CASINO M&A

Casino Filipino Privatization: Transfer of Hotel & Building Leases

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ASSIGNMENT OF LEASEHOLD RIGHTS

The defining commercial fact of the Casino Filipino (*CF*) privatization is that the seller owns almost none of the real estate on which the business sits. PAGCOR operates its self-run gaming venues, including the CF branches and their satellites, on premises leased from private hotel and building owners, and its chairman has framed the sale accordingly: “We do not own any property, we’re just leasing. What we are selling here is the license and future revenue” (A. Tengco, quoted in *The Philippine Star*, 12 September 2024). This is also why the indicative valuation was revised downward to the P30 billion to P50 billion range, from earlier estimates of P60 billion to P80 billion (id.; Agbrief, 15 December 2025). The transaction is therefore not a conveyance of gaming real estate. It is the transfer of a going concern whose principal situs assets are leasehold rights, leasehold improvements, gaming equipment, and the prospective license.

THE LEASE PORTFOLIO

What is the general profile of the subsisting leases? The listed Waterfront group is the largest identifiable CF lessor: its 2024 annual report discloses rental income of P420.90 million at Waterfront Cebu City Hotel & Casino, P200.49 million at Waterfront Airport Hotel & Casino in Mactan, and P3.09 million at Waterfront Insular Hotel Davao, with rental accounting for roughly 32 percent of consolidated gross revenue of the group (Waterfront Philippines, Inc., Annual Report 2024). A single private group thus depends on PAGCOR for a third of its revenues while, conversely, PAGCOR's Visayas and Mindanao footprint depends on that group's buildings.

THE MANILA FLAGSHIP

The older Manila flagship followed the same pattern: PAGCOR leased 6,768.53 square meters of the Holiday Inn Manila Pavilion from Acesite (Philippines) Hotel Corporation for casino use, an arrangement litigated all the way to the Supreme Court on the VAT treatment of the rentals (*CIR v. Acesite [Philippines] Hotel Corp.*, G.R. No. 147295, 16 February 2007). PAGCOR has express charter authority for these arrangements, including the power to own and dispose of property and to acquire, lease, or maintain facilities for its operations (P.D. No. 1869 [1983], sec. 3[c], [f]), under a franchise extended to 2033 (R.A. No. 9487 [2007]).

ASSET TRANSFER, NOT SHARE SALE

Because CF is an unincorporated operating division of PAGCOR rather than a subsidiary, there are no shares to sell. The privatization must proceed as an asset transfer, and each lease must individually pass to the buyer. Under the Civil Code, the lessee cannot assign the lease without the consent of the lessor, unless there is a stipulation to the contrary (Civil Code, art. 1649). An assignment of lease is treated as a novation by substitution of the person of the lessee, which is precisely why the lessor's consent is indispensable (*Inocencio v. Hospicio de San Jose*, G.R. No. 201787, 25 September 2013).

THE LESSOR'S VETO

The practical consequence is that every CF lessor holds a veto over the site-level transfer of the business, and with it, hold-up leverage to renegotiate rent, term, and escalation as the price of consent. The buyer's protections should include: (a) lessor consents as conditions precedent to closing, (b) novation agreements releasing PAGCOR and substituting the buyer, or (c) fresh long-term leases signed directly with the owners conditioned on the license award.

REGISTRATION AND PRIVITY

Two additional considerations deserve attention. First, if a lease is not recorded in the Registry of Deeds, a purchaser of the building may terminate it (Civil Code, art. 1676), so an unregistered CF lease can be defeated by a sale of the hotel itself. Second, contracts bind only the parties, their assigns and heirs (Civil Code, art. 1311), so side arrangements with lessors, such as any renovation undertakings, do not automatically run in favor of the buyer.

ASSUMED OBLIGATIONS

A buyer stepping into the leases assumes a cluster of obligations which must be spotted on due diligence. These include accrued rent and escalation arrears; the obligation to return the premises as received, with the lessee presumed at fault for loss or deterioration (Civil Code, arts. 1665, 1667); and the fate of leasehold improvements, since upon termination the lessor may appropriate useful improvements by paying one-half of their value, or the lessee may remove them (Civil Code, art. 1678).

IMPROVEMENTS AND CASUALTY

Gaming floors are heavily improved premises. Whether PAGCOR fit-out passes to the buyer, reverts to the lessor, or must be removed, affects the valuation. Casualty risk must be considered, as this has a precedent. The March 2018 fire that destroyed the Waterfront-owned Manila Pavilion killed six people, most of them PAGCOR casino employees (*The Philippine Star*, 22 March 2018), extinguished the flagship CF Pavilion site (total destruction of the thing terminates the lease, Civil Code, art. 1655), and left behind personal-injury and insurance exposure to the buyer.

THE PORTFOLIO TODAY

The subsisting portfolio is mature and, by PAGCOR's own admission, in need of reinvestment. All of its 45 gaming halls, including nine CF-branded branches, operate on leased property (iGaming Business, 2024). Ahead of the sale, PAGCOR chose not to fund capital works itself but reached agreement with its lessors for the lessors to undertake venue renovations, while PAGCOR modernized the equipment, taking delivery of 1,968 new slot machines in late 2024 (*The Philippine Star*, 12 September 2024; Inside Asian Gaming, 3 February 2025). The commercial logic is sound, since necessary repairs are the lessor's burden anyway, but it means the refurbished condition of the premises rests on lessor covenants to which the buyer is not yet a party. Meanwhile the operation being sold continues to shrink in relative terms: CF generated P3.22 billion in the third quarter of 2025, about 3.4 percent of Philippine gaming revenue (Agbrief, 15 December 2025), and the sale timeline has moved to late 2026 or early 2027, pending Governance Commission for GOCCs review and action by the Office of the President (*The Philippine Star*, 15 December 2025).

THE BOTTOM LINE

For bidders, a site-by-site lease due diligence must be done, including verification of the lessor renovation undertakings and their transferability; casualty and insurance history; and lessor consents obtained before signing the asset purchase agreement. The status of the leases will determine whether the deal will close.

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