

SECOND DIVISION

[G.R. No. 189145, December 04, 2013]

**OPTIMUM DEVELOPMENT BANK, PETITIONER, VS. SPOUSES
BENIGNO V. JOVELLANOS AND LOURDES R. JOVELLANOS,
RESPONDENTS.**

D E C I S I O N

PERLAS-BERNABE, J.:

Assailed in this petition for review on *certiorari*^[1] are the Decision^[2] dated May 29, 2009 and Resolution^[3] dated August 10, 2009 of the Court of Appeals (CA) in CA-G.R. SP No. 104487 which reversed the Decision^[4] dated December 27, 2007 of the Regional Trial Court of Caloocan City, Branch 128 (RTC) in Civil Case No. C-21867 that, in turn, affirmed the Decision^[5] dated June 8, 2007 of the Metropolitan Trial Court, Branch 53 of that same city (MeTC) in Civil Case No. 06-28830 ordering respondents-spouses Benigno and Lourdes Jovellanos (Sps. Jovellanos) to, *inter alia*, vacate the premises of the property subject of this case.

The Facts

On April 26, 2005, Sps. Jovellanos entered into a Contract to Sell^[6] with Palmera Homes, Inc. (Palmera Homes) for the purchase of a residential house and lot situated in Block 3, Lot 14, Villa Alegria Subdivision, Caloocan City (subject property) for a total consideration of P1,015,000.00. Pursuant to the contract, Sps. Jovellanos took possession of the subject property upon a down payment of P91,500.00, undertaking to pay the remaining balance of the contract price in equal monthly installments of P13,107.00 for a period of 10 years starting June 12, 2005.^[7]

On August 22, 2006, Palmera Homes assigned all its rights, title and interest in the Contract to Sell in favor of petitioner Optimum Development Bank (Optimum) through a Deed of Assignment of even date.^[8]

On April 10, 2006, Optimum issued a Notice of Delinquency and Cancellation of Contract to Sell^[9] for Sps. Jovellanos's failure to pay their monthly installments despite several written and verbal notices.^[10] In a final Demand Letter dated May 25, 2006,^[11] Optimum required Sps. Jovellanos to vacate and deliver possession of the subject property within seven (7) days which, however, remained unheeded. Hence, Optimum filed, on November 3, 2006, a complaint for unlawful detainer^[12] before the MeTC, docketed as Civil Case No. 06-28830.

Despite having been served with summons, together with a copy of the complaint,^[13] Sps. Jovellanos failed to file their answer within the prescribed reglementary

period, thus prompting Optimum to move for the rendition of judgment.^[14] Thereafter, Sps. Jovellanos filed their opposition with motion to admit answer, questioning the jurisdiction of the court, among others. Further, they filed a Motion to Reopen and Set the Case for Preliminary Conference, which the MeTC denied.

The MeTC Ruling

In a Decision^[15] dated June 8, 2007, the MeTC ordered Sps. Jovellanos to vacate the subject property and pay Optimum reasonable compensation in the amount of P5,000.00 for its use and occupation until possession has been surrendered. It held that Sps. Jovellanos's possession of the said property was by virtue of a Contract to Sell which had already been cancelled for non-payment of the stipulated monthly installment payments. As such, their "rights of possession over the subject property necessarily terminated or expired and hence, their continued possession thereof constitute[d] unlawful detainer."^[16]

Dissatisfied, Sps. Jovellanos appealed to the RTC, claiming that Optimum counsel made them believe that a compromise agreement was being prepared, thus their decision not to engage the services of counsel and their concomitant failure to file an answer.^[17] They also assailed the jurisdiction of the MeTC, claiming that the case did not merely involve the issue of physical possession but rather, questions arising from their rights under a contract to sell which is a matter that is incapable of pecuniary estimation and, therefore, within the jurisdiction of the RTC.^[18]

The RTC Ruling

In a Decision^[19] dated December 27, 2007, the RTC affirmed the MeTC's judgment, holding that the latter did not err in refusing to admit Sps. Jovellanos's belatedly filed answer considering the mandatory period for its filing. It also affirmed the MeTC's finding that the action does not involve the rights of the respective parties under the contract but merely the recovery of possession by Optimum of the subject property after the spouses' default.^[20]

Aggrieved, Sps. Jovellanos moved for reconsideration which was, however, denied in a Resolution^[21] dated June 27, 2008. Hence, the petition before the CA reiterating that the RTC erred in affirming the decision of the MeTC with respect to: (a) the non-admission of their answer to the complaint; and (b) the jurisdiction of the MeTC over the complaint for unlawful detainer.^[22]

The CA Ruling

In an Amended Decision^[23] dated May 29, 2009, the CA reversed and set aside the RTC's decision, ruling to dismiss the complaint for lack of jurisdiction. It found that the controversy does not only involve the issue of possession but also the validity of the cancellation of the Contract to Sell and the determination of the rights of the parties thereunder as well as the governing law, among others, Republic Act No. (RA) 6552.^[24] Accordingly, it concluded that the subject matter is one which is incapable of pecuniary estimation and thus, within the jurisdiction of the RTC.^[25]

Undaunted, Optimum moved for reconsideration which was denied in a Resolution^[26] dated August 10, 2009. Hence, the instant petition, submitting that the case is one for unlawful detainer, which falls within the exclusive original jurisdiction of the municipal trial courts, and not a case incapable of pecuniary estimation cognizable solely by the regional trial courts.

The Court's Ruling

The petition is meritorious.

What is determinative of the nature of the action and the court with jurisdiction over it are the allegations in the complaint and the character of the relief sought, not the defenses set up in an answer.^[27] A complaint sufficiently alleges a cause of action for unlawful detainer if it recites that: (a) initially, possession of the property by the defendant was by contract with or by tolerance of the plaintiff; (b) eventually, such possession became illegal upon notice by plaintiff to defendant of the termination of the latter's right of possession; (c) thereafter, defendant remained in possession of the property and deprived plaintiff of the enjoyment thereof; and (d) within one year from the last demand on defendant to vacate the property, plaintiff instituted the complaint for ejectment.^[28] Corollarily, the only issue to be resolved in an unlawful detainer case is physical or material possession of the property involved, independent of any claim of ownership by any of the parties involved.^[29]

In its complaint, Optimum alleged that it was by virtue of the April 26, 2005 Contract to Sell that Sps. Jovellanos were allowed to take possession of the subject property. However, since the latter failed to pay the stipulated monthly installments, notwithstanding several written and verbal notices made upon them, it cancelled the said contract as per the Notice of Delinquency and Cancellation dated April 10, 2006. When Sps. Jovellanos refused to vacate the subject property despite repeated demands, Optimum instituted the present action for unlawful detainer on November 3, 2006, or within one year from the final demand made on May 25, 2006.

While the RTC upheld the MeTC's ruling in favor of Optimum, the CA, on the other hand, declared that the MeTC had no jurisdiction over the complaint for unlawful detainer, reasoning that the case involves a matter which is incapable of pecuniary estimation – *i.e.*, the validity of the cancellation of the Contract to Sell and the determination of the rights of the parties under the contract and law – and hence, within the jurisdiction of the RTC.

The Court disagrees.

Metropolitan Trial Courts are **conditionally vested** with authority to resolve the question of ownership raised **as an incident** in an ejectment case where the determination is **essential to a complete adjudication of the issue of possession**.^[30] Concomitant to the ejectment court's authority to look into the claim of ownership **for purposes of resolving the issue of possession** is its authority to interpret the contract or agreement upon which the claim is premised. Thus, in the case of *Oronce v. CA*,^[31] wherein the litigants' opposing claims for possession was hinged on whether their written agreement reflected the intention to enter into a sale or merely an equitable mortgage, the Court affirmed the propriety of the ejectment court's examination of the terms of the agreement in question by

holding that, “because **metropolitan trial courts are authorized to look into the ownership of the property in controversy in ejectment cases**, it behooved MTC Branch 41 to examine the bases for petitioners’ claim of ownership that entailed interpretation of the Deed of Sale with Assumption of Mortgage.”^[32] Also, in *Union Bank of the Philippines v. Maunlad Homes, Inc.*^[33] (*Union Bank*), citing *Sps. Refugia v. CA*,^[34] the Court declared that MeTCs have authority to interpret contracts in unlawful detainer cases, viz.:^[35]

The authority granted to the MeTC to preliminarily resolve the issue of ownership to determine the issue of possession ultimately allows it to interpret and enforce the contract or agreement between the plaintiff and the defendant. To deny the MeTC jurisdiction over a complaint merely because the issue of possession requires the interpretation of a contract will effectively rule out unlawful detainer as a remedy. As stated, in an action for unlawful detainer, the defendant’s right to possess the property may be by virtue of a contract, express or implied; corollarily, the termination of the defendant’s right to possess would be governed by the terms of the same contract. **Interpretation of the contract between the plaintiff and the defendant is inevitable because it is the contract that initially granted the defendant the right to possess the property; it is this same contract that the plaintiff subsequently claims was violated or extinguished, terminating the defendant’s right to possess.** We ruled in *Sps. Refugia v. CA* that –

where the resolution of the issue of possession hinges on a determination of the validity and interpretation of the document of title or any other contract on which the claim of possession is premised, the inferior court may likewise pass upon these issues.

The MeTC’s ruling on the rights of the parties based on its interpretation of their contract is, of course, not conclusive, **but is merely provisional and is binding only with respect to the issue of possession.** (Emphases supplied; citations omitted)

In the case at bar, the unlawful detainer suit filed by Optimum against Sps. Jovellanos for illegally withholding possession of the subject property is similarly premised upon the cancellation or termination of the Contract to Sell between them. Indeed, it was well within the jurisdiction of the MeTC to consider the terms of the parties’ agreement in order to ultimately determine the factual bases of Optimum’s possessory claims over the subject property. Proceeding accordingly, the MeTC held that Sps. Jovellanos’s non-payment of the installments due had rendered the Contract to Sell without force and effect, thus depriving the latter of their right to possess the property subject of said contract.^[36] The foregoing disposition aptly squares with existing jurisprudence. As the Court similarly held in the *Union Bank* case, the seller’s cancellation of the contract to sell necessarily extinguished the buyer’s right of possession over the property that was the subject of the terminated agreement.^[37] Verily, in a contract to sell, the prospective seller binds himself to sell the property subject of the agreement exclusively to the prospective buyer upon fulfillment of the condition agreed upon which is the **full payment of the purchase price** but reserving to himself the ownership of the subject property despite delivery