

**SULO SA NAYON, INC. AND/OR PHILIPPINE VILLAGE HOTEL, INC.
AND JOSE MARCEL E. PANLILIO, PETITIONERS, VS. NAYONG
PILIPINO FOUNDATION, RESPONDENT.**

G.R. No. 170923. January 20, 2009

Ponente: PUNO, J.

Read online (full-text search, related cases, audio case brief): <https://batas.org/library/g-r-no-170923/>

PUNO, J.:

On appeal are the Court of Appeals' (CA's) October 4, 2005 Decision[1] in CA-G.R. SP No. 74631 and December 22, 2005 Resolution,[2] reversing the November 29, 2002 Decision[3] of the Regional Trial Court (RTC) of Pasay City in Civil Case No. 02-0133. The RTC modified the Decision[4] of the Metropolitan Trial Court (MeTC) of Pasay City which ruled against petitioners and ordered them to vacate the premises and pay their arrears. The RTC declared petitioners as builders in good faith and upheld their right to indemnity.

The facts are as follows:

Respondent Nayong Pilipino Foundation, a government-owned and controlled corporation, is the owner of a parcel of land in Pasay City, known as the Nayong Pilipino Complex. Petitioner Philippine Village Hotel, Inc. (PVHI), formerly called Sulo sa Nayon, Inc., is a domestic corporation duly organized and existing under Philippine laws. Petitioner Jose Marcel E. Panlilio is its Senior Executive Vice President.

On June 1, 1975, respondent leased a portion of the Nayong Pilipino Complex, consisting of 36,289 square meters, to petitioner Sulo sa Nayon, Inc. for the construction and operation of a hotel building, to be known as the Philippine Village Hotel. The lease was for an initial period of 21 years, or until May 1996. It is renewable for a period of 25 years under the same terms and conditions upon due notice in writing to respondent of the intention to renew at least 6 months before its expiration. Thus, on March 7, 1995, petitioners sent respondent a letter notifying the latter of their intention to renew the contract for another 25 years. On July 4, 1995, the parties executed a Voluntary Addendum to the Lease Agreement. The addendum was signed by petitioner Jose Marcel E. Panlilio in his official capacity as Senior Executive Vice President of the PVHI and by Chairman Alberto A. Lim of the Nayong Pilipino Foundation. They agreed to the renewal of the contract for another 25 years, or until 2021. Under the new agreement, petitioner PVHI was bound to pay the monthly rental on a per square meter basis at the rate of P20.00 per square meter, which shall be subject to an increase of 20% at the end of every 3-year period. At the time of the renewal of the lease contract, the monthly rental amounted to P725,780.00.

Beginning January 2001, petitioners defaulted in the payment of their monthly rental. Respondent repeatedly demanded petitioners to pay the arrears and vacate the premises. The last demand letter was sent on March 26, 2001.

On September 5, 2001, respondent filed a complaint for unlawful detainer before the MeTC of Pasay City. The complaint was docketed as Civil Case No. 708-01. Respondent computed the arrears of petitioners in the amount of twenty-six million one hundred eighty-three thousand two hundred twenty-five pesos and fourteen centavos (P26,183,225.14), as of July 31, 2001.

On February 26, 2002, the MeTC rendered its decision in favor of respondent. It ruled, thus:

. . . The court is convinced by the evidence that indeed, defendants defaulted in the payment of their rentals. It is basic that the lessee is obliged to pay the price of the lease according to the terms stipulated (Art. 1657, Civil Code). Upon the failure of the lessee to pay the stipulated rentals, the lessor may eject (sic) and treat the lease as rescinded and sue to eject the lessee (C. Vda[.] De Pamintuan v. Tiglao, 53 Phil. 1). For non-payment of rentals, the lessor may rescind the lease, recover the back rentals and recover possession of the leased premises. . .

x x x

. . . Improvements made by a lessee such as the defendants herein on leased premises are not valid reasons for their retention thereof. The Supreme Court has occasion to address a similar issue in which it ruled that: "The fact that petitioners allegedly made repairs on the premises in question is not a reason for them to retain the possession of the premises. There is no provision of law which grants the lessee a right of retention over the leased premises on that ground. Article 448 of the Civil Code, in relation to Article 546, which provides for full reimbursement of useful improvements and retention of the premises until reimbursement is made, applies only to a possessor in good faith, i.e., one who builds on a land in the belief that he is the owner thereof. This right of retention does not apply to a mere lessee, like the petitioners, otherwise, it would always be in his power to "improve" his landlord out of the latter's property (Jose L. Chua and Co Sio Eng vs. Court of Appeals and Ramon Ibarra, G.R. No. 109840, January 21, 1999)."

Although the Contract of Lease stipulates that the building and all the improvements in the leased premises belong to the defendants herein, such will not defeat the right of the plaintiff to its property as the defendants failed to pay their rentals in violation of the terms of the contract. At most, defendants can only invoke [their] right under Article 1678 of the New Civil Code which grants them the right to be reimbursed one-half of the value of the building upon the termination of the lease, or, in the alternative, to remove the improvements if the lessor refuses to make reimbursement.

The dispositive portion of the decision reads as follows:

WHEREFORE, premises considered, judgment is hereby rendered in favor of Nayong Pilipino Foundation, and against the defendant Philippine Village Hotel, Inc[.], and all persons claiming rights under it, ordering the latter to:

- VACATE the subject premises and surrender possession thereof to plaintiff;
- PAY plaintiff its rental arrearages in the sum of TWENTY SIX MILLION ONE HUNDRED EIGHTY THREE THOUSAND TWO HUNDRED TWENTY FIVE PESOS AND 14/100 (P26,183,225.14) incurred as of July 31, 2001;
- PAY plaintiff the sum of SEVEN HUNDRED TWENTY FIVE THOUSAND SEVEN HUNDRED EIGHTY PESOS (P725,780.00) per month starting from August 2001 and every month thereafter by way of reasonable compensation for the use and occupation of the premises;
- PAY plaintiff the sum of FIFTY THOUSAND PESOS (P50,000.00) by way of attorney's fees[; and]
- PAY the costs of suit.

The complaint against defendant Jose Marcel E. Panlilio is hereby dismissed for lack of cause of action. The said defendant's counterclaim however is likewise dismissed as the complaint does not appear to be frivolous or maliciously instituted.

SO ORDERED.[5]

Petitioners appealed to the RTC which modified the ruling of the MeTC. It held that:

. . . it is clear and undisputed that appellants-lessees were expressly required to construct a first-class hotel with complete facilities. The appellants were also unequivocally declared in the Lease Agreement as the owner of the improvements so constructed. They were even explicitly allowed to use the improvements and building as security or collateral on loans and credit accommodations that the Lessee may secure for the purpose of financing the construction of the building and other improvements (Section 2; pars. "A" to "B," Lease Agreement). Moreover, a time frame was set forth (sic) with respect to the duration of the lease initially for 21 years and renewable for another 25 years in order to enable the appellants-lessees to recoup their huge money investments relative to the construction and maintenance of the improvements.

x x x

Considering therefore, the elements of permanency of the construction and substantial value of the improvements as well as the undispute[d] ownership over the land improvements, these, immensely engender the application of Art. 448 of the Civil Code. The only remaining and most crucial issue to be resolved is whether or not the appellants as builders have acted in good faith in order for Art. 448 in relation to Art. 546 of the Civil Code may apply with respect to their rights over improvements.

x x x

. . . it is undeniable that the improvement of the hotel building of appellants (sic) PVHI was constructed with the written consent and knowledge of appellee. In fact, it was precisely the primary purpose for which they entered into an agreement. Thus, it could not be denied that appellants were builders in good faith.

Accordingly, and pursuant to Article 448 in relation to Art. 546 of the Civil Code, plaintiff-appellee has the sole option or choice, either to appropriate the building, upon payment of proper indemnity consonant to Art. 546 or compel the appellants to purchase the land whereon the building was erected. Until such time that plaintiff-appellee has elected an option or choice, it has no right of removal or demolition against appellants unless after having selected a compulsory sale, appellants fail to pay for the land (Ignacio vs. Hilario; 76 Phil. 605). This, however, is without prejudice from the parties agreeing to adjust their rights in some other way as they may mutually deem fit and proper.

The dispositive portion of the decision of the RTC reads as follows:

WHEREFORE, and in view of the foregoing, judgment is hereby rendered modifying the decision of [the] MTC, Branch 45 of Pasay City rendered on February 26, 2002 as follows:

- Ordering plaintiff-appellee to submit within thirty (30) days from receipt of a copy of this decision a written manifestation of the option or choice it selected, i.e., to appropriate the improvements upon payment of proper indemnity or compulsory sale of the land whereon the hotel building of PVHI and related improvements or facilities were erected;
- Directing the plaintiff-appellee to desist and/or refrain from doing acts in the furtherance or exercise of its rights and demolition against appellants unless and after having selected the option of compulsory sale and appellants failed to pay [and] purchase the land within a reasonable time or at such time as this court will direct;
- Ordering defendants-appellants to pay plaintiff-appellee [their] arrears in rent incurred as of July 31, 2001 in the amount of P26,183,225.14;
- Ordering defendants-appellants to pay to plaintiff-appellee the unpaid monthly rentals for the use and occupation of the premises pending this appeal from July to November 2002 only at P725,780.00 per month;
- The fourth and fifth directives in the dispositive portion of the trial court's decision including that the last

paragraph thereof JME Panlilio's complaint is hereby affirmed;

- The parties are directed to adjust their respective rights in the interest of justice as they may deem fit and proper if necessary.

SO ORDERED.[6]

Respondent appealed to the CA which held that the RTC erroneously applied the rules on accession, as found in Articles 448 and 546 of the Civil Code when it held that petitioners were builders in good faith and, thus, have the right to indemnity. The CA held:

By and large, respondents are admittedly mere lessees of the subject premises and as such, cannot validly claim that they are builders in good faith in order to solicit the application of Articles 448 and 546 of the Civil Code in their favor. As it is, it is glaring error on the part of the RTC to apply the aforesaid legal provisions on the supposition that the improvements, which are of substantial value, had been introduced on the leased premises with the permission of the petitioner. To grant the respondents the right of retention and reimbursement as builders in good faith merely because of the valuable and substantial improvements that they introduced to the leased premises plainly contravenes the law and settled jurisprudential doctrines and would, as stated, allow the lessee to easily "improve" the lessor out of its property.

. . . . Introduction of valuable improvements on the leased premises does not strip the petitioner of its right to avail of recourses under the law and the lease contract itself in case of breach thereof. Neither does it deprive the petitioner of its right under Article 1678 to exercise its option to acquire the improvements or to let the respondents remove the same.

Petitioners' Motion for Reconsideration was denied.

Hence, this appeal.[7]

Petitioners assign the following errors:

I

THE HONORABLE COURT OF APPEALS COMMITTED A GRAVE REVERSIBLE ERROR IN NOT HOLDING THAT PETITIONERS WERE BUILDERS IN GOOD FAITH OVER THE SUBSTANTIAL AND VALUABLE IMPROVEMENTS WHICH THEY HAD INTRODUCED ON THE SUBJECT PROPERTY, THUS COMPELLING THE APPLICATION OF ARTICLE 448 OF THE CIVIL CODE IN RELATION TO ARTICLE 546 OF THE SAME CODE, INSTEAD OF ARTICLE 1678 OF THE CIVIL CODE.

II

THE HONORABLE COURT OF APPEALS COMMITTED A SERIOUS REVERSIBLE ERROR WHEN IT DISREGARDED THE FACT THAT THE LEASE CONTRACT GOVERNS THE RELATIONSHIP OF THE PARTIES AND CONSEQUENTLY THE PARTIES MAY BE CONSIDERED TO HAVE IMPLIEDLY WAIVED THE APPLICATION OF ARTICLE 1678 OF THE CIVIL CODE TO THE INSTANT CASE.

III

ASSUMING ARGUENDO THAT THE PETITIONERS ARE NOT BUILDERS IN GOOD FAITH, THE HONORABLE COURT OF APPEALS COMMITTED A GRAVE REVERSIBLE ERROR WHEN IT OVERLOOKED THE FACT THAT RESPONDENT ALSO ACTED IN BAD FAITH WHEN IT DID NOT HONOR AND INSTEAD BREACHED THE LEASE CONTRACT BETWEEN THE PARTIES, THUS BOTH PARTIES ACTED AS IF THEY ARE IN GOOD FAITH.

IV

TO SANCTION THE APPLICATION OF ARTICLE 1678 OF THE CIVIL CODE INSTEAD OF ARTICLE 448 OF THE CIVIL CODE IN RELATION TO ARTICLE 546 OF THE SAME CODE WOULD NOT ONLY WREAK HAVOC AND CAUSE SUBSTANTIAL INJURY TO THE RIGHTS AND INTERESTS OF PETITIONER PHILIPPINE VILLAGE HOTEL, INC. WHILE RESPONDENT NAYONG PILIPINO FOUNDATION, IN COMPARISON THERETO, WOULD SUFFER ONLY SLIGHT OR INCONSEQUENTIAL INJURY OR LOSS, BUT ALSO WOULD CONSTITUTE UNJUST ENRICHMENT ON THE PART OF RESPONDENT AT GREAT EXPENSE AND GRAVE PREJUDICE OF PETITIONERS.

V

THE HONORABLE COURT OF APPEALS COMMITTED A GRAVE REVERSIBLE ERROR IN NOT HOLDING THAT THE COURTS A QUO DID NOT ACQUIRE JURISDICTION OVER THE UNLAWFUL DETAINER CASE FOR NON-COMPLIANCE WITH JURISDICTIONAL REQUIREMENTS DUE TO THE ABSENCE OF A NOTICE TO VACATE UPON PETITIONERS.[8]

First, we settle the issue of jurisdiction. Petitioners argue that the MeTC did not acquire jurisdiction to hear and decide the ejectment case because they never received any demand from respondent to pay rentals and vacate the premises, since such demand is a jurisdictional requisite. We reiterate the ruling of the MeTC, RTC and CA. Contrary to the claim of petitioners, documentary evidence proved that a demand letter dated March 26, 2001 was sent by respondent through registered mail to petitioners, requesting them "to pay the rental arrears or else it will be constrained to file the appropriate legal action and possess the leased premises."

Further, petitioners' argument that the demand letter is "inadequate" because it contained no demand to vacate the leased premises does not persuade. We have ruled that:

. . . . The word "vacate" is not a talismanic word that must be employed in all notices. The alternatives in this case are clear cut. The tenants must pay rentals which are fixed and which became payable in the past, failing which they must move out. There can be no other interpretation of the notice given to them. Hence, when the petitioners demanded that either he pays P18,000 in five days or a case of ejectment would be filed against him, he was placed on notice to move out if he does not pay. There was, in effect, a notice or demand to vacate.[9]

In the case at bar, the language of the demand letter is plain and simple: respondent demanded payment of the rental arrears amounting to P26,183,225.14 within ten days from receipt by petitioners, or respondent will be constrained to file an appropriate legal action against petitioners to recover the said amount. The demand letter further stated that respondent will possess the leased premises in case of petitioners' failure to pay the rental arrears within ten days. Thus, it is clear that the demand letter is intended as a notice to petitioners to pay the rental arrears, and a notice to vacate the premises in case of failure of petitioners to perform their obligation to pay.

Second, we resolve the main issue of whether the rules on accession, as found in Articles 448 and 546 of the Civil Code, apply to the instant case.

Article 448 and Article 546 provide:

Art. 448. The owner of the land on which anything has been built, sown or planted in good faith, shall have the right to appropriate as his own the works, sowing or planting, after payment of the indemnity provided for in Articles 546 and 548, or to oblige the one who built or planted to pay the price of the land, and the one who sowed, the proper rent. However, the builder or planter cannot be obliged to buy the land if its value is considerably more than that of the building or trees. In such case, he shall pay reasonable rent, if the owner of the land does not choose to appropriate the building or trees after proper indemnity. The parties shall agree upon the terms of the lease and in case of disagreement, the court shall fix the terms thereof.

Art. 546. Necessary expenses shall be refunded to every possessor; but only the possessor in good faith may retain the thing until he has been reimbursed therefor.

Useful expenses shall be refunded only to the possessor in good faith with the same right of retention, the person who has defeated him in the possession having the option of refunding the amount of the expenses or of paying the increase in value which the thing may have acquired by reason thereof.

We uphold the ruling of the CA.

The late Senator Arturo M. Tolentino, a leading expert in Civil Law, explains:

This article [Article 448] is manifestly intended to apply only to a case where one builds, plants, or sows on land in which he believes himself to have a claim of title,[10] and not to lands where the only interest of the builder, planter or sower is that of a holder, such as a tenant.[11]

In the case at bar, petitioners have no adverse claim or title to the land. In fact, as lessees, they recognize that the respondent is the owner of the land. What petitioners insist is that because of the improvements, which are of substantial value, that they have introduced on the leased premises with the permission of respondent, they should be considered builders in good faith who have the right to retain possession of the property until reimbursement by respondent.

We affirm the ruling of the CA that introduction of valuable improvements on the leased premises does not give the petitioners the right of retention and reimbursement which rightfully belongs to a builder in good faith. Otherwise, such a situation would allow the lessee to easily "improve" the lessor out of its property. We reiterate the doctrine that a lessee is neither a builder in good faith nor in bad faith[12] that would call for the application of Articles 448 and 546 of the Civil Code. His rights are governed by Article 1678 of the Civil Code, which reads:

Art. 1678. If the lessee makes, in good faith, useful improvements which are suitable to the use for which the lease is intended, without altering the form or substance of the property leased, the lessor upon the termination of the lease shall pay the lessee one-half of the value of the improvements at that time. Should the lessor refuse to reimburse said amount, the lessee may remove the improvements, even though the principal thing may suffer damage thereby. He shall not, however, cause any more impairment upon the property leased than is necessary.

With regard to ornamental expenses, the lessee shall not be entitled to any reimbursement, but he may remove the ornamental objects, provided no damage is caused to the principal thing, and the lessor does not choose to retain them by paying their value at the time the lease is extinguished.

Under Article 1678, the lessor has the option of paying one-half of the value of the improvements which the lessee made in good faith, which are suitable for the use for which the lease is intended, and which have not altered the form and substance of the land. On the other hand, the lessee may remove the improvements should the lessor refuse to reimburse.

Petitioners argue that to apply Article 1678 to their case would result to sheer injustice, as it would amount to giving away the hotel and its other structures at virtually bargain prices. They allege that the value of the hotel and its appurtenant facilities amounts to more than two billion pesos, while the monetary claim of respondent against them only amounts to a little more than twenty six-million pesos. Thus, they contend that it is the lease contract that governs the relationship of the parties, and consequently, the parties may be considered to have impliedly waived the application of Article 1678.

We cannot sustain this line of argument by petitioners. Basic is the doctrine that laws are deemed incorporated in each and every contract. Existing laws always form part of any contract. Further, the lease contract in

the case at bar shows no special kind of agreement between the parties as to how to proceed in cases of default or breach of the contract. Petitioners maintain that the lease contract contains a default provision which does not give respondent the right to appropriate the improvements nor evict petitioners in cases of cancellation or termination of the contract due to default or breach of its terms. They cite paragraph 10 of the lease contract, which provides that:

10. DEFAULT. - . . . Default shall automatically take place upon the failure of the LESSEE to pay or perform its obligation during the time fixed herein for such obligations without necessity of demand, or, if no time is fixed, after 90 days from the receipt of notice or demand from the LESSOR. . .

In case of cancellation or termination of this contract due to the default or breach of its terms, the LESSEE will pay all reasonable attorney's fees, costs and expenses of litigation that may be incurred by the LESSOR in enforcing its rights under this contract or any of its provisions, as well as all unpaid rents, fees, charges, taxes, assessment and others which the LESSOR may be entitled to.

Petitioners assert that respondent committed a breach of the lease contract when it filed the ejectment suit against them. However, we find nothing in the above quoted provision that prohibits respondent to proceed the way it did in enforcing its rights as lessor. It can rightfully file for ejectment to evict petitioners, as it did before the court a quo.

IN VIEW WHEREOF, petitioners' appeal is DENIED. The October 4, 2005 Decision of the Court of Appeals in CA-G.R. SP No. 74631 and its December 22, 2005 Resolution are AFFIRMED. Costs against petitioners.

SO ORDERED.

Carpio, Corona, Azcuna, and Leonardo-De Castro, JJ., concur.

[1] Rollo, pp. 43-53.

[2] Id. at 55-56.

[3] Id. at 144-159.

[4] Id. at 138-143.

[5] Id. at 142-143.

[6] Id. at 158-159.

[7] Id. at 10-41.

[8] Id. at 22-23.

[9] MeTC Decision, citing *Golden Gate Realty Corporation v. Intermediate Appellate Court*, No. L-74289, July 31, 1987, 152 SCRA 684.

[10] Tolentino, Arturo M., *Commentaries and Jurisprudence on the Civil Code of the Philippines*, vol. II, 2004, citing *Floreza v. Evangelista*, 96 SCRA 130; Applied to co-owner: *Del Campo v. Abesia*, No. L-49219, April 15, 1988, 160 SCRA 379.

[11] *Alburo v. Villanueva*, 7 Phil. 277 (1907); *De Laureano v. Adil*, No. L-43345, July 29, 1976, 72 SCRA 148; *Floreza v. Evangelista*, No. L-25462, February 21, 1980, 96 SCRA 130; *Balucanag v. Francisco*, No. L-33422, May 30, 1983, 122 SCRA 498; *Southwestern University v. Salvador*, No. L-45013, May 28, 1979, 90 SCRA 318;

Castillo v. Court of Appeals, No. L-48290, September 29, 1983, 124 SCRA 808.

[12] Southwestern University v. Salvador, No. L-45013, May 28, 1979, 90 SCRA 318, Concurring Opinion of J. Melencio-Herrera, citing Alburo v. Villanueva, 7 Phil. 277.

ABOUT BATAS.ORG

Study smarter at BATAS.org

The Philippine bar review and law-school companion built around how your brain actually remembers.

The complete Philippine law library - free for everyone.

More than 100,000 Supreme Court decisions, Republic Acts, and executive issuances - full-text searchable, browsable by category and year, and always free. No paywall, no login. This PDF came from it.

Audio case-brief lectures.

Any decision becomes a podcast-style lecture - facts, issues, ruling, and doctrine - with read-along highlighting and a hands-free presentation mode. Study while commuting, working out, or resting your eyes.

Bar review built on the science of memory.

Complete, sequenced courses for all eight bar subjects, narrated like podcasts and reinforced with retrieval practice and spaced review - the study techniques with the strongest evidence behind them.

The full law-school curriculum.

One subscription unlocks the entire J.D. curriculum - every subject, every lesson, with your progress tracked down to the paragraph so you can pick up exactly where you left off, on any device.

Mock exams that tell you where you stand.

Timed multiple-choice exams graded instantly, with per-subject score breakdowns and focus suggestions that point you at your weakest topics first.

A study planner that keeps you on pace.

Set your schedule and BATAS tells you every day whether you are on track for bar day - and exactly which lesson to take next.

Start free at <https://batas.org>

The law library is free forever - and your first lesson is one click away.

The text of this document is an official public record and remains in the public domain. Formatting, presentation, and compilation © 2026 batas.org.

Downloaded free from the batas.org Law Library. Share it freely - the library is free for every law student, bar reviewee, and practitioner.