

TALA REALTY SERVICES CORPORATION, PETITIONER, VS. BANCO FILIPINO SAVINGS AND MORTGAGE BANK, RESPONDENT.

G.R. No. 147997. April 05, 2002

Ponente: MENDOZA, J.

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MENDOZA, J.:

This is a petition for review on certiorari of the decision, dated December 29, 2000, of the Court of Appeals[1] and its resolution, dated April 26, 2001, denying reconsideration. The appeals court affirmed the decision of the Regional Trial Court, Branch 55, Lucena City sustaining the dismissal by the Municipal Trial Court in Cities, Branch II, Lucena City of petitioner's complaint for ejectment against respondent.

The facts are as follows:

On August 25, 1981, petitioner Tala Realty Services Corporation leased several properties found in different parts of the country to respondent Banco Filipino Savings and Mortgage Bank for a period of 20 years, renewable for another 20 years, at the option of respondent, at a monthly rental of P19,300.00. The properties are currently the sites of major branches of respondent bank. Under the contract, respondent was to pay P962,500.00 as advance monthly rentals from the eleventh to the twentieth year.[2]

On the same date, another lease contract purporting to cover the lease of the same properties was allegedly executed between the same parties. The monthly rental was the same, but the period of the lease was only for 11 years, renewable for a period of nine years at the option of the lessee (herein respondent). The amount stipulated in the first contract as advance rental was converted into a security deposit for the faithful performance by the lessee of the terms and conditions of the lease contract.[3]

On August 19, 1992, 11 years after the execution of the said contracts, Elizabeth H. Palma, director of petitioner Tala Realty, wrote Teodoro O. Arcenas, Jr., president of respondent Banco Filipino, notifying him of the expiration of the lease as stipulated in the second contract of lease. Petitioner Tala Realty claims that it had agreed to discuss the terms and conditions for the renewal of the lease contract, provided that any increased rental agreed upon by the parties should retroact to September 1, 1992.[4] In another letter, dated February 10, 1993, Tala Realty, through Elizabeth H. Palma, likewise demanded payment of goodwill money as condition for the renewal of the lease considering the losses allegedly incurred by petitioner during the period of the previous lease contract. Petitioner informed respondent that the failure of the parties to conclude the negotiations would be deemed a waiver of respondent's option to renew the lease.[5]

On June 22, 1993, 10 months after the expiration of the second contract, petitioner Tala Realty wrote another letter to respondent Banco Filipino, notifying the latter that it would charge as part of the rent the difference between what the latter had paid and the proposed new rates demanded by petitioner and that it (petitioner) had decided to exercise its rights to dispose or alienate the properties subject of the contract.[6] As the parties had failed to reach an agreement, petitioner Tala Realty gave respondent Banco Filipino until April 30, 1994 within which to vacate the Lucena property and to remit the amount of P3,090,886.00 as unpaid rentals.

Respondent Banco Filipino refused to vacate the property on which its branch site in Lucena City had been built. Hence, petitioner filed on November 3, 1994 a complaint for ejectment in the Municipal Trial Court in Cities, Branch II, Lucena City, alleging that respondent had failed to pay the new rates of rentals and to comply with the other terms and conditions for the renewal of the contract. Petitioner prayed that respondent be ordered to vacate the premises in question and to pay P2,782,890.57, as unpaid rentals until September 30, 1994, and thereafter the amount of P144,301.57 as monthly rental, plus an annual 10% escalation, until the property was vacated. Petitioner likewise sought payment of the costs of suit as well as other reliefs to which it may be entitled.[7]

In its answer, respondent alleged that petitioner Tala Realty was actually formed by the major stockholders of respondent for the purpose of unloading and then leasing back from petitioner properties it could not retain under banking laws and regulations; that the first contract of lease for 20 years, renewable, at the option of respondent, for another 20 years, was the valid contract between petitioner and respondent; that the second contract covering the same property was spurious, fabricated, and falsified; that petitioner was not the owner of the property, but a mere trustee holding the said property for the use and benefit of respondent; that there was a pending derivative suit before the Securities and Exchange Commission filed by respondent's stockholders in its behalf, for the reconveyance of the branch sites transferred to petitioner as the sale of the said properties by respondent to the latter was simulated, fictitious, and without sufficient consideration; and that petitioner had no valid cause of action against respondent. Respondent filed a compulsory counterclaim, alleging evident bad faith on the part of petitioner in instituting the case for ejectment and sought the award of P10 million as exemplary damages, P5 million as actual damages, P5 million as moral damages, P500,000.00 as litigation expenses, and P200,000.00 as attorney's fees in its favor.[8]

On April 2, 1997, the Municipal Trial Court in Cities, Branch II, Lucena City rendered a decision dismissing petitioner's complaint and respondent's counterclaim. The court held itself without jurisdiction as the issues raised (i.e., which of the lease contracts was valid and whether petitioner was a mere trustee of respondent) were incapable of pecuniary estimation and should thus be raised before the Regional Trial Court. The court pointed out ejectment proceedings under Rule 70 of the Rules of Civil Procedure are summary in nature and, therefore, not proper for threshing out issues such as those raised by the parties.[9]

The Regional Trial Court, Branch 55, Lucena City affirmed and later denied petitioner's motion for reconsideration.[10]

Petitioner then sought a reversal of the lower court's judgment from the Court of Appeals, but it fared no better there. In a decision, rendered on December 29, 2000, the appeals court ruled that petitioner's complaint had been correctly dismissed by the Municipal Trial Court in Cities. Nonetheless, after holding the first contract of lease to be the valid contract, the Court of Appeals ruled that respondent's refusal to pay the new rate demanded was justified because the contract for a 20-year lease had not yet expired. In any event, it was held, nonpayment of rent was not the ground for petitioner's complaint for ejectment and so could not be raised for the first time on appeal.[11] Petitioner filed a motion for reconsideration, but it was denied by the Court of Appeals in its resolution of April 26, 2001. Hence this petition.

Petitioner contends that the Court of Appeals did not follow this Court's ruling in several cases involving leases of its other properties to respondent in which it was held that the contract for a 20-year lease was the real contract between the parties, the 11-year lease agreement being spurious and fabricated and, therefore, void.

Three questions are raised in this appeal:

- Whether the Municipal Trial Court in Cities, Branch II, Lucena City correctly dismissed petitioner's complaint for ejectment against respondent.

- Whether the lease of petitioner's Lucena property was for 20 years, renewable for another period of 20 years at the option of respondent, or for 11 years, renewable for another period of nine years also at the option of respondent.
- Whether respondent is liable for nonpayment of rentals either as provided in the original lease contract for 20 years or for the new rate after the expiration of the lease for 11 years.

As already noted, several contracts were entered into on August 25, 1981 between petitioner and respondent for the lease of other properties of petitioner. These properties, 12 in all, were formerly owned by respondent. In 1979, respondent bank had been confronted with a legal problem. As a savings and mortgage bank, it could hold under the law^[12] only such real estate as may be necessary for the transaction of its business, provided its total investment in such real estate and its improvements does not exceed 50 per cent of its net worth. Respondent had reached the allowable limit in its branch site holdings. Consequently, it unloaded some of its holdings to petitioner Tala Realty which was organized by respondent's major stockholders Antonio Tiu, Tomas B. Aguirre, Nancy Lim, and Pedro B. Aguirre, from whose family names the acronym Tala was derived. On August 25, 1981, respondent leased back the properties, which are the sites of its major branches, from the newly formed corporation.

The leases later became the subject of litigations between petitioner and respondent as the former claimed in 1992 that the leases, which were entered into on August 25, 1981, had expired and the parties had failed to reach a new agreement. Petitioner alleged its contract with respondent was the one which provided for the lease of its properties for 11 years, renewable for nine years.

In G.R. No. 129887,^[13] which involved petitioner's property in Urdaneta, Pangasinan, this Court held in an ejectment suit brought by petitioner against the bank (1) that the Municipal Trial Court of Urdaneta had jurisdiction to decide the validity of the two lease contracts covering the same property and (2) that the lease was covered by the first contract for 20 years because the second contract for 11 years was spurious and fabricated. This Court held:

First. Petitioner Tala Realty contends that the municipal trial court has no jurisdiction to decide the issue of ownership in an ejectment case.

Nothing is more settled than the rule that ejectment is solely concerned with the issue of physical or material possession of the subject land or building. However, if the issue of possession depends on the resolution of the issue of ownership which is sufficiently alleged in the complaint, the municipal trial court may resolve the latter although the resulting judgment would be conclusive only with respect to the possession but not the ownership of the property.

In the instant case, the issue of ownership was not even addressed, there being no need to do so as the ejectment case hinged on the question concerning the two (2) lease contracts of the contending parties.

Second. Petitioner Tala Realty insists that its eleven (11)-year lease contract controls. We agree with the MTC and the RTC, however, that the eleven (11)-year contract is a forgery because (1) Teodoro O. Arcenas, then Executive Vice-President of private respondent Banco Filipino, denied having signed the contract; (2) the records of the notary public who notarized the said contract, Atty. Generoso S. Fulgencio, Jr., do not include the said document; and (3) the said contract was never submitted to the Central Bank as required by the latter's rules and regulations.

Clearly, the foregoing circumstances are badges of fraud and simulation that rightly make any court suspicious and wary of imputing any legitimacy and validity to the said lease contract.

Executive Vice-President Arcenas of private respondent Banco Filipino testified that he was responsible for the

daily operations of said bank. He denied having signed the eleven (11)-year contract and reasoned that it was not in the interest of Banco Filipino to do so. The fact was corroborated by Josefina C. Salvador, typist of Banco Filipino's Legal Department, who allegedly witnessed the said contract and whose initials allegedly appear in all the pages thereof. She disowned the said marginal initials.

....

It is not the eleven (11)-year lease contract but the twenty (20)-year lease contract which is the real and genuine contract between petitioner Tala Realty and private respondent Banco Filipino. Considering that the twenty (20)-year lease contract is still subsisting and will expire in 2001 yet, Banco Filipino is entitled to the possession of the subject premises for as long as it pays the agreed rental and does not violate the other terms and conditions thereof.[14]

The facts of this case are substantially the same as those of G.R. No. 129887. Except for the fact that this case involves another property in Lucena City and the amount of rent is different, the ruling in G.R. No. 129887 would have constituted *res judicata* in the case at bar. Nonetheless, the principle of *stare decisis* dictates that for the sake of certainty and the stability of case law the conclusion reached in the prior case should be followed in this case.[15] Indeed, in subsequent cases involving properties of petitioner in Davao City, Iloilo City, and Malabon, which had been similarly leased to respondent bank, this Court held that the lease contract for 20 years, not the one for 11 years, was the valid contract.[16]

Accordingly, the first two questions in this case must be resolved in accordance with the rulings in G.R. No. 129887 and subsequent cases, to wit: (1) the Municipal Trial Court in Cities, Branch II, Lucena City was competent to adjudicate the validity of the lease contracts and (2) the lease of the Lucena City property of petitioner is governed by the contract for 20 years, renewable for another period of 20 years, at the option of respondent, the contract relied upon by petitioner, providing for a term of 11 years, renewable for another period of nine years, being void.

It remains to determine whether nonetheless respondent may be ejected for nonpayment of rent. The Court of Appeals held that since petitioner's action is based on nonpayment of the increased rent unilaterally imposed by petitioner, there was no cause of action for ejectment against respondent. Indeed, in its complaint petitioner alleged:

- In a letter dated June 22, 1993, plaintiff informed defendant that the new rental rates and other terms and conditions mentioned in the preceding paragraph shall be applicable to the existing month-to-month lease between them retroactive to September 1, 1992. (Attached as Annex "C" and made an integral part hereof is a copy of said letter.)
- Defendant however refused to comply with the new rental rates and with the other terms and conditions mentioned in paragraph 5 of this Complaint, including those on the payment of goodwill, deposit, and rental adjustment.
- As a result of said unwarranted refusal, in a letter dated April 14, 1994, plaintiff sent defendant a letter informing the latter that at the end of the month the lease over the premises shall no longer be renewed and likewise demanding the payment of the outstanding amounts due plaintiff from the defendant. Said letter likewise gave the defendant until the end of the month or until April 30, 1994 to vacate the premises. (Attached as Annex "D" and made an integral part hereof is a copy of said letter.)
- As of April 30, 1994, defendant has failed to pay the plaintiff by way of rent alone the amount of Two Million One Hundred Thirteen Thousand Eight Hundred Fifty Six Pesos (P2,113,856.00) which unpaid rentals amount to Two Million Seven Hundred Eighty Two Thousand Eight Hundred Ninety & 57/100 Pesos (P2,782,890.57) as of September 30, 1994.[17]

To be sure, upon the signing of lease contract on August 25, 1981, respondent paid petitioner the amount of P962,500.00 representing advance rentals for the period August 25, 1991 to August 25, 2001, that is to say, from the 11[th] to the 20[th] year of the contract and, therefore, it would appear that respondent was not in arrears under the 20-year lease contract. Petitioner, however, claims that the advance rentals had been applied by it to the payment of rentals for the period August 1985 to November 1989, when respondent was under liquidation by the Central Bank of the Philippines.

Respondent questions the validity of such application on the ground that it “was without legal basis and was not justifiable.” Nonetheless, it appears that respondent made rental payments until April 1994. At the rate of P19,300.00 a month, the advance rentals in the amount of P962,500.00, which respondent had paid at the beginning of the lease, could pay for 49 monthly rents only, or the rents for the period August 1985 to August 1989, whereas the rents for 52 months (from August 1985 to November 1989) had to be paid. That is why petitioner had to pay rent up to April 1994, which is a period of 52 months counted from September 1989. In other words, the rental payments made by respondent were for the period when it was undergoing liquidation, thus preserving or protecting the advance rental required in the lease contract for 20 years, which petitioner had applied to the payments of rentals during the period of respondent’s liquidation. Hence, respondent had no arrearages under the valid lease contract for 20 years for nonpayment of rent. It may be asked whether respondent was not in arrears for rents falling due after April 1994 as the lease had seven (7) more years to run until September 2001. The answer is two-fold:

(1) As already stated, petitioner’s complaint was based on the alleged expiration of the lease after eleven (11) years and, as a consequence, the failure of respondent to pay the new rate demanded by it after the alleged expiration of the lease.

(2) The amount of P962,500.00 which respondent had paid at the beginning of the lease was advance rental for the remainder of the lease after September 1991 or for the period covering the 11[th] to the 20th year. Thus, paragraph 3 of the Contract of Lease provides:

- That upon the signing and execution of this Contract, the LESSEE shall pay the LESSOR NINE HUNDRED SIXTY TWO THOUSAND FIVE HUNDRED PESOS ONLY (P962,500.00) Philippine Currency representing advance rental to be applied on the monthly rental for the period from the eleventh to the twentieth year;^[18]

There is thus no cause of action for nonpayment of rent under the first contract between the parties for the lease of the Lucena City property of petitioner for twenty (20) years.

WHEREFORE, the decision of the Court of Appeals is AFFIRMED and the complaint filed by petitioner Tala Realty Services Corporation against respondent Banco Filipino Savings and Mortgage Bank is DISMISSED.

SO ORDERED.

Bellosillo, (Chairman), Quisumbing, and De Leon, Jr., JJ., concur.

[1] Per Associate Justice Cancio C. Garcia and concurred in by Associate Justices Romeo A. Brawner and Andres B. Reyes, Jr.

[2] Rollo, pp. 118-121; Annex D of the Petition.

[3] Id., pp. 123-124; id., Annex E.

[4] Id., p. 128; id., Annex F.

- [5] Id., p. 130; id., Annex F-2.
- [6] Id., p. 134; id., Annex F-4.
- [7] Id., pp. 147-150; id., Annex G.
- [8] Id., pp. 152-157; id., Annex H.
- [9] Id., pp. 247-256; id., Annex K.
- [10] Id., pp. 265-266; id., Annex L-2.
- [11] Id., pp. 43-65; id., Annex A.
- [12] General Banking Law (R.A. No. 337), §§25 and 34.
- [13] Tala Realty Services Corp. v. Banco Filipino Savings and Mortgage Bank, 325 SCRA 768 (2000).
- [14] Id. at 773-775.
- [15] See Negros Navigation Co., Inc. v. Court of Appeals, 281 SCRA 534 (1997).
- [16] Tala Realty Services Corp. v. Banco Filipino Savings and Mortgage Bank, 334 SCRA 114, 122 (2000) (Davao property); Tala Realty Services Corp. v. Banco Filipino Savings and Mortgage Bank, G.R. No. 132051, June 25, 2001 (Iloilo property); Banco Filipino Savings and Mortgage Bank v. Tala Realty Services Corp., G.R. No. 128565, Sept. 3, 1997 (res.) (Malabon property).
- [17] Complaint, pp. 2-3; Rollo, pp. 148-149.
- [18] Annex D of the Petition; id., p. 119.

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