

SPOUSES DARIO LACAP AND MATILDE LACAP, PETITIONERS, VS. JOUVET ONG LEE, REPRESENTED BY REYNALDO DE LOS SANTOS, RESPONDENT.

G.R. No. 142131. December 11, 2002

Ponente: CORONA, J.

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CORONA, J.:

Before us is a petition for review of the decision[1] dated February 28, 2000 of the Court of Appeals[2] affirming the decision[3] of the Regional Trial Court (RTC, for brevity) of Davao City, Branch 11. The said courts affirmed on appeal the decision dated April 30, 1997 of the Municipal Trial Court in Cities (MTCC, for brevity) of Davao City in a case[4] for unlawful detainer filed by respondent Jovet Ong Lee against the petitioner spouses Dario and Matilde Lacap.

The facts, as found by the Court of Appeals and the Regional Trial Court, are as follows:

Before 1981, a certain Victor Facundo mortgaged two parcels of land and the improvements thereon to Monte de Piedad Savings Bank (the bank, for brevity). In 1981, herein petitioner spouses Dario and Matilde Lacap assumed to pay Facundo's mortgage obligation to the bank. Due to their failure to pay their obligation to the bank, however, the latter foreclosed on the mortgage. During the auction sale, the bank emerged as the highest bidder and title passed on to it.

The bank allowed the petitioner spouses to stay in the premises as lessees paying a monthly rental of P800. The petitioner spouses introduced improvements thereon allegedly amounting to some P500,000 after relying on the bank's assurance that the property would be sold back to them. On May 1, 1996[5], the petitioner spouses' representative went to the bank to pay the monthly rental. However, the bank refused to accept the rentals inasmuch as, according to the bank, the property had already been sold to another person. When the petitioner spouses called the bank's head office, the Vice-President of the Assets Division of the bank advised them to submit a written offer to the bank for P1,100,000. The petitioner spouses complied that same day. But, on May 22, 1996, the bank turned down the petitioner spouses' offer. On June 20, 1996, the petitioner spouses received a letter demanding that they vacate the premises because it was already owned by herein respondent, Jovet Ong Lee.

The petitioner spouses instituted a civil case against the respondent for cancellation of sale and damages with an application for preliminary injunction. This case is now pending before Branch 13 of the Regional Trial Court (RTC, for brevity) of Davao City.[6]

Meanwhile, on October 30, 1996, the respondent filed a complaint for unlawful detainer against the petitioners. After trial, the Municipal Trial Court of Davao City, Branch 4, rendered judgment as follows:

WHEREFORE, judgment is hereby rendered in favor of the plaintiff and against the defendants ordering the latter to:

- a) vacate the subject premises;
- b) pay P1,500.00 as reasonable compensation for the use of the said premises commencing the date of this decision until defendants vacate the same;
- c) pay P10,000.00 as and by way of attorney's fees; and
- d) cost of suit.

SO ORDERED.[7]

On appeal, the RTC of Davao City, Branch 11, affirmed the assailed decision of the municipal trial court, with the modification that respondent should reimburse the petitioner spouses for the improvements the latter introduced to the premises. The dispositive portion of the decision reads:

WHEREFORE, premises considered, judgment is hereby rendered affirming the decision of the court a quo with the modification that plaintiff should reimburse the defendant for the improvements the latter introduced on the premises.[8]

The respondent filed a motion for reconsideration praying for the deletion of the order to reimburse petitioner spouses for the improvements introduced on the subject premises. On August 25, 1998, the RTC issued an order granting respondent's motion, to wit:

WHEREFORE, the Motion for Reconsideration of Plaintiff-Appellee is hereby granted to leave the premises therein even if the property may suffer damage. But they shall not cause more damage than what is necessary. They shall likewise remove the ornamental improvements introduced therein.

SO ORDERED.[9]

On August 23, 1999, the said court denied the petitioner spouses' motion for reconsideration.

Petitioner spouses appealed the decision of the RTC to the Court of Appeals. According to them, the courts a quo committed serious errors of fact and law in entertaining the complaint for unlawful detainer despite the lack of jurisdiction considering that the issue – recovery of the right to possess – was the subject matter of an accion publiciana which was properly cognizable by the Regional Trial Courts.[10] On February 28, 2000, the appellate court rendered a decision, the dispositive portion of which reads:

WHEREFORE, for lack of merit, the instant petition is DISMISSED and the assailed Decision dated February 20, 1998 and Order dated August 25, 1998 are AFFIRMED.

SO ORDERED.[11]

The appellate court held that the municipal trial court had jurisdiction over the case inasmuch as the complaint itself sufficiently alleged that possession was unlawfully withheld from the respondent who was the registered owner thereof, and that the petitioner spouses refused to vacate the subject premises despite demands to vacate the same. In brushing aside the petitioner spouses' argument that respondent's ownership was assailable due to the bank's violation of its promise to first offer the subject property to them, the appellate court ruled that it could not touch upon said issue as it was the subject matter of a separate case filed by the spouses before the RTC of Davao City, Branch 13. Reiterating the rulings of the courts a quo, the appellate court held that the petitioner spouses could not be builders in good faith inasmuch as their payment of rentals to the bank was an indication that they were lessees. Thus, in the indemnification for improvements made, Article 1678, not Article 448, of the Civil Code should govern.

Hence, this petition seeking a resolution on the following assigned issues:

I

WHETHER OR NOT THE COURT OF APPEALS CORRECTLY RULED ON THE JURISDICTIONAL QUESTION, THAT IS THE JURISDICTION OF THE DAVAO CITY MUNICIPAL COURT OVER THE UNLAWFUL DETAINER CASE FILED BY THE RESPONDENT; AND AS AN ALTERNATIVE TO, BUT ASSOCIATED WITH, THE ABOVE ISSUE, AND ASSUMING THAT THE DAVAO CITY MUNICIPAL COURT HAD JURISDICTION,

II

WHETHER OR NOT THE COURT OF APPEALS CORRECTLY APPLIED ARTICLE 1678 INSTEAD OF ARTICLE 448 OF THE CIVIL CODE WITH REGARD TO INDEMNITY FOR THE IMPROVEMENTS INTRODUCED BY THE PETITIONERS ON THE SUBJECT PROPERTY.[12]

Abandoning their previous position of lack of jurisdiction on the part of MTC, the petitioner spouses now claim that the courts a quo erred in oversimplifying the issue in the case at bar. Since they were questioning the title of the respondent over the subject property, the case for unlawful detainer was no longer limited to the question of possession but also involved the question of ownership. Thus, the courts a quo should not have evaded ruling on the issue of ownership as a pre-requisite to the determination and resolution of the issue of physical possession.

Section 16 of the 1997 Rules of Civil Procedure provides that:

Sec. 16. Resolving defense of ownership.- When the defendant raises the defense of ownership in his pleadings and the question of possession cannot be resolved without deciding the issue of ownership, the issue of ownership shall be resolved only to determine the issue of possession.

The petitioner spouses are questioning the respondent's ownership by raising as an issue the alleged failure of the bank to first offer to them the subject property, thereby making respondent's title defective. This, according to the petitioner spouses, is a defense of ownership that should have been resolved by the courts a quo.

This Court takes exception to this argument. The defense of ownership contemplated by the said rule refers to a situation where the defendants either claim ownership of the subject property or attributes said ownership to another person other than the plaintiff. It does not apply where the defendants merely question the validity of the title of the plaintiff. Thus, the petitioner spouses must anchor the legality of their material possession of the property on a claim of title in order for the court to be able to touch, at least provisionally and only for purposes of determining possession, on the legality of the issue of ownership.

In their Reply[13], they do not claim ownership over the subject premises to support their right to possess the property. They do not claim having a better right to the said property by way of transfer of title through one of the modes of transferring ownership. The alleged violation of their right of priority or first option to buy the premises is not the defense of ownership contemplated in Sec. 16 because said violation, even if true, would only give a cause of action for damages on the ground of breach of contract but not an action for recovery of title.

The cases cited by petitioners cannot support their position as said cases refer to different factual situations. In *Oronce v. Court of Appeals*,[14] the defendants maintained ownership over the property by claiming that the contract of sale with assumption of mortgage was actually an equitable mortgage. We ruled therein that the defendant as mortgagor, and not as vendor, of the property can raise as a defense his claim of ownership over the subject property. In *Refugia v. Court of Appeals*,[15] the defendants claimed title over the subject property by contending that they, and not the plaintiffs, paid for the purchase of the said property.

In the instant case, however, the petitioners admit that they do not own the subject parcels of land. As third persons to the contract of sale between the bank and the respondent, they are only questioning the validity of the transfer of title to respondent. The same cannot qualify as a defense of ownership as they will not derive title as a consequence but will, at best, only be given their disputed priority option to buy the subject premises.

Another reason why the supposed issue of ownership cannot be ruled upon by the courts a quo is due to the fact that the same issue is also the subject of a separate pending case for cancellation of sale filed by the petitioners themselves against the respondent before the Regional Trial Court Davao City. In effect, by questioning the ownership of respondent, the petitioners are raising a defense that serves as the main cause of action in the complaint for the cancellation of sale pending before another court. This legal strategy is prohibited by the rule on the alleged *litis pendencia*. To ask the courts a quo to rule on the alleged defense of ownership is to pre-empt the ruling of the RTC, Branch 13, hearing the case for cancellation of sale. A party is prohibited from splitting his cause of action for the reason that it will unnecessarily clog the court dockets, waste the time and money of the parties, and perpetrate an abuse of the legal system by filing cases of the same nature in the hope of insuring a favorable judgment.

Thus, the ruling of the MTCC that petitioner spouses' defense does not qualify as a defense of ownership is correct.

In the event that their first assigned error is not resolved in their favor, the petitioner spouses assert that their right to be indemnified for the improvements they introduced should be based on Article 448 of the Civil Code which provides that:

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 disagreements the courts shall fix the terms thereof.

Article 546 of the Civil Code provides that builders in good faith are entitled to reimbursement for necessary and useful expenses, with right of retention in both cases. The petitioners insist that they should be treated as builders in good faith inasmuch as they stepped into the shoes of Victor Facundo, the former owner-mortgagor, when the latter assigned to them the obligation to pay the bank the balance due on the mortgage. Since then, they occupied the subject property and introduced improvements thereon. They contend that they were not lessees and paid no rentals thereon.

We do not think so.

Article 528 of the Civil Code provides that possession in good faith continues to subsist until facts exist which show that the possessor is already aware that he wrongfully possesses the thing. Although, in the beginning, the petitioners were made to believe that they had a claim of title over the said property by assuming the mortgage and possessing the subject property, all this changed when they started paying monthly rentals to the mortgagee bank after the foreclosure of the said property. We find this finding of the courts a quo conclusive on us in this petition for review.[16]

A conclusive presumption arises from the fact that, during the tenancy relationship, the petitioner spouses admitted the validity of the title of their landlord. This negated their previous claim of title.[17] If, indeed, they believed in good faith they had at least an imperfect title of dominion over the subject premises, they should have

tried to prevent the foreclosure and objected to the acquisition of title by the bank. In other words, their supposed belief in good faith of their right of dominion ended when the bank foreclosed and acquired title over the subject premises.

Hence, the applicable provision in the instant case is Article 1678 of the Civil Code which provides that:

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.

The petitioner spouses are therefore entitled to be paid only one-half of the value of the useful improvements at the time of the termination of the lease or to have the said improvements removed if the respondent refuses to reimburse them.

WHEREFORE, the petition for review is hereby DENIED. The decision dated February 28, 2000 of the Court of Appeals is hereby AFFIRMED. Costs against the petitioners.

SO ORDERED.

Puno (Chairman), Sandoval-Gutierrez, and Morales, JJ., concur.
Panganiban, J., on official business.

[1] Penned by Associate Justice Portia Alino-Hormachuelos, and concurred in by Corona Ibay-Somera and Elvi John Asuncion; Rollo, pp. 28-33.

[2] Seventh Division.

[3] Penned by Judge Virginia Hofilena-Europa; Rollo, 34-38.

[4] Docketed as Civil Case No. 3454-D-96.

[5] Rollo, p. 53, Annex "F."

[6] Rollo, pp. 29-30.

[7] Rollo, p. 34.

[8] Rollo, p. 38.

[9] Rollo, p. 46.

[10] Rollo, p. 76.

[11] Rollo, p. 33.

[12] Rollo, p. 13.

[13] Rollo, p. 105.

[14] 298 SCRA 133 (1998).

[15] 327 Phil. 982 (1996).

[16] Pascual vs. Francisco-Alfonso, G.R. No. 138774, March 8, 2001.

[17] Rule 131, Section 2(b), Rules of Court.

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