

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

G.R. No. 161718. December 14, 2011

Ponente: LEONARDO-DE CASTRO, J.

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LEONARDO-DE CASTRO, J.:

Before Us is a Petition for Review under Rule 45 of the Rules of Court of the Decision[1] dated January 8, 2004 of the Court Appeals in CA-G.R. CV No. 68787, affirming the Decision[2] 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;

x x x x

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.[3]

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.[4]

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[5] 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.[6]

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.[7]

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.[8]

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.[9]

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.[10]

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.[11]

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.[12]

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[13] 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[14] 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[15] 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.

Petitioner eventually issued Administrative Order (AO) No. 4, series of 1982,[16] and AO No. 1, series of 1984, fixing various rates for the lease rentals of its properties. AO No. 4, series of 1982, and AO No. 1, series of 1984, allegedly effected an increase in the lease rental of respondent for the subject property, as provided for in paragraph 13 of the Contract of Lease dated May 14, 1976 between petitioner and respondent. However, said issuances were subjected to review for revision purposes and their implementation was suspended. Still, petitioner, through a letter dated September 23, 1986, required respondent to pay a moratorium rental at the rate of P5.00 per square meter rate per month or a total of P42,405.00 every month.

In a Letter[17] dated October 18, 1986, respondent opposed the implementation of any increase in its lease rental for the subject property. Respondent wrote:

We believe that an increase in rental of a property which does not form part of the Airport or its immediate premises, like the premises leased to DVSC, although owned by MIAA is not covered by Batas Pambansa Blg. 325 or Finance Ministry Order No. 6-83. Furthermore, the language of B.P. No. 325 and Ministry Order No. 6-83 authorizes the fixing or revision of fees and charges only for "services and functions."

x x x x

Assuming that the increase in rental of MIAA property is authorized by B.P. No. 325 and Ministry Order No. 6-83, such increase as ordered in your moratorium rental rate insofar as it is made applicable to DVSC is not valid.

The increase which is around 2,000 percent or 20 times above present rental rate is unreasonably high. Both

B.P. No. 325 and Ministry Order No. 6-83 prescribed only "just and reasonable rates sufficient to cover administrative costs."

Such increase in rental is uncalled for considering that:

Upon termination of the lease, all the improvements on the property shall belong to MIAA without costs. The original cost of the buildings and other improvements on the land we have leased is P10,600,000.00. Said improvements would now cost over P30,000,000.00. In effect the Government would be collecting another P2.0 million a year.

We, therefore, request that the moratorium rate be not applied to us.

Following the foregoing exchange, petitioner had kept on charging respondent the original monthly rental of P2,205.25.

More than 60 days prior to the expiration of the lease between petitioner and respondent, the latter, through its President, Conrado M. Velayo (Velayo), sent the former a Letter[18] dated December 2, 1991 stating that respondent was interested in renewing the lease for another 25 years.

Petitioner, through its General Manager, Eduardo O. Carrascoso, in a Letter[19] dated February 24, 1992, declined to renew the lease, ordered respondent to vacate the subject property within five days, and demanded respondent to pay arrears in lease rentals as of January 1992 in the sum of P15,671,173.75.

Velayo, on behalf of respondent, replied to petitioner through a Letter[20] dated March 3, 1992 that reads:

This refers to your letters which we received on 26 February 1992 and 27 February 1992, respectively, the first as a response to our letter of 2 December 1991 where we informed you of our intention to renew our lease contract, and the second wherein you asked us to vacate within five (5) days the leased premises.

Your second letter surprised us inasmuch as we have been negotiating with you for the renewal of our lease. In addition, your sudden decision gave us no time to discuss your terms and conditions with our Board considering that the issues involved major decision.

For a smoother transition and for the mutual interest of the government, the tenants and ourselves, may we request for a reconsideration of your decision, and we be given up to the end of March 1992 to peacefully turn-over to you the leased premises. This will enable you to create a committee that will take-over the leased property and its operations.

Likewise, consistent with our previous stand as communicated to you by our legal counsel, copy of which is hereto attached, we deny any liability on rental increases.

In Letters[21] all dated March 10, 1992, Velayo informed petitioner that he already sent individual letters to Manila Electric Company, Philippine Long Distance Telephone Company, and Manila Waterworks and Sewerage System, instructing the said utility companies that succeeding billings for electric, telephone, and water consumptions should already be transferred to the account of petitioner in light of the expected turn-over of the subject property and improvements thereon from respondent to petitioner.

However, around the same time, Samuel Alomesen (Alomesen) became the new President and General Manager of respondent, replacing Velayo. Alomesen, acting on behalf of respondent, sent petitioner a Letter[22] dated March 25, 1992, revoking the aforementioned Letters dated March 3 and 10, 1992 since these were purportedly sent by Velayo without authority from respondent's Board of Directors. Respondent expressed its interest in continuing the lease of the subject property for another 25 years and tendered to petitioner a manager's check in the amount of P8,821.00 as payment for the lease rentals for the subject property from December 1991 until

March 1992.

Petitioner entirely disregarded the claims of respondent and threatened to take-over the subject property.

On March 30, 1992, respondent filed against petitioner before the RTC a Complaint for Injunction, Consignation, and Damages with a Prayer for a Temporary Restraining Order.[23] Respondent essentially prayed for the RTC to order the renewal of the Contract of Lease between the parties for another 25-year term counted from February 15, 1992. On even date, the RTC issued a Temporary Restraining Order[24] preventing petitioner and all persons acting on its behalf from taking possession of the entire or any portion of the subject property, from administering the said property, from collecting rental payments from sub-lessees, and from taking any action against respondent for the collection of alleged arrears in rental payments until further orders from the trial court.

In its Answer,[25] petitioner contended that its Contract of Lease with respondent was already terminated on February 15, 1992, the expiration date explicitly stated under paragraph 4 of the same Contract. Petitioner was not bound to renew the Contract of Lease with respondent. The renewal provision under paragraph 17 of the Contract was not automatic but merely directory and procedural and that, in any event, Velayo, the former President of respondent, already conceded to the non-renewal of the Contract.

Petitioner likewise invoked paragraph 15 of the Contract of Lease, i.e., its right to revoke the said Contract in case of violation of any of the provisions thereof by respondent. Petitioner averred that respondent committed the following violations: (1) respondent failed to fulfill the conditions set forth under paragraphs 2 and 3 of the Contract as it did not establish a shopping center on the subject property and did not help ease the problems of parking congestion at the Domestic Airport; (2) respondent "sub-leased" the subject property in defiance of the prohibition under paragraph 16 of the Contract; and (3) respondent did not pay the lease rentals in accordance with paragraphs 5 and 13 of the Contract, thus, incurring a total outstanding balance of P15,671,173.75 as of February 1992.

By way of counter-claim, petitioner demanded that respondent pay the total outstanding balance of its lease rentals for the subject property and turn-over lease rentals it had collected from sub-lessees beginning February 15, 1992.

After the preliminary hearing, the RTC issued a Writ of Preliminary Injunction[26] against petitioner on April 30, 1992 upon the posting by respondent of a bond in the amount of P100,000.00.

In an Order[27] dated June 11, 1996, the RTC denied the Omnibus Motion of petitioner for the dissolution of the writ of injunction and appointment of a receiver for the fruits of the subject property; and at the same time, granted the motion of respondent for the consignment of their monthly lease rentals for the subject property with the RTC.

The RTC terminated the pre-trial proceedings in an Order[28] dated October 23, 1997 for failure of the parties to amicably settle the dispute. Thereafter, trial on the merits ensued.

Respondent presented the testimonies of Mariano Nocom, Jr.,[29] Gladioluz Segundo,[30] Mariano Nocom, Sr.,[31] and Rosila Mabanag.[32] The RTC admitted all the documentary evidence of respondent in an Order[33] dated December 14, 1998.

Petitioner, on the other hand, presented the lone testimony of their accounting manager, Arlene Britanico.[34] Among the numerous documents submitted by petitioner as evidence were its own issuances imposing various rates for the lease of its properties, which allegedly effected an increase in the lease rentals of respondent for the subject property, specifically, AO No. 4, series of 1982;[35] AO No. 1, series of 1984;[36] AO No. 1, series of

1990;[37] AO No. 1, series of 1993;[38] Resolution No. 94-74,[39] Resolution No. 96-32,[40] and Resolution No. 97-51,[41] all amending AO No. 1, series of 1993; and AO No. 1, series of 1998.[42] All of the documentary evidence of petitioner were admitted by the RTC in an Order[43] dated May 28, 1999.

In its Decision dated October 29, 1999, the RTC ruled in favor of respondent, disposing thus:

WHEREFORE, judgment is hereby rendered in favor of [respondent] and against [petitioner].

Accordingly, [petitioner] is hereby ordered to:

- Grant renewal of the lease contract for the same term as stipulated in the old contract and the rental to be based on the applicable rate of the time or renewal;
- To respect and maintain [respondent's] peaceful possession of the premises;
- To accept the rental payment consigned by the [respondent] to the court beginning December 1991 onward until and after a renewal has been duly executed by both parties;
- To pay [respondent] as and by way of attorney's fees the sum of P500,000.00; and
- To pay the cost of suit.[44]

Petitioner appealed the RTC judgment before the Court of Appeals and assigned these errors:

- The trial court gravely erred in declaring that [respondent] is entitled to a renewal of the contract of lease.
- The trial court gravely erred in ordering the renewal of the contract of lease despite of the fact that it has no legal authority to do so.
- The trial court gravely erred in declaring that [respondent] did not violate the terms and conditions of the contract.
- The trial court gravely erred in declaring that [petitioner's] act of effecting the increase in the rental during the stipulated lifetime of the contract has no valid basis.
- The trial court gravely erred in not finding that [petitioner] is entitled to its counterclaim.[45]

The Court of Appeals promulgated its Decision on January 8, 2004, finding no reversible error in the appealed judgment of the RTC and decreeing as follows:

WHEREFORE, finding no reversible error committed by the trial court, the instant appeal is hereby DISMISSED, and the assailed decision is hereby AFFIRMED.[46]

Hence, the instant Petition for Review, wherein petitioner basically attributed to the Court of Appeals the very same errors it assigned to the RTC.

Petitioner argues that the renewal of the Contract of Lease cannot be made to depend on the sole will of respondent for the same would then be void for being a potestative condition.

We do not agree. As we have already explained in *Allied Banking Corporation v. Court of Appeals* [47]:

Article 1308 of the Civil Code expresses what is known in law as the principle of mutuality of contracts. It provides that "the contract must bind both the contracting parties; its validity or compliance cannot be left to the will of one of them." This binding effect of a contract on both parties is based on the principle that the obligations arising from contracts have the force of law between the contracting parties, and there must be mutuality between them based essentially on their equality under which it is repugnant to have one party bound by the contract while leaving the other free therefrom. The ultimate purpose is to render void a contract

containing a condition which makes its fulfillment dependent solely upon the uncontrolled will of one of the contracting parties.

An express agreement which gives the lessee the sole option to renew the lease is frequent and subject to statutory restrictions, valid and binding on the parties. This option, which is provided in the same lease agreement, is fundamentally part of the consideration in the contract and is no different from any other provision of the lease carrying an undertaking on the part of the lessor to act conditioned on the performance by the lessee. It is a purely executory contract and at most confers a right to obtain a renewal if there is compliance with the conditions on which the right is made to depend. The right of renewal constitutes a part of the lessee's interest in the land and forms a substantial and integral part of the agreement.

The fact that such option is binding only on the lessor and can be exercised only by the lessee does not render it void for lack of mutuality. After all, the lessor is free to give or not to give the option to the lessee. And while the lessee has a right to elect whether to continue with the lease or not, once he exercises his option to continue and the lessor accepts, both parties are thereafter bound by the new lease agreement. Their rights and obligations become mutually fixed, and the lessee is entitled to retain possession of the property for the duration of the new lease, and the lessor may hold him liable for the rent therefor. The lessee cannot thereafter escape liability even if he should subsequently decide to abandon the premises. Mutuality obtains in such a contract and equality exists between the lessor and the lessee since they remain with the same faculties in respect to fulfillment.[48]

Paragraph 17 of the Contract of Lease dated May 14, 1976 between petitioner and respondent solely granted to respondent the option of renewing the lease of the subject property, the only express requirement was for respondent to notify petitioner of its decision to renew the lease within 60 days prior to the expiration of the original lease term. It has not been disputed that said Contract of Lease was willingly and knowingly entered into by petitioner and respondent. Thus, petitioner freely consented to giving respondent the exclusive right to choose whether or not to renew the lease. As we stated in *Allied Banking*, the right of renewal constitutes a part of the interest of respondent, as lessee, in the subject property, and forms a substantial and integral part of the lease agreement with petitioner. Records show that respondent had duly complied with the only condition for renewal under Section 17 of the Contract of Lease by notifying petitioner 60 days prior to the expiration of said Contract that it chooses to renew the lease. We cannot now allow petitioner to arbitrarily deny respondent of said right after having previously agreed to the grant of the same.

Equally unmeritorious is the assertion of petitioner that paragraph 17 of the Contract of Lease dated May 14, 1976 merely provides a procedural basis for a negotiation for renewal of the lease and the terms thereof. The exercise by respondent of its option to renew the lease need no longer be subject to negotiations. We reiterate the point we made in *Allied Banking* that:

[I]f we were to adopt the contrary theory that the terms and conditions to be embodied in the renewed contract were still subject to mutual agreement by and between the parties, then the option - which is an integral part of the consideration for the contract - would be rendered worthless. For then, the lessor could easily defeat the lessee's right of renewal by simply imposing unreasonable and onerous conditions to prevent the parties from reaching an agreement, as in the case at bar. As in a statute, no word, clause, sentence, provision or part of a contract shall be considered surplusage or superfluous, meaningless, void, insignificant or nugatory, if that can be reasonably avoided. To this end, a construction which will render every word operative is to be preferred over that which would make some words idle and nugatory.[49]

In case the lessee chooses to renew the lease but there are no specified terms and conditions for the new contract of lease, the same terms and conditions as the original contract of lease shall continue to govern, as the following survey of cases in *Allied Banking* would show:

In *Ledesma v. Javellana* this Court was confronted with a similar problem. In that case the lessee was given the sole option to renew the lease, but the contract failed to specify the terms and conditions that would govern the new contract. When the lease expired, the lessee demanded an extension under the same terms and conditions. The lessor expressed conformity to the renewal of the contract but refused to accede to the claim of the lessee that the renewal should be under the same terms and conditions as the original contract. In sustaining the lessee, this Court made the following pronouncement:

x x x [i]n the case of *Hicks v. Manila Hotel Company*, a similar issue was resolved by this Court. It was held that 'such a clause relates to the very contract in which it is placed, and does not permit the defendant upon the renewal of the contract in which the clause is found, to insist upon different terms than those embraced in the contract to be renewed'; and that 'a stipulation to renew always relates to the contract in which it is found and the rights granted thereunder, unless it expressly provides for variations in the terms of the contract to be renewed.'

The same principle is upheld in American Law regarding the renewal of lease contracts. In 50 Am. Jur. 2d, Sec. 1159, at p. 45, we find the following citations: 'The rule is well-established that a general covenant to renew or extend a lease which makes no provision as to the terms of a renewal or extension implies a renewal or extension upon the same terms as provided in the original lease.'

In the lease contract under consideration, there is no provision to indicate that the renewal will be subject to new terms and conditions that the parties may yet agree upon. It is to renewal provisions of lease contracts of the kind presently considered that the principles stated above squarely apply. We do not agree with the contention of the appellants that if it was intended by the parties to renew the contract under the same terms and conditions stipulated in the contract of lease, such should have expressly so stated in the contract itself. The same argument could easily be interposed by the appellee who could likewise contend that if the intention was to renew the contract of lease under such new terms and conditions that the parties may agree upon, the contract should have so specified. Between the two assertions, there is more logic in the latter.

The settled rule is that in case of uncertainty as to the meaning of a provision granting extension to a contract of lease, the tenant is the one favored and not the landlord. 'As a general rule, in construing provisions relating to renewals or extensions, where there is any uncertainty, the tenant is favored, and not the landlord, because the latter, having the power of stipulating in his own favor, has neglected to do so; and also upon the principle that every man's grant is to be taken most strongly against himself (50 Am Jur. 2d, Sec. 1162, p. 48; see also 51 C.J.S. 599).'[50] (Emphases supplied.)

Being consistent with the foregoing principles, we sustain the interpretation of the RTC of paragraph 17 of the Contract of Lease dated May 14, 1976 between petitioner and respondent, to wit:

[Paragraph 17 of the Contract of Lease dated May 14, 1976] admits several meanings. In simpler terms, the phrase, i.e., "if desirous of continuing his lease, may be simply restated, i.e., if he wants to go on with his lease, considering the word 'CONTINUE' in its verb form ordinarily means - to go on in present state, or even restated in another way - if desirous of extending his lease, because the word 'continue' in its verb form also means - extend uniformly." Thus, if we are to adopt the interpretation of [petitioner] that the stipulation merely established the procedural basis for a negotiation for renewal then the aforequoted phrase would be rendered a mere surplusage, meaningless and insignificant. But if we are to prod deeper to the very context of the entire stipulations set forth in the contract and from what is obvious with respect to the intentions of the contracting parties based on their contemporaneous and subsequent acts including but not limited to the historical antecedents of the agreement then an interpretation invariably different from that of [petitioner] becomes inevitable.

Specifically, the extraneous source of the lease contract in question could be the original and renewed contract

of lease by and between Salem Investment Corporation and CAA - the predecessor-in-interest of [petitioner] - executed on February 10, 1967 (Exh. "M"). Under the said lease contract between CAA and Salem, the term is for a period of twenty-five (25) years renewable for another 25 years at the option of the lessee - Salem (Exh. "Y-1"). Later, with the approval of CAA, Salem transferred its leasehold rights over a portion of the land leased to Ding Velayo Export Corporation on September 30, 1974 (Exh. "N") and in turn Velayo Export transferred its leasehold rights over a portion of the leased land transferred to it by Salem to Velayo Sports Complex, Inc. - [respondent] herein - on April 29, 1976 (Exh. "O"). Thus, on May 14, 1976, [respondent] and CAA, predecessor-in-interest of [petitioner], concluded the lease agreement in question with a term equivalent to the unexpired portion of the lease between Velayo Export and CAA.

As culled from the transfers effected prior to the May 14, 1976 agreement of [respondent] and [petitioner]'s predecessor-in-interest, the renewal of the contract was clearly at the option of the lessee. Considering that there was no evidence positively showing that [respondent] and CAA expressly intended the removal of the option for the renewal of the lease contract from the lessee, it is but logical to conclude, although the stipulation set forth in paragraph 17 appears to have been worded or couched in somewhat uncertain terms, that the parties agreed that the option should remain with the lessee. This must be so because based on the context of their agreements and bolstered by the testimony of Mr. Mariano Nocom of Salem Investment and particularly Rosila Mabanag, one of the signatory witness to the contract and a retired employee of CAA's Legal Division the parties really intended a renewal for the same term as it was then the usual practice of CAA to have the term of leases on lands where substantial amount will be involved in the construction of the improvements to be undertaken by the lessee to give a renewal. In fact, it clearly appears that the right of renewal constitutes a part of the lessee's interest in the land considering the multimillion investments it made relative to the construction of the building and facilities thereon and forms a substantial and integral part of the agreement.[51] (Emphases supplied.)

In sum, the renewed contract of lease of the subject property between petitioner and respondent shall be based on the same terms and conditions as the original contract of lease. The "original contract of lease" does not pertain to the Contract of Lease dated May 14, 1976 between petitioner and respondent alone, but also to the Contract of Lease dated February 15, 1967 between petitioner (then still called CAA) and Salem, as well as the Contract of Lease dated November 26, 1974 between petitioner and Velayo Export - all three contracts being inextricably connected. Since the Contract of Lease between petitioner and Salem was for a term of 25 years, then the renewed contract of lease of between petitioner and respondent shall be for another term of 25 years. This construction of the renewal clause under paragraph 17 of the Contract of Lease dated May 14, 1976 between petitioner and respondent is most consistent with the intent of the parties at the time of the execution of said Contract and most effectual in implementing the same.

In addition to challenging the exclusive right of respondent to renew the Contract of Lease over the subject property, petitioner insists on its right to refuse the renewal because of purported violations of the said Contract by respondent, particularly: (1) subleasing of the premises; (2) failure to ease the problems of parking congestion at the Domestic Airport and to provide a shopping center and sports facilities, such as an oval track and a swimming pool; and (3) failure to pay monthly lease rentals in the form of royalties equivalent to 1% of the gross income of respondent or in accordance with the rates fixed in the administrative orders of petitioner.

We find no violations by the respondent of the Contract of Lease dated May 14, 1976 as to justify the revocation or refusal to renew of said Contract by petitioner.

The RTC is once again correct in its construal that paragraph 16 of the Contract of Lease, prohibiting the subleasing of the "premises," refers only to the subject property. We stress that when the said Contract was executed on May 14, 1976, the "premises" leased by petitioner to respondent, and which respondent was not allowed to sublease, is the subject property, i.e., an idle piece of land with an area of 8,481 square meters. More

importantly, being the builder of the improvements on the subject property, said improvements are owned by respondent until their turn-over to petitioner at the end of the 25-year lease in 1992. As respondent is not leasing the improvements from petitioner, then it is not subleasing the same to third parties.

While the Contract of Lease expressly obligated respondent to build certain improvements, such as parking, shopping mall, and sports facilities, the belated insistence by petitioner on compliance with the same appears to be a mere afterthought.

Article 1235 of the Civil Code states that "[w]hen the obligee accepts the performance, knowing its incompleteness or irregularity, and without expressing any protest or objection, the obligation is deemed fully complied with."

As aptly observed by the RTC, paragraphs 9 and 10 of the Contract of Lease likewise expressly require respondent to submit, for prior approval by petitioner, all construction plans on the subject property; and to complete the contemplated improvements thereon within a year. The Contract of Lease was executed on May 14, 1976, and the one-year period expired on May 14, 1977. Yet, petitioner did not register any protest or objection to the alleged incompleteness of or irregularity in the performance by respondent of its obligation to build and develop improvements on the subject property. In fact, upon the expiration of the original 25-year lease period in February 1992, petitioner was already ready and willing to accept and appropriate as its own the improvements built on the subject property in 1992. Petitioner only raised the issue of the purported incompleteness/irregularity of the said improvements when it was brought to court by respondent for refusing to renew the lease.

Just as the RTC adjudged, no fault could be attributed to respondent for deficient payment of lease rentals. Lease rentals were based on either the rates fixed by AO No. 4, series of 1970, or 1% of the monthly gross income of respondent, whichever is higher. At the very beginning of the lease, respondent had been paying monthly lease rentals based on the rates fixed by AO No. 4, series of 1970, which amounted to P2,205.25 per month. When requested, respondent submitted to petitioner its gross income statements, so petitioner could very well compute the 1% royalty. However, petitioner continued to charge respondent only P2,205.25 monthly lease rental, which the latter faithfully paid.

Petitioner later demanded an increase in lease rentals based on subsequent administrative issuances raising the rates for the rental of its properties. But the RTC found that the adverted administrative orders were not published in full, thus, the same were legally invalid within the context of Article 2 of the Civil Code which provides that "[l]aws shall take effect after fifteen days following the completion of their publication in the Official Gazette, unless it is otherwise provided. x x x" In *Tañada v. Tuvera*,^[52] we enunciated that publication is indispensable in order that all statutes, including administrative rules that are intended to enforce or implement existing laws, attain binding force and effect, to wit:

We hold therefore that all statutes, including those of local application and private laws, shall be published as a condition for their effectivity, which shall begin fifteen days after publication unless a different effectivity date is fixed by the legislature.

Covered by this rule are presidential decrees and executive orders promulgated by the President in the exercise of legislative powers whenever the same are validly delegated by the legislature or, at present, directly conferred by the Constitution. Administrative rules and regulations must also be published if their purpose is to enforce or implement existing law pursuant also to a valid delegation.^[53]

There is no basis for the argument of petitioner that the validity of its administrative orders cannot be collaterally attacked. To the contrary, we have previously declared that a party may raise the unconstitutionality or invalidity of an administrative regulation on every occasion that said regulation is being enforced.^[54] Since it is petitioner

which first invoked its administrative orders to justify the increase in lease rentals of respondent, then respondent may raise before the court the invalidity of said administrative orders on the ground of non-publication thereof.

Finally, petitioner cannot oppose the renewal of the lease because of estoppel. Our following disquisition in *Kalalo v. Luz* [55] is relevant herein:

Under Article 1431 of the Civil Code, in order that estoppel may apply the person, to whom representations have been made and who claims the estoppel in his favor must have relied or acted on such representations. Said article provides:

"Art. 1431. Through estoppel an admission or representation is rendered conclusive upon the person making it, and cannot be denied or disproved as against the person relying thereon."

An essential element of estoppel is that the person invoking it has been influenced and has relied on the representations or conduct of the person sought to be estopped, and this element is wanting in the instant case. In *Cristobal vs. Gomez*, this Court held that no estoppel based on a document can be invoked by one who has not been misled by the false statements contained therein. And in *Republic of the Philippines vs. Garcia, et al.*, this Court ruled that there is no estoppel when the statement or action invoked as its basis did not mislead the adverse party. Estoppel has been characterized as harsh or odious, and not favored in law.[]When misapplied, estoppel becomes a most effective weapon to accomplish an injustice, inasmuch as it shuts a man's mouth from speaking the truth and debars the truth in a particular case. Estoppel cannot be sustained by mere argument or doubtful inference; it must be clearly proved in all its essential elements by clear, convincing and satisfactory evidence.[]No party should be precluded from making out his case according to its truth unless by force of some positive principle of law, and, consequently, estoppel in pais must be applied strictly and should not be enforced unless substantiated in every particular.

The essential elements of estoppel in pais may be considered in relation to the party sought to be estopped, and in relation to the party invoking the estoppel in his favor. As related to the party to be estopped, the essential elements are: (1) conduct amounting to false representation or concealment of material facts; or at least calculated to convey the impression that the facts are otherwise than, and inconsistent with, those which the party subsequently attempts to assert; (2) intent, or at least expectation that his conduct shall be acted upon by, or at least influence, the other party; and (3) knowledge, actual or constructive, of the real facts. As related to the party claiming the estoppel, the essential elements are (1) lack of knowledge and of the means of knowledge of the truth as the facts in questions; (2) reliance, in good faith, upon the conduct or statements of the party to be estopped; (3) action or inaction based thereon of such character as to change the position or status of the party claiming the estoppel, to his injury, detriment or prejudice.[56] (Emphases ours.)

Indeed, Velayo's Letters dated March 3 and 10, 1992 to petitioner may have already expressed acquiescence to the non-renewal of the lease and turn-over of the improvements on the subject property to petitioner. But not long thereafter, Alomesen, the new President of respondent, already wrote another Letter dated March 25, 1992, which revoked Velayo's earlier Letters for having been sent without authority of the Board of Directors of respondent, insisted on the renewal of the lease, and tendered payment of past due lease rentals. Respondent, through Alomesen, timely acted to correct Velayo's mistakes. In the 15-day interval between Velayo's Letter dated March 10, 1992 and Alomesen's Letter dated March 25, 1992, there is no showing that petitioner, relying in good faith on Velayo's Letters, acted or did not act as to have caused it injury, detriment, or prejudice. There is an utter lack of clear, convincing, and satisfactory evidence on the part of petitioner, as the party claiming estoppel, of the second and third elements for the application of said principle against respondent.

WHEREFORE, the instant Petition is hereby DENIED for lack of merit. The Decision dated January 8, 2004 of

the Court Appeals in CA-G.R. CV No. 68787, which affirmed the Decision dated October 29, 1999 of Branch 111 of the RTC of Pasay City in Civil Case No. 8847, is hereby AFFIRMED.

SO ORDERED.

Corona, C.J., (Chairperson), Bersamin, Del Castillo, and Villarama, Jr., JJ., concur.

[1] Rollo, pp. 44-52; penned by Associate Justice Eloy R. Bello, Jr. with Associate Justices Amelita G. Tolentino and Arturo D. Brion (now a member of this Court), concurring.

[2] Records, pp. 1108-1125.

[3] Rollo, pp. 63-65.

[4] Id. at 67-68.

[5] Records, pp. 8-13.

[6] Rollo, p. 88.

[7] Id. at 87.

[8] Id. at 86-87.

[9] Id. at 87.

[10] Id. at 88.

[11] Id. at 86-88.

[12] Id. at 87-88.

[13] Id. at 544.

[14] Id. at 545-546.

[15] Id. at 549-582.

[16] Id. at 846.

[17] Id. at 465-466.

[18] Id. at 14.

[19] Id. at 15.

[20] Id. at 16.

[21] Id. at 17-20.

[22] Id. at 21.

[23] Id. at 25-26.

[24] Id. at 29.

[25] Id. at 32-44.

- [26] Id. at 97-98.
- [27] Id. at 242-245.
- [28] Id. at 296.
- [29] TSN, July 24, 1998 and August 7, 1998.
- [30] TSN, August 7, 1998 and September 11, 1998.
- [31] TSN, September 18, 1998.
- [32] TSN, November 5, 1998.
- [33] Records, p. 385.
- [34] TSN, December 17, 1998.
- [35] Records, pp. 840-853.
- [36] Id. at 854-871.
- [37] Id. at 872-890.
- [38] Id. at 895-915.
- [39] Id. at 891-894.
- [40] Id. at 916.
- [41] Id. at 917-927.
- [42] Id. at 929-960.
- [43] Id. at 776-777.
- [44] Id. at 1125.
- [45] CA rollo, p. 29.
- [46] Rollo, p. 52.
- [47] Allied Banking Corporation v. Court of Appeals, 348 Phil. 382 (1998).
- [48] Id. at 390-391.
- [49] Id. at 393.
- [50] Id. at 392-393.
- [51] Records, pp. 1121-1122.
- [52] 230 Phil. 528 (1986).
- [53] Id. at 535.
- [54] Moldex Realty, Inc. v. Housing and Land Use Regulatory Board, G.R. No. 149719, June 21, 2007, 525 SCRA 198, 204-205.
- [55] 145 Phil. 152 (1970).

[56] Id. at 161-162.

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