Republic of the Philippines
Supreme Court
Manila

FIRST DIVISION

REPUBLIC OF THE PHILIPPINES THROUGH ITS TRUSTEE, THE PRIVATIZATION AND MANAGEMENT OFFICE, Petitioner,	**G. R. No. 181984**
	Present:
- versus -	SERENO, *CJ*, Chairperson, LEONARDO-DE CASTRO, PERLAS-BERNABE, JARDELEZA,* and CAGUIOA, *JJ.*
PHILIPPINE INTERNATIONAL CORPORATION, Respondent.	Promulgated: MAR 20 2017

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DECISION

SERENO, *CJ:*

This is a Petition for Review on *Certiorari* under Rule 45 of the Rules of Court, assailing the Decision[1] and the Resolution[2] of the Court of Appeals (CA). The CA upheld the Decision[3] of the Regional Trial Court (RTC), Pasay City, National Capital Judicial Region, Branch 115, in Civil Case No. 04-0806 CFM. The RTC dismissed the appeal filed by petitioner Privatization and Management Office (PMO) against respondent Philippine International Corporation (PIC) in an unlawful detainer case decided by the Metropolitan Trial Court (MeTC).

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* Designated Additional Member in lieu of Associate Justice Mariano C. Del Castillo, as per Raffle dated 20 February 2017.

[1] *Rollo,* pp. 33-49; dated 20 September 2007; penned by Associate Justice Normandie B. Pizarro, with Associate Justices Edgardo P. Cruz and Mariano C. del Castillo (now a member of this Court) concurring; docketed as CA-G.R. SP No. 89465.

[2] Id. at 50-51; dated 3 March 2008.

[3] CA *rollo*, pp. 70-73; penned by Presiding Judge Francisco G. Mendiola.

THE ANTECEDENT FACTS

The facts are not up for debate.

In 1976, the Cultural Center of the Philippines (CCP) and respondent PIC entered into a Lease Agreement.[4] In that agreement, CCP leased to PIC a parcel of land located within the CCP Complex in Pasay City, including the building erected on a portion thereon (subject property).[5]

The Lease Agreement stipulated, among others, as follows:

> I.
> TERM
>
> 1.01. The term of the lease shall be twenty five (25) years from and after the date of this Contract, renewable for a like period under the same terms and conditions at the option of the LESSEE. The LESSEE may however terminate this lease at any time by giving the LESSOR sixty (60) days notice in advance.[6]

Eight years later, CCP alienated the subject property in favor of Philippine National Bank (PNB) through a Deed of *Dacion* in Payment with Lease.[7] In the same deed, PNB leased the subject property back to CCP for a period of five years.[8] Accordingly, the latter's title over the subject property was cancelled and Transfer Certificate Title (TCT) No. 90816[9] issued to PNB.

On 8 December 1986, Proclamation No. 50 was issued. It launched a program for the privatization of certain government corporations and/or assets and created the Committee on Privatization and the Asset Privatization Trust (APT).[10]

Subsequently, on 27 February 1987, PNB assigned the subject property to the national government under a Deed of Transfer pursuant to Proclamation No. 50.[11] On the same day, the national government executed a Trust Agreement[12] with APT, whereby the former conveyed the leased premises in trust to the latter for administration and disposition.

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[4] CA *rollo*, pp. 75-78.
[5] On 18 February 1987, CCP and PIC entered into an agreement denominated as Amendment to Lease Contract. (*Rollo*, pp. 36-27; 53-55) In this amendment, the parties agreed, among others, to increase PIC's annual rentals for the leased premises and that "all other terms and conditions of the original lease contract shall continue to be in force and effect." (*Rollo*, p. 53-54)
[6] CA *rollo*, p. 76.
[7] RTC Records, pp. 54-62.
[8] Id. at 56.
[9] Id. at 63-65.
[10] *Rollo*, p. 36.
[11] RTC Records, pp. 154-156.
[12] Id. at 214.

PIC then requested PNB to annotate the former's leasehold rights on TCT No. 90816. However, PNB refused the request in view of the transfer of the subject property to APT and the latter's insistence that it was not bound by the Lease Agreement between CCP and PIC.[13]

By reason of PNB's refusal, PIC instituted a Complaint to compel CCP, PNB, and APT to respect the terms and conditions of the Lease Agreement and the amendment thereto. PIC also wanted the three to be compelled to deliver the title of the subject property, so that the lease could be annotated thereon.[14]

In an Order dated 15 November 1990, the RTC ruled in favor of PIC after finding that APT already had constructive notice of the lease, which the latter must therefore respect.[15] Upon appeal, the CA dismissed APT's petition and affirmed the RTC Decision. The appellate court likewise found that APT was estopped from denying PIC's leasehold rights over the subject property by virtue of the former's acceptance of rentals therefor.[16] The case was brought to this Court, which also denied APT's appeal and sustained the lower courts' rulings.[17]

After the foregoing turn of events, PIC succeeded in having its leasehold rights annotated on the title of the subject property on 19 May 1992.[18]

On 15 February 2000, prior to the expiration of the 25-year lease agreement, PIC wrote APT to reiterate an earlier letter dated 17 October 1991. In that letter, PIC stated that it was exercising its option to renew the lease pursuant to the Lease Agreement. [19] APT denied the supposed request of PIC to exercise its option.[20]

Meanwhile, the term of APT expired on 31 December 2000. By virtue of Executive Order (E.O.) No. 323 dated 6 December 2000, the PMO was created. It was mandated to take over the assets of APT and inherit the latter's powers and functions. Thus, PMO now holds the subject property on behalf of the national government.[21]

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[13] *Rollo*, p. 38.
[14] Id.
[15] Id.
[16] RTC Records, p. 303.
[17] Id.; in a Resolution dated 11 December 1991.
[18] CA *rollo*, p. 269; in July 1992, APT allowed PIC to introduce amusement facilities and hold carnival or national fairs on the subject property. (*Rollo*, p. 39)
[19] Id. at 263-265.
[20] Id. at 266.
[21] *Rollo*, pp. 39-40.

In view of the forthcoming expiration of the lease period on 7 July 2001, PMO informed PIC that its request to exercise its option to renew the lease had been denied.[22] PIC declined PMO's assertion for being without any legal basis.[23] It insisted that it exercised its option and considered the lease renewed thereby.

The conflicting positions of PMO and PIC resulted in a stalemate between them. As a result, PMO demanded that PIC vacate the subject property.[24] Upon the latter's refusal, PMO filed a Complaint for unlawful detainer before the MeTC of Pasay City, Branch 46.[25]

In a Decision dated 20 October 2004, the MeTC ruled in favor of PIC and upheld the validity of the latter's renewal of the lease for another 25 years pursuant to the Lease Agreement.[26] The MeTC held that by PIC's notice of the exercise of its option to renew the lease, the lease was deemed renewed for another 25 years under the same terms and conditions of the Lease Agreement.[27]

PMO appealed the MeTC Decision to the RTC and raised for the first time the contention that the lease contract could not bind a non-party thereto like PMO. [28] The RTC, however, dismissed the appeal and affirmed the MeTC's disposition. Regarding the assertion of PMO that it was a non-party that was not bound by the lease, the RTC ruled that the issue was one that could not be raised for the first time on appeal. Nevertheless, the RTC held that PMO stepped into the shoes of its predecessor-in-interest.[29]

Undaunted, PMO proceeded to the CA via a Rule 42 Petition for Review.[30] There, it raised the issue of the renewal of the lease by a mere notice given by PIC that it would exercise its option to renew.[31]

The CA denied the appeal and affirmed the lower courts, ruling as follows:

> 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 herein, is fundamentally part of the consideration in the contract and is not different from any other provision of the lease carrying

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[22] RTC Records, p. 304.
[23] Id.; through a letter dated 29 July 2001.
[24] Id. at 276.
[25] Id. at 4-16.
[26] CA *rollo*, pp. 123-148; penned by Judge Normando T. Garcia
[27] Id. at 146-147.
[28] Id. at 71.
[29] Id. at 72.
[30] Id. at 40-65.
[31] *Rollo*, p. 43.

> an undertaking on the part of the lessor to act conditioned on the performance by the lessee. xxx 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.[32]

To the CA, PIC already had a vested right to renew the lease. Citing *Allied Banking Corporation v. Court of Appeals*,[33] the appellate court stated that "if we were to adopt the 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."[34]

Upon the CA's denial of its Motion for Reconsideration, PMO is now before this Court through this Petition assailing the CA ruling. PMO raises the argument that it was not a party to the original lease contract between CCP and PIC; hence, it is not bound by the contract.

ISSUE

The primordial issue raised for this Court's resolution is whether or not PMO is bound by the Lease Agreement.

THE COURT'S RULING

We deny the petition.

At the outset, it must be pointed out that the issue before us was belatedly raised by PMO for the first time on appeal before the RTC.[35] The issue was not brought before the CA, but is being raised again before this Court. As a general rule, points of law, theories, and arguments not brought before the trial court cannot be raised for the first time on appeal and will not be considered by this Court; otherwise, a denial of respondent's right to due process would result.[36] Nevertheless, this Court will consider and resolve the issue in the interest of justice and the complete adjudication of the rights and obligations of the parties.

PMO is bound by the Lease Agreement.

It is undisputed that PMO is the successor agency of APT. Consequently, it assumes the existing obligations of APT upon the

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[32] Id. at 45-46.
[33] 348 Phil. 382 (1998).
[34] *Rollo*, p. 48.
[35] Id. at 47.
[36] *Figuera v. Ang*, G.R. No. 204264, 29 June 2016.

termination of the latter's existence. In *Iron and Steel Authority v. Court of Appeals*,[37] this Court explained that when the statutory term of a non-incorporated agency expires, the powers, duties and functions, as well as the assets and liabilities of that agency, revert to and are re-assumed by the Republic of the Philippines (Republic). This rule holds in the absence of special provisions of law specifying some other manner of disposition – the devolution or transmission of such powers, duties, and functions – to some other identified successor agency or instrumentality of the Republic.[38]

In this case, Republic Act (R.A.) No. 8758[39] provides that "upon the expiration of the terms of the Committee on Privatization and the Asset Privatization Trust, all their powers, function, duties and responsibilities, all properties, real or personal assets, equipment and records, as well as their obligations and liabilities, shall devolve upon the National Government."[40] In turn, the national government devolved the powers, functions, obligations, and assets of APT to PMO through E.O. 323.

One of the existing obligations of APT upon the termination of its term was to respect the Lease Agreement. To recall, there is a previous judgment by the RTC and CA, as affirmed by this Court, finding that APT had an obligation to respect the lease by virtue of its constructive notice of the same. This is a judgment that has lapsed into finality.

It is a fundamental rule that when a final judgment becomes executory, it thereby becomes immutable and unalterable. The judgment may no longer be modified in any respect, even if the modification is meant to correct what is perceived to be an erroneous conclusion of fact or law. This principle holds regardless of whether the modification is attempted to be made by the court rendering it or by the highest court of the land.[41] Further, it is settled that the dictum laid down in a final judgment or order becomes binding between the same parties, their privies, and their successors-in-interest.[42]

On account of the final judgment that bound APT to the Lease Agreement, PMO is also obligated to respect the lease contract as the former's successor agency.

At any rate, assuming that PMO was a third party to the Lease Agreement, it is still bound by it. PIC's leasehold rights have been clearly

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[37] 319 Phil. 648 (1995).
[38] Id.
[39] An Act Extending The Term Of The Committee On Privatization And The Asset Privatization Trust Amending For The Purpose Republic Act Numbered Seven Thousand One Hundred Eighty-One, As Amended (28 December 1999).
[40] R.A. 8758, Sec. 2.
[41] *Arcenas v. CA*, 360 Phil. 122 (1998).
[42] *Hacienda Bigaa, Inc. v. Chavez*, 632 Phil. 574 (2010).

annotated on TCT No. 90816.[43] It is settled that once a lease is recorded, as in this case, it becomes binding on third persons. Therefore, from the time of the execution of the lease contract, its efficacy continues until it is terminated on the grounds provided for by law.[44]

On account of the foregoing annotation, as well as the finding that APT had constructive notice of the lease, PMO can no longer deflect the binding effect of the Lease Agreement on the latter.

On the matter of the alleged prejudice to the government caused by the unconscionably low rental rates and for a period that amounts to perpetuity, we find these allegations to be premature and without clear basis. In fact, the MeTC itself doubted the claim on the rental rates, because it appeared that the rental being paid for another land in the vicinity was far lower than that paid by PIC, a fact that was not disputed by PMO.[45] In any event, the parties are not precluded from negotiating an improvement of the financial terms of the Lease Agreement.

Further, if PMO indeed believed that the Lease Agreement was grossly disadvantageous to the government, it should have brought the proper judicial action available under the law.

As correctly ruled by the CA, the mere failure to agree on a new rental rate can no longer divest PIC of the latter's vested right to renew the lease pursuant to paragraph 1.01 of the Lease Agreement.

WHEREFORE, the Petition for Review on *Certiorari* under Rule 45 is **DENIED** for lack of merit. The Court of Appeals Decision[46] and Resolution[47] in **CA-G.R. SP No. 89465** are hereby **AFFIRMED.**

SO ORDERED.

MARIA LOURDES P. A. SERENO
Chief Justice, Chairperson

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[43] CA *rollo*, p. 269.
[44] *Soriano v. Court of Appeals*, 258 Phil. 120 (1989).
[45] CA *rollo*, p. 148.
[46] Dated 20 September 2007.
[47] Dated 3 March 2008.

WE CONCUR:

TERESITA J. LEONARDO-DE CASTRO
Associate Justice

ESTELA M. PERLAS-BERNABE
Associate Justice

FRANCIS H. JARDELEZA
Associate Justice

ALFREDO BENJAMIN S. CAGUIOA
Associate Justice

CERTIFICATION

Pursuant to Section 13, Article VIII of the Constitution, I certify that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.

MARIA LOURDES P. A. SERENO
Chief Justice