

THIRD DIVISION

[G.R. No. 115307, July 08, 1997]

MANUEL LAO, PETITIONER, VS. COURT OF APPEALS AND BETTER HOMES REALTY & HOUSING CORPORATION, RESPONDENTS.

DECISION

PANGANIBAN, J.:

As a general rule, the main issue in an ejectment suit is possession de facto, not possession de jure. In the event the issue of ownership is raised in the pleadings, such issue shall be taken up only for the limited purpose of determining who between the contending parties has the better right to possession. However, where neither of the parties objects to the allegation of the question of ownership -- which may be initially improvident or improper -- in an ejectment suit and, instead, both present evidence thereon, argue the question in their various submissions and participate in all aspects of the trial without objecting to the Metropolitan (or Municipal) Trial Court's jurisdiction to decide the question of ownership, the Regional Trial Court -- in the exercise of its original jurisdiction as authorized by Section 11, Rule 40 of the Rules of Court -- may rule on the issue and the corollary question of whether the subject deed is one of sale or of equitable mortgage.

These postulates are discussed by the Court as it resolves this petition under Rule 45 seeking a reversal of the December 21, 1993 Decision^[1] and April 28, 1994 Resolution^[2] of the Court of Appeals in CA-G.R. SP No. 92-14293.

The Antecedent Facts

The facts of this case are narrated by Respondent Court of Appeals as follows:^[3]

"On June 24, 1992, (herein Private Respondent Better Homes Realty and Housing Corporation) filed with the Metropolitan Trial Court of Quezon City, a complaint for unlawful detainer, on the ground that (said private respondent) is the owner of the premises situated at Unit I, No. 21 N. Domingo Street, Quezon City, evidenced by Transfer Certificate of Title No. 22184 of the Registry of Deeds of Quezon City; that (herein Petitioner Manuel Lao) occupied the property without rent, but on (private respondent's) pure liberality with the understanding that he would vacate the property upon demand, but despite demand to vacate made by letter received by (herein petitioner) on February 5, 1992, the (herein petitioner) refused to vacate the premises.

In his answer to the complaint, (herein petitioner) claimed that he is the true owner of the house and lot located at Unit I, No. 21 N. Domingo Street, Quezon City; that the (herein private respondent) purchased the

same from N. Domingo Realty and Development Corporation but the agreement was actually a loan secured by mortgage; and that plaintiff's cause of action is for *accion publiciana*, outside the jurisdiction of an inferior court.

On October 9, 1992, the Metropolitan Trial Court of Quezon City rendered judgment ordering the (petitioner) to vacate the premises located at Unit I, No. 21 N. Domingo Street, Quezon City; to pay (private respondent) the sum of P300.00 a day starting on January 31, 1992, as reasonable rent for the use and occupation of the premises; to pay plaintiff P5,000.00, as attorney's fees, and costs.

On appeal to the Regional Trial Court of Quezon City,^[4] on March 30, 1993, the latter court rendered a decision reversing that of the Metropolitan Trial Court, and ordering the dismissal of the (private respondent's) complaint for lack of merit, with costs taxed against (private respondent).

In its decision, the Regional Trial Court held that the subject property was acquired by (private respondent) from N. Domingo Realty and Development Corporation, by a deed of sale, and (private respondent) is now the registered owner under Transfer Certificate of Title No. 316634 of the Registry of Deeds of Quezon City, but in truth the (petitioner) is the beneficial owner of the property because the real transaction over the subject property was not a sale but a loan secured by a mortgage thereon."

The dispositive portion of the Regional Trial Court's decision is quoted below:^[5]

"WHEREFORE, judgment is hereby rendered reversing the appealed decision and ordering the dismissal of plaintiff's complaint for lack of merit, with the costs taxed against it.

IT IS SO ORDERED."

On April 28, 1993, private respondent filed an appeal with the Court of Appeals which reversed the decision of the Regional Trial Court. The Respondent Court ruled:

"The Metropolitan Trial Court has no jurisdiction to resolve the issue of ownership in an action for unlawful detainer (B.P. 129, Sec. 33 ^[2]; Cf. *Alvir vs. Vera*, 130 SCRA 357). The jurisdiction of a court is determined by the nature of the action alleged in the complaint (*Ching vs. Malaya*, 153 SCRA 412). In its complaint in the inferior court, the plaintiff alleged that it is the owner of the premises located at Unit I, No. 21 N. Domingo Street, Quezon City, and that defendant's occupation is rent free and based on plaintiff's pure liberality coupled with defendant's undertaking to vacate the premises upon demand, but despite demands, defendant has refused to vacate. The foregoing allegations suffice to constitute a cause of action for ejectment (*Banco de Oro vs. Court of Appeals*, 182 SCRA 464).

The Metropolitan Trial Court is not ousted of jurisdiction simply because the defendant raised the question of ownership (*Bolus vs. Court of Appeals*, 218 SCRA 798). The inferior court shall resolve the issue of ownership only to determine who is entitled to the possession of the premises (B.P. 129, Sec. 33^[2]; *Bolus vs. Court of Appeals*, supra).

Here, the Metropolitan Trial Court ruled that as owner, plaintiff (herein private respondent Better Homes Realty and Housing Corporation) is entitled to the possession of the premises because the defendant's stay is by mere tolerance of the plaintiff (herein private respondent).

On the other hand, the Regional Trial Court ruled that the subject property is owned by the defendant, (herein petitioner Manuel Lao) and, consequently, dismissed the complaint for unlawful detainer. Thus, the Regional Trial Court resolved the issue of ownership, as if the case were originally before it as an action for recovery of possession, or *accion publiciana*, within its original jurisdiction. In an appeal from a decision of the Municipal Trial Court, or Metropolitan Trial Court, in an unlawful detainer case, the Regional Trial Court is simply to determine whether the inferior court correctly resolved the issue of possession; it shall not delve into the issue of ownership (*Manuel vs. Court of Appeals*, 199 SCRA 603). What the Regional Trial Court did was to rule that the real agreement between the plaintiff and the previous owner of the property was not a sale, but an equitable mortgage. Defendant was only a director of the seller corporation, and his claim of ownership could not be true. This question could not be determined summarily. It was not properly in issue before the inferior court because, as aforesaid, the only issue was possession *de facto* (*Manlapaz vs. Court of Appeals*, 191 SCRA 795), or who has a better right to physical possession (*Dalida vs. Court of Appeals*, 117 SCRA 480). Consequently, the Regional Trial Court erred in reversing the decision of the Metropolitan Trial Court.

WHEREFORE, the Court hereby REVERSES the decision of the Regional Trial Court. In lieu thereof, We affirm the decision of the Metropolitan Trial Court of Quezon City sentencing the defendant and all persons claiming right under him to vacate the premises situated at Unit I, No. 21 N. Domingo Street, Quezon City, and to surrender possession to the plaintiff; to pay plaintiff the sum of P300.00, a day starting on January 31, 1992, until defendant shall have vacated the premises; to pay plaintiff P5,000.00 as attorneys fees, and costs.

SO ORDERED."^[6]

Manuel Lao's motion for reconsideration dated January 24, 1994 was denied by the Court of Appeals in its Resolution promulgated on April 28, 1994. Hence, this petition for review before this Court.^[7]

The Issues

Petitioner Manuel Lao raises three issues:

“3.1 Whether or not the lower court can decide on the issue of ownership in the present ejectment case

3.2 Whether or not private respondent had acquired ownership over the property in question

3.3 Whether or not petitioner should be ejected from the premises in question”^[8]

The Court’s Ruling

The petition for review is meritorious.

First Issue: Jurisdiction to Decide the Issue of Ownership

The Court of Appeals held that as a general rule, the issue in an ejectment suit is possession de facto, not possession de jure, and that in the event the issue of ownership is raised as a defense, the issue is taken up for the limited purpose of determining who between the contending parties has the better right to possession. Beyond this, the MTC acts in excess of its jurisdiction. However, we hold that this is not a hard and fast rule that can be applied automatically to all unlawful detainer cases.

Section 11, Rule 40 of the Rules of Court provides that “[a] case tried by an inferior court without jurisdiction over the subject matter shall be dismissed on appeal by the Court of First Instance. But instead of dismissing the case, the Court of First Instance, in the exercise of its original jurisdiction, may try the case on the merits if the parties therein file their pleadings and go to the trial without any objection to such jurisdiction.” After a thorough review of the records of this case, the Court finds that the respondent appellate court failed to apply this Rule and erroneously reversed the RTC Decision.

Respondent Court cites *Alvir vs. Vera* to support its Decision. On the contrary, we believe such case buttresses instead the Regional Trial Court’s decision. The cited case involves an unlawful detainer suit where the issue of possession was inseparable from the issue of transfer of ownership, and the latter was determinable only after an examination of a contract of sale involving the property in question. The Court ruled that where a “case was tried and heard by the lower court in the exercise of its original jurisdiction by common assent of the parties by virtue of the issues raised x x x and the proofs presented by them,” any dismissal on the ground of lack of jurisdiction “would only lead to needless delays and multiplicity of suits.” The Court held:

“In actions of forcible entry and detainer, the main issue is possession de facto, independently of any claim of ownership or possession de jure that either party may set forth in his pleading. x x x Defendant’s claim of ownership of the property from which plaintiff seeks to eject him is not sufficient to divest the inferior court of its jurisdiction over the action of forcible entry and detainer. However, if it appears during the trial that the principal issue relates to the ownership of the property in dispute and any question of possession which may be involved necessarily depends upon the result of the inquiry into the title, previous rulings of this Court are

that the jurisdiction of the municipal or city court is lost and the action should be dismissed.

We have at bar a case where, in effect, the question of physical possession could not properly be determined without settling that of lawful or de jure possession and of ownership and hence, following early doctrine, the jurisdiction of the municipal court over the ejectment case was lost and the action should have been dismissed. As a consequence, respondent court would have no jurisdiction over the case on appeal and it should have dismissed the case on appeal from the municipal trial court. However, in line with Section 11, Rule 40 of the Revised Rules of Court, which reads --

'SEC. 11. *Lack of Jurisdiction.* -- A case tried by an inferior court without jurisdiction over the subject matter shall be dismissed on appeal by the Court of First Instance. But instead of dismissing the case, the Court of First Instance in the exercise of its original jurisdiction, may try the case on the merits if the parties therein file their pleadings and go to trial without objection to such jurisdiction.' this Court held in *Saliwan vs. Amores*, 51 SCRA 329, 337, that dismissal 'on the said ground of lack of appellate jurisdiction on the part of the lower court flowing from the municipal court's loss of jurisdiction would lead only to needless delay and multiplicity of suits in the attainment of the same result and ignores, as above stated, that the case was tried and heard by the lower court in the exercise of its original jurisdiction by common assent of the parties by virtue of the issues raised by the parties and the proof presented by them thereon.' "[9]

This pronouncement was reiterated by this Court through Mr. Justice Teodoro R. Padilla in *Consignado vs. Court of Appeals* [10] as follows:

"As the MTC of Laguna had no jurisdiction over the unlawful detainer case in view of the raised question of title or ownership over the property in dispute, the RTC of Laguna also had no appellate jurisdiction to decide the case on the merits. It should have dismissed the appeal. However, it had original jurisdiction to pass upon the controversy. It is to be noted, in this connection, that in their respective memoranda filed with the RTC of Laguna, the petitioners and private respondents did not object to the said court exercising its original jurisdiction pursuant to the aforequoted provisions of Section 11, Rule 40 of the Rules of Court.

x x x

x x x

x x x

Petitioners now contend, among others, that the Court of Appeals erred in resolving the question of ownership as if actual title, not mere possession of subject premises, is involved in the instant case.

The petitioner's contention is untenable. Since the MTC and RTC of Laguna decided the question of ownership over the property in dispute, on appeal the Court of Appeals had to review and resolve also the issue of ownership. x x x"

It is clear, therefore, that although an action for unlawful detainer "is inadequate for the ventilation of issues involving title or ownership of controverted real property,