RUDY LAO, PETITIONER, VS. JAIME LAO, RESPONDENT.

G.R. NO. 149599. May 16, 2005

Ponente: CALLEJO, SR., J.

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CALLEJO, SR., J.:

As early as 1956, the spouses Julian Lao and Anita Lao had constructed a building on a parcel of land in Balasan, Iloilo City, owned by Alfredo Alava and covered by Transfer Certificate of Title (TCT) No. 28382. They then occupied and leased the same without any written agreement thereon. Anita Lao also put up her business in the premises.

On May 12, 1982, Alfredo Alava, as lessor, and Anita Lao, as lessee, executed a Contract of Lease[1] over the said property. The parties agreed that the lease of the property was to be for a period of 35 years, at an annual rental of P120.00. However, the contract of lease was not filed with the Office of the Register of Deeds; hence, was not annotated at the dorsal portion of the said title.

Aside from Anita Lao, petitioner Rudy Lao also leased another portion of the same property where he put up his business.[2] In fact, Anita Lao's building was adjacent to where the petitioner conducted his business. At that time, the petitioner knew that Anita Lao and her husband were the owners of the said building. He also knew that she had leased that portion of the property, and that respondent Jaime Lao, their son, managed and maintained the building, as well as the business thereon.

In the meantime, on March 21, 1995, the petitioner purchased the property from Alava, and was later issued TCT No. 152,097 in his name. By then, the property had been classified as commercial, but the yearly rental of P120.00 in the contract of lease between Alava and Anita Lao subsisted.

On July 14, 1997, the petitioner filed a Complaint for Unlawful Detainer against the respondent with the 1st Municipal Circuit Trial Court (MCTC) of Carles-Balasan, Iloilo City. The petitioner alleged, inter alia, that the respondent had occupied a portion of his property without any lease agreement and without paying any rentals therefor, and that the same was only through his tolerance and generosity. The petitioner prayed that, after due proceedings, judgment be rendered in his favor as follows:

> - Ordering the defendant, his agents and/or representatives and all persons claiming under him, to vacate the premises he occupies, remove all improvements thereon and restore possession thereof to the plaintiff;
>
> - Directing the defendant, his agents and/or representatives and all persons claiming under him, when proper, jointly and severally, to pay plaintiff the sums of: P50,000.00 as attorney's fees; at least P15,000.00 as miscellaneous litigation and necessary expenses; such compensation for use of the portion she (sic) occupies, at the rate of P5,000.00 a month from January 24, 1997, until the full and complete surrender thereof to the plaintiff; and
>
> - The costs of this suit.[3]

In his answer to the complaint, the respondent alleged that the petitioner had no cause of action against him, the

truth being that the lessee of the property was his mother, Anita Lao, as evidenced by a contract of lease executed by Alava, the former owner thereof. He further alleged that she had been paying the annual rentals therefor, the last of which was on July 16, 1997 and evidenced by a receipt.[4] He further alleged that she had designated him as manager to maintain the building, pay rentals and operate the business. He then prayed for the dismissal of the complaint.

During the preliminary conference, the respondent admitted that he was in actual possession of the property. For his part, the petitioner admitted that he had been renting another portion of the same property from Alava for years, and that his business establishment and that of Anita Lao's were adjacent to each other. He also admitted that Anita Lao had been renting the said portion of the property for years before he bought it.

The respondent adduced in evidence the contract of lease[5] between his mother, Anita Lao, and Alava.

On March 4, 1999, the MCTC rendered judgment in favor of the petitioner and against the respondent. The fallo of the decision reads:

> WHEREFORE, based on the foregoing circumstances, JUDGMENT is hereby rendered in favor of the Plaintiff, Rudy Lao and as against defendant, Jaime Lao, as follows:
>
> - Ordering defendant, Jaime Lao, his successors-in-interest, agents, members of his family, privies or any person or persons claiming under his name to vacate the portion of Lot No. 3 occupied by him, and to deliver the physical possession thereof to plaintiff, Rudy Lao;
>
> - Ordering defendant to pay plaintiff, Rudy Lao, the sum of P3,000.00 representing as the monthly rentals of the premises occupied by defendant on Lot No. 3 starting the month of January 1997, until the possession thereof is actually delivered and turned over to the plaintiff;
>
> - Ordering defendant, Jaime Lao, to pay plaintiff the amount of P20,000.00 as attorney's fees;
>
> - Ordering defendant, Jaime Lao, to pay Plaintiff, Rudy Lao, the sum of P10,000.00 representing as litigation expenses; and to pay the costs of this suit.
>
> SO ORDERED.[6]

The respondent appealed the decision to the Regional Trial Court (RTC) of Barotac Viejo, Iloilo City, Branch 66, which rendered judgment on January 28, 2000 affirming the said decision with modification. The fallo of the decision reads:

> WHEREFORE, the decision appealed from this court is hereby affirmed with a modification that defendant-appellant Jaime Lao is ordered to pay plaintiff-appellee Rudy Lao the sum of P1,000.00 per month as reasonable use of the land subject of the case from January 1997 until possession is turned over to the plaintiff; to pay Rudy Lao the sum of P10,000.00 attorney's fees and P5,000.00 litigation expenses.
>
> With cost against the defendant-appellant.
>
> SO ORDERED.[7]

The RTC ruled that under Article 1676 of the New Civil Code, the petitioner was the purchaser of the property and had the right to terminate the lease between Alava and Anita Lao, it appearing that the lease contract was not registered with the Office of the Register of Deeds. Not being the lessee, the respondent could not invoke the same provision. The trial court also held that the respondent, not his mother, was the real party as defendant in the MCTC, since it was he who was in actual possession of the property. The RTC maintained that if Anita Lao was sued as defendant and was ordered evicted, the decision would not be binding on the respondent since he was not impleaded as defendant.

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The respondent filed a petition for review with the Court of Appeals (CA), asserting that –

> - THE HONORABLE REGIONAL TRIAL COURT SERIOUSLY ERRED IN AFFIRMING THE ERRONEOUS FINDING OF THE MCTC THAT THIS CASE WAS PROPERLY BROUGHT AGAINST THE DEFENDANT WHEN HE IS ONLY AN AGENT OF THE REAL PARTY-IN-INTEREST, ANITA LAO.
>
> - THE HONORABLE REGIONAL TRIAL COURT SERIOUSLY ERRED IN AFFIRMING THE ERRONEOUS FINDING OF THE MCTC THAT THERE IS NO AGENCY BETWEEN ANITA LAO AND THE DEFENDANT-APPELLANT BECAUSE THERE WAS NO DOCUMENTARY EVIDENCE PRESENTED TO SHOW THE FACT OF AGENCY.
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> - THE HONORABLE REGIONAL TRIAL COURT SERIOUSLY ERRED IN IGNORING THE FACT THAT THE MCTC BLATANTLY DISREGARDING (sic) THE PRE-TRIAL CONFERENCE ORDER IT ISSUED, ISSUING A DECISION CONTRARY TO THE FACTS ADMITTED BY [THE] PARTIES THEMSELVES ESPECIALLY THE ADMISSION OF THE PLAINTIFF-APPELLEE THAT HE KNOWS OF THE EXISTENCE OF THE LEASE.[8]

On February 27, 2001, the CA rendered judgment setting aside and reversing the decision of the RTC. The CA ruled that the real party-in-interest as defendant in the MCTC was Anita Lao, the lessee of the property, and not the respondent who was merely the administrator/manager of Anita Lao's building and the occupant of the property.

The petitioner's motion for the reconsideration of the decision having been denied by the appellate court, he now comes to this Court for relief via a petition for review on certiorari, claiming that:

> The Hon. Court of Appeals committed a reversible error when it converted petitioner's cause of action against respondent into a cause of action against respondent's mother; and on the basis thereof, dismissed petitioner's complaint for ejectment against respondent under the mistaken finding that said ejectment case should have been filed against respondent's mother.[9]

The petitioner avers that the respondent was the real party-in-interest as defendant in the complaint for unlawful detainer because the respondent's possession of the property was in his personal capacity, and not as the caretaker of the property and the business in the building owned by Anita Lao, the lessee thereon. The petitioner argues that, in an ejectment suit, the threshold issue is who has the right to the material or de facto possession of the subject property as distinguished from the de jure possession thereof; hence, the defendant in an ejectment case is the person in actual physical possession of the property.

The petitioner insists that the respondent, having admitted in the MCTC that he was in actual possession of the property and that in fact, Anita Lao was no longer staying in the property after her husband died, is the real party-in-interest, as defendant. He posits that if he filed a complaint for ejectment against Anita Lao, it would be dismissed because it was the respondent, and not his mother, who was in actual possession of the property.

The petition has no merit.

We agree with the petitioner that, in ejectment cases, the word "possession" means nothing more than actual physical possession, not legal possession, in the sense contemplated in civil law.[10] The only issue in such cases is who is entitled to the physical or material possession of the property involved, independent of any claim of ownership set forth by any of the party-litigants.[11]

We, likewise, conform to the petitioner's contention that in an action for unlawful detainer, the real party-in-interest as party-defendant is the person who is in possession of the property without the benefit of any

contract of lease and only upon the tolerance and generosity of its owner. Such occupant is bound by an implied promise that he will vacate the premises upon demand. This situation is analogous to that of a lessee or tenant whose term has expired, but whose occupancy continued by mere tolerance of the owner.[12] He is the real party-in-interest as defendant.[13]

However, the records in this case show that the respondent has been in possession of the property subject of the complaint not by mere tolerance or generosity of the petitioner, but as the manager of his mother, Anita Lao, who conducted her business in the building/warehouse which stood on a portion of the property leased from Alava, the former owner. Contrary to the petitioner's claim, the respondent's possession of the property was in behalf of his mother, the lessee thereof, and not in his own right, independently of that of his mother.

The petitioner cannot feign ignorance of the existence of the lease of the subject property by Anita Lao, the existence of the building and her business thereon, and the fact that the respondent managed his mother's building and business. It must be stressed that during the preliminary conference of the parties before the MCTC, the petitioner admitted his knowledge of the foregoing facts.

While it is true that the contract of lease between Alava and Anita Lao was not filed in the Office of the Register of Deeds and annotated at the dorsal portion of the petitioner's title over the property, nevertheless, the petitioner was bound by the terms and conditions of the said contract of lease. The lease, in effect, became a part of the contract of sale.[14]

Under Section 2, Rule 70 of the Rules of Court, the petitioner, as the vendee of the property, had the right to file an action for unlawful detainer against Anita Lao upon demand, but for breach of the contract of lease:

> SEC. 2. Lessor to proceed against lessee only after demand. – Unless otherwise stipulated, such action by the lessor shall be commenced only after demand to pay or comply with the conditions of the lease and to vacate is made upon the lessee, or by serving written notice of such demand upon the person found on the premises, or by posting such notice on the premises if no person be found thereon, and the lessee fails to comply therewith after fifteen (15) days in the case of land or five (5) days in the case of buildings.

If the petitioner had done so and judgment was rendered in his favor, ordering Anita Lao to vacate the property, the respondent herein, who is in possession of the property for and in her behalf, would then have to abide by the decision and vacate the same. This was the ruling of the Court in Oro Cam Enterprises, Inc. v. Court of Appeals,[15] thus:

> ... It is well-settled that a judgment in an ejectment suit is binding not only upon the defendants in the suit but also against those not made parties thereto, if they are:
>
> a) trespassers, squatters or agents of the defendant fraudulently occupying the property to frustrate the judgment;
> b) guests or other occupants of the premises with the permission of the defendant;
> c) transferees pendente lite;
> d) sublessee;
> e) co-lessees; or
> f) members of the family, relatives and other privies of the defendant.[16]

Apparently, the petitioner believed that it was unfair for Anita Lao to be paying an annual rental of only P120.00 for the portion of the property leased by her, considering that the said lot had already been classified as commercial property. Moreover, it was not Anita Lao who stayed in the leased premises; it was her son. The petitioner had no cause of action for unlawful detainer against Anita Lao because of the subsisting contract of lease; hence, he could not file the complaint against her. What the petitioner had no right to do directly, he did

indirectly by filing a complaint for unlawful detainer against her son, the respondent, believing that by so doing, he will be rid of Anita Lao's lease contract.

The Court, thus, rules that the CA acted in accord with law when it ordered the dismissal of the complaint.

IN LIGHT OF ALL THE FOREGOING, the petition is DENIED for lack of merit. Costs against the petitioner. SO ORDERED.

Puno, (Chairman), Austria-Martinez, Tinga, and Chico-Nazario, JJ., concur.

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[1] CA Rollo, p. 33.

[2] Id. at 15.

[3] Rollo, p. 30.

[4] Id. at 32.

[5] CA Rollo, p. 33.

[6] Rollo, pp. 48-49.

[7] Rollo, pp. 56-57.

[8] CA Rollo, p. 6.

[9] Rollo, p. 10.

[10] See Sps. Tirona v. Hon. Alejo, 419 Phil. 285 (2001).

[11] Gener v. De Leon, 419 Phil. 920 (2001).

[12] Dakudao v. Hon. Consolacion, 207 Phil. 750 (1983).

[13] Section 1, Rule 20 of the Rules of Court.

[14] Gustilo v. Maravilla, 48 Phil. 442 (1925); See also Sayo v. Manila Railroad Co. and Archbishop of Manila, 43 Phil. 551 (1922).

[15] 377 Phil. 469 (1999).

[16] Id. at 481, citing F. REGALADO, REMEDIAL LAW COMPENDIUM 793 (1997).

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