

ENRICO SANTOS, PETITIONER, VS. NATIONAL STATISTICS OFFICE, RESPONDENT.

G.R. No. 171129. April 06, 2011

Ponente: DEL CASTILLO, J.

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DEL CASTILLO, J.:

The lessee in this case resists ejectment by the lessor on the ground that the leased property has already been foreclosed and is now owned by a third person.

This Petition for Review on Certiorari assails the Decision[1] dated September 6, 2005 of the Court of Appeals (CA) in CA-G.R. SP No. 89464 which recalled and set aside the Decision[2] dated April 1, 2005 of the Regional Trial Court (RTC) of Malolos City, Bulacan, Branch 15 in Civil Case No. 651-M-04. Likewise assailed is the CA's Resolution[3] dated January 3, 2006 denying the Motion for Reconsideration thereto.

Factual Antecedents

On February 10, 2004, petitioner Enrico Santos filed a Complaint[4] for Unlawful Detainer in the Municipal Trial Court (MTC) of Sta. Maria, Bulacan. He claimed therein that he is the registered owner of the property located at No. 49, National Road, Barrio Bagbaguin, Sta. Maria, Bulacan. On January 2, 1998, he entered into a Contract of Lease[5] with respondent National Statistics Office for the lease of 945 square meters (sq m) of the first floor of the structure on said property for a monthly rental of P74,000.00. Subsequently, the parties agreed to renew the lease for a period of one year from January 1, 2003 to December 31, 2003, covering a bigger area of the same floor for an increased monthly rental of P103,635.00.[6] As the area leased by respondent was not sufficient for its use, petitioner and respondent again entered into another Contract of Lease[7] dated September 11, 2003 which covered an additional space for a monthly rental of P45,000.00. For failing to pay despite demand the rentals for the months of December 2003 and January 2004 in the total amount of P297,270.00, and for its refusal to vacate the property even after the termination of the lease contracts on December 31, 2003, petitioner sent respondent a formal demand[8] for the latter to pay its unpaid monthly rentals and to vacate the property. Notwithstanding receipt, respondent still refused to pay and to vacate the property. Hence, the complaint.

In its Answer,[9] respondent through the Office of the Solicitor General (OSG) alleged that petitioner and his wife obtained a loan[10] from China Banking Corporation (China Bank) in the amount of P20 million, the payment of which was secured by a Real Estate Mortgage[11] constituted over the subject property covered by Transfer Certificate of Title (TCT) No. T-95719(M). It claimed that when petitioner entered into a contract of lease with it in 1998, he did not inform respondent of the existence of said loan. When petitioner failed to pay his obligation with China Bank, the property was eventually sold in an extrajudicial foreclosure sale where said bank emerged as the highest bidder. Since petitioner likewise failed to redeem the property within the redemption period, title to the same was consolidated in favor of China Bank and TCT No. T-370128(M) was issued in its name on August 21, 2000. Despite this and again without informing respondent, petitioner misrepresented himself as still the absolute owner of the subject property and entered into the second and third contracts of lease with respondent in

February and September 2003. According to respondent, it was only in November 2003 that it knew of the foreclosure of the subject property when it received a letter[12] from China Bank informing it that as early as August 2000, title to the property had already been effectively consolidated in the name of the bank. Hence, China Bank advised respondent that as the new and absolute owner of the subject property, it is entitled to the rental payments for the use and occupancy of the leased premises from the date of consolidation. Petitioner having ceased to be the owner of said property, respondent believed that the second and third contracts of lease it entered with him had ceased to be in effect. Hence, petitioner has no legal right to demand that respondent pay him said rentals and vacate the leased premises. Conversely, respondent has no legal obligation to pay to petitioner the rentals for the use and occupancy of the subject property. Moreover, petitioner failed to exhaust administrative remedies as there was no indication that he filed a money claim before the Commission on Audit (COA) as required by Act No. 3083[13] as amended by Presidential Decree (P.D.) No. 1445.[14] Lastly, respondent alleged that petitioner is without any legal personality to institute the complaint because he is neither the owner, co-owner, legal representative or assignee of China Bank, landlord or a person entitled to the physical possession of the subject property. By way of counterclaim, respondent asserted that petitioner is obligated under the law and the equitable principle of unjust enrichment to return to respondent all rental payments received, with legal interests, from August 2000 to November 2003 in the total amount of P4,113,785.00.

Ruling of the Municipal Trial Court

The MTC rendered its Decision[15] on September 6, 2004. It held that while it can provisionally resolve the issue of ownership as raised by respondent, it did not do so because of the latter's admission that it originally leased the subject property from petitioner. According to said court, when respondent admitted that it was a lessee of the premises owned by petitioner, it took away its right to question petitioner's title and ownership thereof. The MTC then reiterated the well settled rule that a tenant cannot, in an action involving the possession of leased premises, controvert the title of his landlord. As the evidence showed that respondent was no longer paying rents in violation of its obligation under the second and third contracts of lease, and since said contracts already expired and no new contract was entered into by the parties, the MTC declared respondent a deforciant lessee which should be ejected from the property. The dispositive portion of the MTC Decision reads:

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

1. Vacate the premises known as No. 49 National Road, Bagbaguin, Santa Maria, Bulacan and peacefully surrender possession thereof to the plaintiff;
2. Pay the plaintiff rental arrearages amounting to Two Hundred Ninety Seven Thousand Two Hundred Seventy Pesos (P297,270.00) for the period up to January 2004;
3. Pay the plaintiff the monthly amount of Seventy Four Thousand Pesos (P74,000.00) from February 2004 up to the time that it finally vacates the subject premises;
4. Pay the plaintiff the amount of Thirty Thousand Pesos (P30,000.00) as and by way of attorney's fees, and
5. Cost of the suit.

SO ORDERED.[16]

Hence, respondent appealed to the RTC.

Ruling of the Regional Trial Court

Respondent faulted the MTC in not resolving the issue of ownership in order to determine who has the better right

of possession. It emphasized that it is not an ordinary entity which may be compelled to pay under private contracts. As an agency of the government tasked in generating general purpose statistics, it is bound by government auditing rules to make payments only for validly executed contracts with persons lawfully entitled thereto. Thus, it is necessary to ascertain the ownership of the subject property in order to determine the person lawfully entitled to the rental payments. And as it is clear in this case that title to the property had already been consolidated in the name of China Bank, respondent properly paid the rentals to said bank. Respondent argued that as between petitioner, who had ceased to have legal title to the property, and itself, which continuously pays rentals to China Bank, it is the one which has the better right of possession. In addition, respondent insisted that petitioner should return the amount of P4,113,785.00 wrongfully paid to him, with legal interest, until fully paid.

On the other hand, petitioner countered that even if respondent is a government agency, it cannot be permitted to deny his title over the property, he being the lessor of the same. To support this, he cited Section 2(b), Rule 131 of the Rules of Court[17] and Article 1436 of the Civil Code.[18] Petitioner thus prayed that the RTC affirm in toto the assailed MTC Decision.

In its Decision[19] dated April 1, 2005, the RTC agreed with the MTC's declaration that respondent is a deforciant lessee which should be ejected from the leased premises. This was in view of the settled rule that the fact of lease and the expiration of its terms are the only elements in an action for ejectment, which it found to have been established in this case. According to said court, a plaintiff need not prove his ownership and defendant cannot deny it. If defendant denies plaintiff's ownership, he raises a question which is unessential to the action. The RTC further held that if there was an issue of ownership, it is a matter between China Bank and petitioner to settle in an appropriate proceeding. Hence, the RTC found the appeal to be without merit, viz:

WHEREFORE, premises [considered], the assailed Decision of the Municipal Trial Court of Sta. Maria, Bulacan, is hereby AFFIRMED.

SO ORDERED.[20]

Petitioner promptly moved for the issuance of a writ of execution.[21] This was, however, denied by the RTC[22] in view of the Temporary Restraining Order (TRO) issued by the CA through its May 5, 2005 Resolution[23] in CA-G.R. SP No. 89464 - the Petition for Review brought by respondent before said court.

Ruling of the Court of Appeals

Before the CA, respondent asserted that the RTC and MTC cannot turn a blind eye on the transfer of ownership of the subject property to China Bank. As petitioner fraudulently executed the last two lease contracts with respondent, he having entered into the same despite knowledge that ownership of the subject property had already passed on to China Bank, the rule that the lessee cannot deny the title of his landlord does not apply. This is because petitioner was no longer the owner of the leased premises at the time of the execution of the last two contracts. Respondent also believed that said contracts are void because to hold otherwise would be to condone the anomalous situation of a party paying rentals to one who is no longer the owner and who no longer has the right of possession over the leased property. It likewise insisted that it is entitled to recover the rentals paid to petitioner from the time ownership of the subject property was transferred to China Bank under the principle of *solutio indebiti*. Lastly, respondent emphasized that petitioner failed to first file a money claim before the COA.

Petitioner, for his part, basically reiterated the arguments he raised before the RTC. In addition, he pointed out that the defense of ownership is being invoked by respondent on behalf of another party, China Bank. What respondent therefore would want the lower courts to do was to rule that the subject property is owned by another person even if said person is not a party to the ejectment case. To petitioner, this cannot be done by the lower courts, hence, there was no error on their part when they decided not to touch upon the issue of ownership.

It is noteworthy that before the petition was resolved, the CA first issued a Resolution[24] dated July 15, 2005 granting respondent's prayer for a Writ of Preliminary Injunction which enjoined the enforcement of the RTC's April 1, 2005 Decision. Thereafter, the CA proceeded to decide the case and thus issued a Decision[25] dated September 6, 2005.

In its Decision, the CA recognized the settled rule that a tenant, in an action involving the possession of the leased premises, can neither controvert the title of his landlord nor assert any rights adverse to that title, or set up any inconsistent right to change the relation existing between himself and his landlord. However, it declared that said doctrine is subject to qualification as enunciated in *Borre v. Court of Appeals*[26] wherein it was held that "[t]he rule on estoppel against tenants x x x does not apply if the landlord's title has expired, or has been conveyed to another, or has been defeated by a title paramount, subsequent to the commencement of lessor-lessee relationship." In view of this, the CA concluded that the RTC erred when it relied mainly on the abovementioned doctrine enunciated under Sec. 2(b), Rule 131 of the Rules of Court and skirted away from resolving the issue of ownership. The CA noted that respondent was able to prove that title to the subject property has already been effectively consolidated in the name of China Bank. Hence, it found petitioner to be in bad faith and to have acted with malice in still representing himself to be the owner of the property when he entered into the second and third contracts of lease with respondent. Under these circumstances, the CA declared that respondent was justified in refusing to pay petitioner the rents and thus, the ejectment complaint against respondent states no cause of action.

In addition, the CA opined that there was no landlord-tenant relationship created between the parties because the agreements between them are void. The element of consent is wanting considering that petitioner, not being the owner of the subject property, has no legal capacity to give consent to said contracts. The CA, however, denied respondent's prayer for the return of the rentals it paid to petitioner by ratiocinating that to grant the same would be to effectively rule on the ownership issue rather than merely resolving it for the purpose of deciding the issue on possession.

The CA disposed of the case in this wise:

IN VIEW OF ALL THE FOREGOING, the instant petition for review is GRANTED, the assailed decision is RECALLED and SET ASIDE, and a new one entered DISMISSING Civil Case No. 651-M-04 (MTC Civil Case No. 1708). No pronouncement as to costs.

SO ORDERED.[27]

Both parties moved for reconsideration[28] of the above Decision but were, however, unsuccessful as the CA denied their motions in a Resolution[29] dated January 3, 2006.

Undeterred, petitioner now comes to us through this Petition for Review on Certiorari.

Issues

Petitioner raises the following issues:

- I. Whether x x x the Honorable Court of Appeals erred in overturning the respective decisions of the RTC-Malolos City, Bulacan and MTC-Sta. Maria, Bulacan which both held that a lessor has the better right of possession over a realty.
- II. Whether x x x the Honorable Court of Appeals - in resolving the issue of who between the lessor and the lessee has better possession of the premises known as No. 49, National Road, Bagbaguin, Sta. Maria, Bulacan - erred in delving on the issue of ownership in resolving the issues raised in C.A.-G.R. SP No. 89464.
- III. Whether x x x the Honorable Court of Appeals erred in not awarding damages to the Petitioner, the lessor

of the premises known as No. 49, National Road, Bagbaguin, Sta. Maria, Bulacan.[30]

The Parties' Arguments

Petitioner contends that the ruling in *Borre* does not apply to this case because here, there is nothing to show that his title to the subject property had expired, or had been conveyed to another, or had been defeated by a title paramount. In fact, petitioner informs this Court that the dispute between him and China Bank concerning the ownership of the subject property is still pending litigation before Branch 17 of RTC-Malolos, Bulacan. Hence, petitioner asserts that there are yet no factual and legal bases for the CA to rule that he lost his title over the property. Besides, petitioner believes that ownership is not an issue in actions for ejectment especially when the parties thereto are the landlord and tenant. Moreover, petitioner contends that based on *Fige v. Court of Appeals*,^[31] respondent as lessee cannot be allowed to interpose a defense against him as lessor without the former first delivering to him the leased premises. Petitioner also claims that he is entitled to payment of damages in the form of fair rental value or reasonable compensation for the use and occupation of the property. In sum, petitioner wants this Court to reverse and set aside the assailed CA Decision and Resolution and to reinstate the respective Decisions of the MTC and RTC.

Respondent, for its part, negates petitioner's claim that he has not yet lost his title to the property by emphasizing that such title has already been effectively consolidated in the name of China Bank. And, considering that government auditing rules preclude respondent from paying rentals to a party not entitled thereto, it was proper for it to pay the same to the new owner, China Bank. Moreover, respondent imputes bad faith upon petitioner for not informing it of the change in ownership of the property and for still collecting rental payments despite such change. Thus, respondent prays that the petition be denied for lack of merit.

Our Ruling

We find no merit in the petition.

The conclusive presumption found in Sec. 2(b), Rule 131 of the Rules of Court known as estoppel against tenants provides as follows:

Sec. 2. Conclusive presumptions. - The following are instances of conclusive presumptions:

x x x x

(b) The tenant is not permitted to deny the title of his landlord at the time of the commencement of the relation of landlord and tenant between them. (Emphasis supplied).

It is clear from the above-quoted provision that "[w]hat a tenant is estopped from denying x x x is the title of his landlord at the time of the commencement of the landlord-tenant relation. If the title asserted is one that is alleged to have been acquired subsequent to the commencement of that relation, the presumption will not apply."^[32] Hence, "the tenant may show that the landlord's title has expired or been conveyed to another or himself; and he is not estopped to deny a claim for rent, if he has been ousted or evicted by title paramount."^[33]

Thus, we declared in *Borre v. Court of Appeals*^[34] that:

The rule on estoppel against tenants is subject to a qualification. It does not apply if the landlord's title has expired, or has been conveyed to another, or has been defeated by a title paramount, subsequent to the commencement of lessor-lessee relationship [VII Francisco, *The Revised Rules of Court in the Philippines* 87 (1973)]. In other words, if there was a change in the nature of the title of the landlord during the subsistence of the lease, then the presumption does not apply. Otherwise, if the nature of the landlord's title remains as it was during the commencement of the relation of landlord and tenant, then estoppel lies against the tenant.

(Emphasis supplied.)

While petitioner appears to have already lost ownership of the property at the time of the commencement of the tenant-landlord relationship between him and respondent, the change in the nature of petitioner's title, as far as respondent is concerned, came only after the commencement of such relationship or during the subsistence of the lease. This is precisely because at the time of the execution of the second and third contracts of lease, respondent was still not aware of the transfer of ownership of the leased property to China Bank. It was only in November 2003 or less than two months before the expiration of said contracts when respondent came to know of the same after it was notified by said bank. This could have been the reason why respondent did not anymore pay petitioner the rents for the succeeding months of December 2003 and January 2004. Thus, it can be said that there was a change in the nature of petitioner's title during the subsistence of the lease that the rule on estoppel against tenants does not apply in this case. Petitioner's reliance on said conclusive presumption must, therefore, necessarily fail since there was no error on the part of the CA when it entertained respondent's assertion of a title adverse to petitioner.

We also find untenable petitioner's argument that respondent cannot assert ownership of the property by a third person considering that China Bank, as such third person, is not a party to the ejectment case. As earlier said, a tenant in proper cases such as this, may show that the landlord's title has been conveyed to another. In order to do this, the tenant must essentially assert that title to the leased premises already belongs to a third person who need not be a party to the ejectment case. This is precisely what respondent was trying to do when it endeavored to establish that the property is now owned by China Bank.

From the above discussion, it is not difficult to see that the question of possession is so intertwined with the question of ownership to the effect that the question of possession cannot be resolved without resolving the question of ownership. This is the reason why we are upholding the CA's resolution of the issue of ownership in this ejectment case. "It bears emphasizing that in ejectment suits, the only issue for resolution is the physical or material possession of the property involved, independent of any claim of ownership by any of the party litigants." [35] However, "[i]n cases where defendant raises the question of ownership in the pleadings and the question of possession cannot be resolved without deciding the issue of ownership, the court may proceed and resolve the issue of ownership but only for the purpose of determining the issue of possession. [Nevertheless], the disposition of the issue of ownership is not final, as it may be the subject of separate proceeding[s] specifically brought to settle the issue." [36] Hence, the fact that there is a pending case between petitioner and China Bank respecting the ownership of the property does not preclude the courts to rule on the issue of ownership in this case.

Paragraph 3 of the Complaint for Unlawful Detainer states that petitioner is the registered owner of the property located at No. 49, National Road, Barrio Bagbaguin, Sta. Maria, Bulacan. [37] It is in fact by virtue of this alleged ownership that he entered into contracts of lease with respondent and was ejecting the latter by reason of the expiration of said contracts. However, we note that petitioner, as plaintiff in the Complaint for Unlawful Detainer, failed to discharge his burden of showing that he indeed owned the property. "In civil cases, the burden of proof is on the plaintiff to establish his case by a preponderance of evidence. If he claims a right granted or created by law, he must prove his claim by competent evidence. He must rely on the strength of his own evidence and not on the weakness of that of his opponent." [38] On the other hand, respondent has satisfactorily shown that title to the property has already been conveyed to China Bank. It submitted the following documents: (1) the Promissory Note [39] executed by petitioner and his spouse in favor of China Bank for a loan of P20 million and the (Real Estate) Mortgage [40] over the subject property; (2) the Petition for Extrajudicial Foreclosure of said Real Estate Mortgage; [41] (3) the Notice of Auction Sale By Notary Public, Certificate of Posting, Affidavit of Publication

and Certificate of Sale in favor of China Bank,[42] all in connection with the extrajudicial foreclosure sale of the leased premises; (4) the Affidavit of Consolidation[43] executed by China Bank's Vice-President to inform the Registry of Deeds of Meycauayan, Bulacan that the one-year period of redemption has expired without petitioner redeeming the property and to request said office to issue the corresponding TCT under the bank's name; and (5) TCT No. T-370128 (M)[44] issued on August 21, 2000 in the name of China Bank covering the leased property. Said documents, particularly TCT No. T-370128 (M), undeniably show that China Bank is the owner of the property and not petitioner. "As a matter of law, a Torrens Certificate of Title is evidence of indefeasible title of property in favor of the person in whose name the title appears. The title holder is entitled to all the attributes of ownership of the property, including possession, subject only to limits imposed by law." [45] Not being the registered titleholder, we hold that petitioner does not have a better right of possession over the property as against respondent who is in actual possession thereof and who claims to derive its right of possession from the titleholder, China Bank, to whom it pays rents for its use. Hence, petitioner's action for unlawful detainer must fail. This being settled, it is obvious that petitioner is likewise not entitled to payment of damages for the fair rental value or reasonable compensation for the use and occupation of the property.

WHEREFORE, the petition is DENIED. The assailed Decision dated September 6, 2005 and Resolution dated January 3, 2006 of the Court of Appeals in CA-G.R. SP No. 89464 are AFFIRMED.

SO ORDERED.

Corona, C.J., (Chairperson), Velasco, Jr., Leonardo-De Castro, and Perez, JJ., concur.

[1] CA rollo, pp. 125-133; penned by Associate Justice Conrado M. Vasquez, Jr. and concurred in by Associate Justices Rebecca De Guia-Salvador and Rosalinda Asuncion-Vicente.

[2] Records, pp.167-169; penned by Judge Alexander P. Tamayo.

[3] CA rollo, p.158.

[4] Records, pp. 1-5.

[5] Id. at 6-12.

[6] Id. at 13-17.

[7] Id. at 18-23.

[8] Id. at 24.

[9] Id. at 26-37.

[10] See the corresponding Promissory Note dated January 31, 1997, id. at 39.

[11] Id. at 40-41.

[12] Id. at 52-53.

[13] An Act Defining the Conditions under which the Government of the Philippine Islands may be sued. Approved on March 16, 1923.

[14] Government Auditing Code of the Philippines.

[15] Records, pp. 131-133.

[16] Id. at 133.

[17] Sec. 2. Conclusive presumptions. - The following are instances of conclusive presumptions:

x x x x

(b) The tenant is not permitted to deny the title of his landlord at the time of the commencement of the relation of landlord and tenant between them.

[18] Art. 1436. A lessee or a bailee is estopped from asserting title to the thing leased or received, as against the lessor or bailor.

[19] Records, pp. 167-169.

[20] Id. at 169.

[21] See petitioner's Motion for Execution, id. at 171-174.

[22] See RTC's Order dated May 23, 2005, id. at 288.

[23] CA rollo, pp. 89-90.

[24] Id. at 105-107.

[25] Id. at 125-133.

[26] 242 Phil 345, 352 (1988).

[27] CA rollo, p. 132.

[28] See petitioner's Motion for Reconsideration, id. at 134-136 and respondent's Motion for Partial Reconsideration, id. at 139-147.

[29] Id. at 158.

[30] Rollo, pp. 4-5.

[31] G.R. No. 107951, June 30, 1994, 233 SCRA 586, 590.

[32] Herrera, Remedial Law, Volume VI, 1999 Ed., p. 49.

[33] Id.; FRANCISCO, BASIC EVIDENCE, 1992 Ed., p. 35 citing 1 Jones on Evidence, pp. 530-532.

[34] Supra note 26 at 352.

[35] Malabanan v. Rural Bank of Cabuyao, Inc., G.R. No. 163495, May 8, 2009, 587 SCRA 442, 447.

[36] Dela Rosa v. Roldan, G.R. No. 133882, September 5, 2006, 501 SCRA 34, 53.

[37] Records, p. 1.

[38] Umpoc v. Mercado, 490 Phil. 118, 135 (2005).

[39] Records, p. 95.

[40] Id. at 96.

[41] Id. at 99-100.

[42] Id. at 101-105.

[43] Id. at 107-108.

[44] Id. at 106.

[45] Madrid v. Mapoy, G.R. No. 150887, August 14, 2009, 596 SCRA 14, 25-26.

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