

FIRST DIVISION

[G.R. No. 181126, June 15, 2011]

LEONARDO S. UMALE, [DECEASED] REPRESENTED BY CLARISSA VICTORIA, JOHN LEO, GEORGE LEONARD, KRISTINE, MARGUERITA ISABEL, AND MICHELLE ANGELIQUE, ALL SURNAMED UMALE, PETITIONERS, VS. ASB REALTY CORPORATION, RESPONDENT.

D E C I S I O N

DEL CASTILLO, J.:

Being placed under corporate rehabilitation and having a receiver appointed to carry out the rehabilitation plan do not *ipso facto* deprive a corporation and its corporate officers of the power to recover its unlawfully detained property.

Petitioners filed this Petition for Review on *Certiorari* ^[1] assailing the October 15, 2007 Decision ^[2] of the Court of Appeals (CA) in CA-G.R. SP No. 91096, as well as its January 2, 2008 Resolution. ^[3] The dispositive portion of the assailed Decision reads:

WHEREFORE, the Decision dated March 28, 2005 of the trial court is affirmed *in toto*.

SO ORDERED. ^[4]

Factual Antecedents

This case involves a parcel of land identified as Lot 7, Block 5, Amethyst Street, Ortigas Center, Pasig City which was originally owned by Amethyst Pearl Corporation (Amethyst Pearl), a company that is, in turn, wholly-owned by respondent ASB Realty Corporation (ASB Realty).

In 1996, Amethyst Pearl executed a Deed of Assignment in Liquidation of the subject premises in favor of ASB Realty in consideration of the full redemption of Amethyst Pearl's outstanding capital stock from ASB Realty. ^[5] Thus, ASB Realty became the owner of the subject premises and obtained in its name Transfer Certificate of Title No. PT-105797, ^[6] which was registered in 1997 with the Registry of Deeds of Pasig City.

Sometime in 2003, ASB Realty commenced an action in the Metropolitan Trial Court (MTC) of Pasig City for unlawful detainer ^[7] of the subject premises against petitioner Leonardo S. Umale (Umale). ASB Realty alleged that it entered into a

lease contract [8] with Umale for the period June 1, 1999-May 31, 2000. Their agreement was for Umale to conduct a pay-parking business on the property and pay a monthly rent of P60,720.00 to ASB Realty.

Upon the contract's expiration on May 31, 2000, Umale continued occupying the premises and paying rentals albeit at an increased monthly rent of P100,000.00. The last rental payment made by Umale to ASB Realty was for the June 2001 to May 2002 period, as evidenced by the Official Receipt No. 56511 [9] dated November 19, 2001.

On June 23, 2003, ASB Realty served on Umale a Notice of Termination of Lease and Demand to Vacate and Pay. [10] ASB Realty stated that it was terminating the lease effective midnight of June 30, 2003; that Umale should vacate the premises, and pay to ASB Realty the rental arrears amounting to P1.3 million by July 15, 2003. Umale failed to comply with ASB Realty's demands and continued in possession of the subject premises, even constructing commercial establishments thereon.

Umale admitted occupying the property since 1999 by virtue of a verbal lease contract but vehemently denied that ASB Realty was his lessor. He was adamant that his lessor was the original owner, Amethyst Pearl. Since there was no contract between himself and ASB Realty, the latter had no cause of action to file the unlawful detainer complaint against him.

In asserting his right to remain on the property based on the oral lease contract with Amethyst Pearl, Umale interposed that the lease period agreed upon was "for a long period of time." [11] He then allegedly paid P1.2 million in 1999 as one year advance rentals to Amethyst Pearl. [12]

Umale further claimed that when his oral lease contract with Amethyst Pearl ended in May 2000, they both agreed on an oral contract to sell. They agreed that Umale did not have to pay rentals until the sale over the subject property had been perfected between them. [13] Despite such agreement with Amethyst Pearl regarding the waiver of rent payments, Umale maintained that he continued paying the annual rent of P1.2 million. He was thus surprised when he received the Notice of Termination of Lease from ASB Realty. [14]

Umale also challenged ASB Realty's personality to recover the subject premises considering that ASB Realty had been placed under receivership by the Securities and Exchange Commission (SEC) and a rehabilitation receiver had been duly appointed. Under Section 14(s), Rule 4 of the Administrative Memorandum No. 00-8-10SC, otherwise known as the Interim Rules of Procedure on Corporate Rehabilitation (Interim Rules), it is the rehabilitation receiver that has the power to "take possession, control and custody of the debtor's assets." Since ASB Realty claims that it owns the subject premises, it is its duly-appointed receiver that should sue to recover possession of the same. [15]

ASB Realty replied that it was impossible for Umale to have entered into a Contract of Lease with Amethyst Pearl in 1999 because Amethyst Pearl had been liquidated in 1996. ASB Realty insisted that, as evidenced by the written lease contract, Umale contracted with ASB Realty, not with Amethyst Pearl. As further proof thereof, ASB

Realty cited the official receipt evidencing the rent payments made by Umale to ASB Realty.

Ruling of the Metropolitan Trial Court

In its August 20, 2004 Decision, [16] the MTC dismissed ASB Realty's complaint against Umale without prejudice. It held that ASB Realty had no cause to seek Umale's ouster from the subject property because it was not Umale's lessor. The trial court noted an inconsistency in the written lease contract that was presented by ASB Realty as basis for its complaint. Its whereas clauses cited ASB Realty, with Eden C. Lin as its representative, as Umale's lessor; but its signatory page contained Eden C. Lin's name under the heading Amethyst Pearl. The MTC then concluded from such inconsistency that Amethyst Pearl was the real lessor, who can seek Umale's ejectment from the subject property. [17]

Likewise, the MTC agreed with Umale that only the rehabilitation receiver could file suit to recover ASB Realty's property. [18] Having been placed under receivership, ASB Realty had no more personality to file the complaint for unlawful detainer.

Ruling of the Regional Trial Court

ASB Realty appealed the adverse MTC Decision to the Regional Trial Court (RTC), [19] which then reversed [20] the MTC ruling.

The RTC held that the MTC erred in dismissing ASB Realty's complaint for lack of cause of action. It found sufficient evidence to support the conclusion that it was indeed ASB Realty that entered into a lease contract with Umale, hence, the proper party who can assert the corresponding right to seek Umale's ouster from the leased premises for violations of the lease terms. In addition to the written lease contract, the official receipt evidencing Umale's rental payments for the period June 2001 to May 2002 to ASB Realty adequately established that Umale was aware that his lessor, the one entitled to receive his rent payments, was ASB Realty, not Amethyst Pearl.

ASB Realty's positive assertions, supported as they are by credible evidence, are more compelling than Umale's bare negative assertions. The RTC found Umale's version of the facts incredible. It was implausible that a businessman such as Umale would enter into several transactions with his alleged lessor - a lease contract, payment of lease rentals, acceptance of an offer to sell from his alleged lessor, and an agreement to waive rentals - sans a sliver of evidence.

With the lease contract between Umale and ASB Realty duly established and Umale's failure to pay the monthly rentals since June 2002 despite due demands from ASB Realty, the latter had the right to terminate the lease contract and seek his eviction from the leased premises. Thus, when the contract expired on June 30, 2003 (as stated in the Notice of Termination of Lease), Umale lost his right to remain on the premises and his continued refusal to vacate the same constituted sufficient cause of action for his ejectment. [21]

With respect to ASB Realty's personality to file the unlawful detainer suit, the RTC ruled that ASB Realty retained all its corporate powers, including the power to sue,

despite the appointment of a rehabilitation receiver. Citing the Interim Rules, the RTC noted that the rehabilitation receiver was not granted therein the power to file complaints on behalf of the corporation. [22]

Moreover, the retention of its corporate powers by the corporation under rehabilitation will advance the objective of corporate rehabilitation, which is to conserve and administer the assets of the corporation in the hope that it may eventually be able to go from financial distress to solvency. The suit filed by ASB Realty to recover its property and back rentals from Umale could only benefit ASB Realty. [23]

The dispositive portion of the RTC Decision reads as follows:

WHEREFORE, premises considered, the appealed decision is hereby reversed and set aside. Accordingly, judgment is hereby rendered in favor of the plaintiff-appellant ordering defendant-appellee and all persons claiming rights under him:

- 1) To immediately vacate the subject leased premises located at Lot 7, Block 5, Amethyst St., Pearl Drive, Ortigas Center, Pasig City and deliver possession thereof to the plaintiff-appellant;
- 2) To pay plaintiff-appellant the sum of P1,300,000.00 representing rentals in arrears from June 2002 to June 2003;
- 3) To pay plaintiff-appellant the amount of P100,000.00 a month starting from July 2003 and every month thereafter until they finally vacate the subject premises as reasonable compensation for the continued use and occupancy of the same;
- 4) To pay plaintiff-appellant the sum of P200,000.00 as and by way of attorney's fees; and the costs of suit.

SO ORDERED. [24]

Umale filed a Motion for Reconsideration [25] while ASB Realty moved for the issuance of a writ of execution pursuant to Section 21 of the 1991 Revised Rules on Summary Procedure. [26]

In its July 26, 2005 Order, the RTC denied reconsideration of its Decision and granted ASB Realty's Motion for Issuance of a Writ of Execution. [27]

Umale then filed his appeal [28] with the CA insisting that the parties did not enter into a lease contract. [29] Assuming that there was a lease, it was at most an implied lease. Hence its period depended on the rent payments. Since Umale paid rent annually, ASB Realty had to respect his lease for the entire year. It cannot terminate the lease at the end of the month, as it did in its Notice of Termination of Lease. [30] Lastly, Umale insisted that it was the rehabilitation receiver, not ASB

Realty, that was the real party-in-interest. [31]

Pending the resolution thereof, Umale died and was substituted by his widow and legal heirs, per CA Resolution dated August 14, 2006. [32]

Ruling of the Court of Appeals

The CA affirmed the RTC Decision *in toto*. [33]

According to the appellate court, ASB Realty fully discharged its burden to prove the existence of a lease contract between ASB Realty and Umale, [34] as well as the grounds for eviction. [35] The veracity of the terms of the lease contract presented by ASB Realty was further bolstered, instead of demolished, by Umale's admission that he paid monthly rents in accordance therewith. [36]

The CA found no merit in Umale's claim that in light of Article 1687 of the Civil Code the lease should be extended until the end of the year. The said provision stated that in cases where the lease period was not fixed by the parties, the lease period depended on the payment periods. In the case at bar, the rent payments were made on a monthly basis, not annually; thus, Umale's failure to pay the monthly rent gave ASB Realty the corresponding right to terminate the lease at the end of the month. [37]

The CA then upheld ASB Realty's, as well as its corporate officers', personality to recover an unlawfully withheld corporate property. As expressly stated in Section 14 of Rule 4 of the Interim Rules, the rehabilitation receiver does not take over the functions of the corporate officers. [38]

Petitioners filed a Motion for Reconsideration, [39] which was denied in the assailed January 2, 2008 Resolution. [40]

Issues

The petitioners raise the following issues for resolution: [41]

1. Can a corporate officer of ASB Realty (duly authorized by the Board of Directors) file suit to recover an unlawfully detained corporate property despite the fact that the corporation had already been placed under rehabilitation?
2. Whether a contract of lease exists between ASB Realty and Umale; and
3. Whether Umale is entitled to avail of the lease periods provided in Article 1687 of the Civil Code.

Our Ruling

Petitioners ask for the dismissal of the complaint for unlawful detainer on the ground