case No. 2052-93-C impleading the MTC of Calamba as party-defendant. In its answer to the complaint, the CSE alleged that the ATC violated the MOA and the parties' lease agreement by refusing to negotiate the amount of annual rental on or before July 1, 1993.

On January 25, 1994, the RTC, Branch 37, issued in Civil Case No. 2052-93-C a

temporary restraining order, restraining the MTC of Calamba from hearing the unlawful detainer case so as not to render the RTC decision moot and academic.^[15] The court thereafter issued a writ of preliminary injunction.

During the pre-trial in Civil Case No. 2052-93-C, the ATC marked in evidence as Exhibit "F" a copy of the Fair Rental Study of the leased property made by the Asian Appraisal Co., Inc. On March 23, 1994, the court issued a pre-trial order defining the issues to be litigated by the parties:

"1. Was the termination by CSE of the Lease Agreement dated December 13, 1972, the Adoption of Lease Agreement with Amendments dated May 30, 1975, and the Memorandum of Agreement dated July 24, 1991, valid or not?

2. Can ATC recovered (*sic*) damages, attorney's fees and cost from CSE and vice versa? x x x"^[16]

On April 14, 1994, the CSE filed a motion for summary judgment. On August 22, 1994, the RTC granted the motion. On August 23, 1994, a decision was rendered in favor of the CSE, the decretal portion of which reads:

IN VIEW OF THE FOREGOING, the Court hereby renders judgment in favor of the defendant Canlubang Sugar Estate (CSE) and against the plaintiff Asian Transmission Corporation (ATC) and declaring CSE's termination of the lease contract as valid. The writ of preliminary injunction issued by this Court against the defendants is hereby lifted and set aside. The complaint and the supplemental complaint are DISMISSED.^[17]

The court held that the plaintiff violated its MOA and lease agreement with the CSE when it refused to negotiate for an increased annual rental effective July 1, 1993 as provided for in Section 5 of the MOA and lease agreement:

Thus, the first (1st) review and adjustment of annual rental were to cover the period from July 1, 1973 to June 30, 1978, the second (2nd) five (5) year period to cover the period from July 1, 1978 to June 30, 1983, the third (3rd) five (5) year period to cover the period from July 1, 1983 to June 30, 1988, the fourth (4th) five-year period to cover period from July 1, 1988 to June 30, 1993 and the fifth (5th) five (5) year period to cover the period from July 1, 1993 to June 30, 1998. Clearly, by refusing to enter into a review of the rental and to claim that the review should be done in 1996 is a violation of the above-cited provision of the Lease Agreement. Consequently, CSE acted within its rights when it rescinded the lease agreement.^[18]

The court dissolved the writ of preliminary injunction issued by it. Aggrieved, the ATC interposed an appeal before the Court of Appeals, docketed as CA-G.R. CV No. 45820.

The MTC forthwith proceeded with the unlawful detainer case in Civil Case No. 3215. It issued on September 26, 1995 an Order defining the issues for its resolution, to wit: