

FIRST DIVISION

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

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

D E C I S I O N

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