

SECOND DIVISION

[G.R. NO. 143361, February 09, 2006]

**PAULO BALLESTEROS, PETITIONER, VS. ROLANDO ABION,
RESPONDENT.**

D E C I S I O N

CORONA, J.:

Before us is a petition for review on certiorari under Rule 45 of the Rules of Court assailing the July 15, 1999 decision^[1] of the Court of Appeals (CA) in CA-G.R. SP No. 46065 which affirmed the decision of the Regional Trial Court (RTC) of Iriga City, Branch 37, in Civil Case No. 2917.

The property subject of this petition is a two-door, three-story commercial building and the 229 sq.m. parcel of land on which it stands. The property was originally owned by Ruperto Ensano, as evidenced by TCT No. 6178. Ownership was subsequently transferred to the Development Bank of the Philippines (DBP) which, in turn, sold the property to Dr. Rodolfo Vargas in a deed of absolute sale dated March 30, 1988. Despite these transfers of ownership, however, the property was registered in the names of DBP and Dr. Vargas (TCT Nos. 941 and 942, respectively) only on February 21, 1996.

Meanwhile, on March 14, 1991, petitioner entered into a contract of lease for one door of the building with Ronald Vargas, son of Dr. Vargas, who represented himself as the absolute owner of the property. Under the agreement (which was not registered in the Register of Deeds), the lease was to run until April 1, 1996.

On September 27, 1995, Dr. Vargas sold the property to respondent. This was evidenced by a deed of absolute sale of even date. TCT No. 949 in the name of the respondent was subsequently issued on April 10, 1996.

In the meantime, on October 30, 1995, petitioner entered into a new contract of lease with Ronald Vargas who again misrepresented himself as the absolute owner of the property. This new agreement extended the term of the original contract of lease between the parties and included the remaining door of the building in its coverage. It was to be effective for a period of five years from November 1, 1995, or until November 1, 2000.

Since respondent had not yet taken possession of the building, petitioner immediately occupied the additional door upon the execution of the new contract of lease. He made advance payments for the rent of the two doors until June 1997. He also sought to register the new contract of lease with the Register of Deeds of Iriga City. However, the contract was entered only in the primary book because it could not be registered for several reasons: (a) the requisite tax had not been paid (b) the contract lacked a documentary stamp and (c) the tax declaration of the property

was not in the name of the lessor.^[2]

On April 30, 1996, petitioner received respondent's April 25, 1996 letter demanding that he vacate the property and surrender its possession. On June 20, 1996, petitioner received another letter from respondent's counsel reiterating the demand for him to vacate the property. All this notwithstanding, petitioner refused to vacate the premises.

On September 4, 1996, respondent filed a complaint for unlawful detainer with damages against petitioner in the Municipal Trial Court in Cities (MTCC) of Iriga City, Branch 2. It was, however, dismissed for failure to state a cause of action.

On appeal, the RTC of Iriga City, Branch 37, reversed the decision of the MTCC and ordered petitioner to vacate the property and surrender its possession to respondent. Petitioner was also ordered to pay respondent P50,000 as attorney's fees and P7,000 per month as rental for the property from September 1995 until petitioner vacated the premises. Petitioner moved for a reconsideration of the RTC decision but the motion was denied.

On respondent's motion, the RTC issued a writ of execution dated December 1, 1997.^[3] It was received on December 3, 1997 by petitioner's wife. Petitioner filed an urgent motion for time to vacate the premises^[4] and a supplemental motion for time to vacate the property,^[5] praying for thirty days from December 5, 1997 (the deadline given by the sheriff for petitioner to leave the premises) within which to vacate the property. On December 9, 1997, the RTC denied petitioner's motion and directed the sheriff to immediately effect the restitution and delivery of the property to respondent.

The sheriff filed a manifestation with motion dated December 9, 1997^[6] praying that the use of force to implement the writ of execution be allowed in order to open the premises and deliver its possession to respondent. On the other hand, petitioner moved for a reconsideration of the December 9, 1997 order of the RTC as well as for the suspension of the implementation of the writ of execution.

Acting on the sheriff's manifestation with motion and the petitioner's motion for reconsideration and/or suspension of the implementation of the writ of execution, the RTC, in an order dated December 11, 1997, denied petitioner's motion and allowed the sheriff to execute the writ pursuant to paragraph (c) of Rule 39, Section 10 of the Rules of Court.

As authorized by the trial court, the sheriff forced open the main entrance of the building and delivered possession of the property to respondent on December 15, 1997.^[7]

Petitioner filed a petition for review with the CA. It was docketed as CA-G.R. SP No. 46065. On July 15, 1999, the CA affirmed the RTC decision with modification. The CA ruled that petitioner's right of possession to the property was only by virtue of the second lease contract dated October 30, 1995 between petitioner and Ronald Vargas. It was clear, however, that Ronald Vargas was not the owner of the property and therefore had no right to lease it out. Petitioner himself admitted respondent's ownership of the property. Neither was there any evidence that Ronald Vargas had

been authorized by respondent or even by Dr. Vargas himself to transact the second lease on their behalf.

The CA held that petitioner's possession of the property from the date of purchase by respondent was merely by tolerance. Such possession became unlawful from the time respondent made a demand on petitioner to vacate it.

The CA further ruled that petitioner could not pretend ignorance of the ownership of the property when he entered into the second lease agreement. The property was registered with the Register of Deeds and such registration constituted notice to the whole world.

However, the CA reduced the award of attorney's fees from P50,000 to P20,000 for lack of factual basis. The CA also took the stipulation in petitioner's lease agreement into consideration and reduced the rent from P7,000 to P5,000 per month, and only for the period covering July 1 to December 15, 1997.

Petitioner moved for a reconsideration of the CA decision but it was denied in a resolution dated May 25, 2000.

Hence, this petition, which raises the following issues:

1. whether or not respondent could legally eject petitioner or terminate the lease;
2. whether or not respondent was able to establish a cause of action;
3. whether or not the trial court (MTCC of Iriga City, Br. 2) had jurisdiction to try the case;
4. whether or not, as ruled by the [CA], there was pretended ignorance by petitioner of the ownership of the property;
5. whether or not the [CA's] award of attorney's fees was justified;
6. whether or not the implementation of the writ of execution dated December 1, 1997 on December 15, 1997 was valid;
7. whether or not respondent and the sheriffs who implemented on December 15, 1997 the writ of execution dated December 1, 1997 (as reiterated by the RTC's order of December 11, 1997) should be held in contempt of court [and]
8. whether or not the [RTC had] the jurisdiction to issue a writ for the implementation of the [CA's] decision when the case was originally filed with the [MTCC].^[8]

PROPRIETY OF THE EJECTMENT

Petitioner contends that respondent could not have legally ejected him from the premises or terminated the lease. He claims that the two lease contracts he entered into with Ronald Vargas were valid and that contracts validly entered into by a

predecessor-in-interest should be respected by, and be binding upon, his successor-in-interest. According to petitioner, he was not unlawfully detaining the property because the action was commenced by respondent while the second lease contract was still in force. He insists that his good faith and honest belief that he was transacting with the true owner should be considered in favor of the validity of the lease contracts entered into by him.

Petitioner also invokes our ruling in *Garcia v. Court of Appeals*^[9] that the owner's successor-in-interest must respect an existing contract of lease. Any attempt to eject the lessee within the period of lease constitutes a breach of contract.

Petitioner further asserts that the second lease contract was "registered" with the Register of Deeds of Iriga City, hence respondent had notice thereof and was bound to respect it. We disagree.

The first premise of petitioner's argument, that both lease agreements were valid, is erroneous. As correctly observed by the RTC and the CA, Ronald Vargas was not the owner of the property and had no authority to let it.

Although the lessor need not be the owner of the property being leased,^[10] he should have a right (e.g., either as a usufructuary or a lessee) or at least an authority (e.g., as an agent of the owner, usufructuary, or lessee) to lease it out. Here, Ronald Vargas had neither the right nor the authority to grant petitioner the lease of the property.

Dr. Vargas is deemed to have ratified the *first* lease because he never objected to it and in fact allowed petitioner to occupy the property for five years despite his knowledge of his son Ronald's misdeed. Thus, we consider the first lease valid. But the same cannot be said of the *second* lease. Under the principle of relativity of contracts, the sale of the property by Dr. Vargas to respondent bound Ronald Vargas as an heir of the seller. Neither did respondent authorize him to enter into a new lease contract with petitioner. Thus, Ronald Vargas could not have validly executed the second lease agreement upon which petitioner now bases his right to the continued possession of the property.

The river cannot rise higher than its source. Where the purported lessor is bereft of any right or authority to lease out the property, then his supposed lessee does not acquire any right to the possession or enjoyment of the property.

Suffice it to say that the second lease contract was legally inexistent for lack of an object certain. Under Arts. 1318 and 1409 (3) of the Civil Code, contracts the cause or object of which did not exist at the time of the transaction are inexistent and void *ab initio*.

Petitioner's claim of good faith is of no moment. The good faith of a party in entering into a contract is immaterial in determining whether it is valid or not. Good faith, not being an essential element of a contract, has no bearing on its validity. No amount of good faith can validate an agreement which is otherwise void. A contract which the law denounces as void is necessarily no contract at all and no effort or act of the parties to create one can bring about a change in its legal status.^[11]

Any presumption of good faith on the part of petitioner disappeared after he learned from the Register of Deeds that the property was already registered in the name of another person. Possession in good faith ceases from the moment defects in the title are made known to the possessor by extraneous evidence or by a suit for recovery of the property by the true owner.^[12] Every possessor in good faith becomes a possessor in bad faith from the moment he becomes aware that what he believed to be true is not so.^[13]

When petitioner presented the second lease contract to the Register of Deeds a day after its execution, his attention was called to the fact that the "lessor" (Ronald Vargas) whom he believed to be the owner of the property had no authority to lease it out. From that moment, his possession ceased to be in good faith.

Petitioner's reliance on our ruling in the *Garcia* case is misplaced. *Garcia* involved the lease of a residential unit and was governed by a special law, "An Act Regulating Rentals of Dwelling Units or of Land on which Another's Dwelling is Located and for Other Purposes" (BP 25). In this case, the property involved is a commercial building, not a residential unit. The *Garcia* case is therefore inapplicable.

Assuming *arguendo* that *Garcia* is applicable, petitioner's argument would still be untenable. We held in *Garcia* that, while a successor-in-interest would be in breach of contract if he were to eject a lessee of his predecessor-in-interest during the existence of the lease, "where the lease has expired, there is no more contract to breach." Since the lease between petitioner and Ronald Vargas had expired on April 1, 1996, there was no existing lease contract that could have been breached when respondent made a demand on petitioner to vacate the property on April 30, 1996.

REGISTRATION OF THE LEASE CONTRACT

Petitioner's third argument is likewise without merit. Whether the second lease contract was registered or not was immaterial since it was void. Registration does not legitimize a void contract.

Moreover, assuming for the sake of argument that the second contract could be registered, the *primary entry* thereof did not produce the effect of registration. Petitioner presented the second lease contract to the Register of Deeds of Iriga City for registration on October 31, 1995, or a day after its execution. The contract was, however, merely entered in the primary book. It was not registered because it lacked certain requisites.

It is well settled that for the registration of voluntary instruments (e.g., deed of sale or contract of lease), it is necessary not only to register the deed, instrument of assignment, mortgage or lease in the entry book of the register of deeds but also for the Register of Deeds to annotate a memorandum thereof on the owner's duplicate certificate and its original.^[14] In voluntary registration, if the owner's duplicate certificate is not surrendered and presented or if no payment of registration fees is made within fifteen days, entry in the day book will not convey or affect the land sold, mortgaged or leased.^[15]

Entry alone produces the effect of registration, whether the transaction entered is