

## FIRST DIVISION

[ G.R. No. 212277, February 11, 2015 ]

**ROBERT AND NENITA DE LEON, PETITIONERS, VS. GILBERT AND ANALYN DELA LLANA, RESPONDENTS.**

### DECISION

**PERLAS-BERNABE, J.:**

Assailed in this petition for review on *certiorari*<sup>[1]</sup> are the Decision<sup>[2]</sup> dated July 31, 2013 and the Resolution<sup>[3]</sup> dated March 31, 2014 of the Court of Appeals (CA) in CA-G.R. SP No. 03523-MIN which reversed and set aside the Decision<sup>[4]</sup> dated June 11, 2009 and the Order<sup>[5]</sup> dated March 1, 2010 of the Regional Trial Court of Davao City, Branch 11 (RTC) dismissing Civil Case No. 32,003-07.

#### The Facts

This case stemmed from an unlawful detainer complaint<sup>[6]</sup> (**first ejectment complaint**) filed by respondent Gilbert dela Llana (Gilbert) against petitioner Robert de Leon (Robert) and a certain Gil de Leon (Gil) on March 7, 2005 before the **3<sup>rd</sup> Municipal Circuit Trial Court of Nabunturan-Mawab, Compostela Valley Province (MCTC-Nabunturan-Mawab)**, docketed as **Civil Case No. 821**. In the said complaint, Gilbert averred that sometime in 1999, he, through an undated contract of lease,<sup>[7]</sup> leased a portion of a 541 square-meter **property situated in Poblacion, Nabunturan, Compostela Valley Province**, registered in his name,<sup>[8]</sup> to Robert, which the latter intended to use as a lottery outlet. The lease contract had a term of five (5) years and contained a stipulation that any case arising from the same shall be filed in the courts of Davao City only.<sup>[9]</sup> Gilbert claimed that Robert and Gil failed to pay their rental arrears to him and refused to vacate the subject property, despite repeated demands,<sup>[10]</sup> thus, the first ejectment complaint.

In their defense, Robert and Gil posited that the aforementioned lease contract was simulated<sup>[11]</sup> and, hence, not binding on the parties.

#### The MCTC-Nabunturan-Mawab Ruling in Civil Case No. 821

In a Decision<sup>[12]</sup> dated January 24, 2006 (January 24, 2006 Decision), the MCTC-Nabunturan-Mawab **dismissed the first ejectment complaint**, holding that the undated lease contract was a *relatively* simulated contract and, as such, non-binding. This conclusion was based on its finding that there was no effort on Gilbert's part to collect any rental payments from Robert and Gil for more or less six (6) years and that it was only upon the filing of the said complaint that Gilbert wanted them ejected. Accordingly, it sustained Robert and Gil's assertion that the

undated lease contract was a mere formality so as to comply with the requirement of the Philippine Charity Sweepstakes Office (PCSO) in order to install a lottery outlet.<sup>[13]</sup>

Separately, the MCTC-Nabunturan-Mawab opined that granting *arguendo* that the lease contract is not simulated, the dismissal of Gilbert's complaint was still in order on the ground of improper venue given that the parties expressly agreed that any dispute arising from the same shall be brought before the courts of Davao City only, to the exclusion of other courts,<sup>[14]</sup> which does not obtain in this case.

Dissatisfied, Gilbert moved for reconsideration which was, however, denied in an Order<sup>[15]</sup> dated March 20, 2006, considering that it was a prohibited pleading under the Revised Rules on Summary Procedure.

On August 8, 2006, an Entry of Final Judgment<sup>[16]</sup> was issued certifying that the MCTC-Nabunturan-Mawab's January 24, 2006 Decision had already become **final and executory on March 20, 2006**.

### **The MTCC-Davao City Proceedings in Civil Case No. 19,590-B-06**

The foregoing notwithstanding, on November 13, 2006, Gilbert, together with his spouse Analyn dela Llana (respondents), filed a second complaint<sup>[17]</sup> for unlawful detainer, damages, and attorney's fees (**second ejectment complaint**) against Robert and his wife Nenita de Leon (petitioners), also grounded on petitioners' failure to pay rent under the undated lease contract, but this time, before the **Municipal Trial Court in Cities of Davao City, Branch 2 (MTCC-Davao City)**, docketed as **Civil Case No. 19,590-B-06**. In the Verification and Certification of Non-Forum Shopping<sup>[18]</sup> thereof, respondents disclosed that a previous ejectment complaint had been filed, but was, however, dismissed due to improper venue.

In their Answer,<sup>[19]</sup> petitioners raised the defense of *res judicata*, particularly averring that the second ejectment complaint should be dismissed given that it was already barred by prior judgment, i.e., by the MCTC-Nabunturan-Mawab's January 24, 2006 Decision in Civil Case No. 821, which had already attained finality.<sup>[20]</sup> In this relation, petitioners further claimed that respondents willfully made false declarations in the Verification and Certification of Non-Forum Shopping of said pleading regarding the status of the pending and related cases at the time of its filing.<sup>[21]</sup>

In a Decision<sup>[22]</sup> dated July 26, 2007, the MTCC-Davao City ruled in favor of respondents, and thereby ordered petitioners to: (a) vacate the subject property and turn over its possession to respondents; (b) pay rental arrears in the amount of P8,000.00 for the period covering January 1999 up to January 2007; (c) pay monthly rental in the amount of P100.00 per month beginning February 2007 until they have vacated the subject property; and (d) pay costs of suit.<sup>[23]</sup>

Without ruling on the issue of whether or not the second ejectment complaint was barred by prior judgment, the MTCC-Davao City found that the undated lease contract was **not** a simulated contract for the reason that the requisites for

simulation have not been shown in the case at bar. Nevertheless, it opined that even assuming that said contract was simulated, Robert's actions showed that he clearly recognized Gilbert as the administrator of the subject property. Further, it debunked petitioners' claim of ownership over their occupied portion, considering that title over the subject property was registered under Gilbert's name which thus could not be subjected to a collateral attack. Lastly, it ruled that even without the contract of lease, the complaint could still prosper given that petitioners' occupancy may be regarded as one of tolerance, and, thus, their occupation becomes unlawful upon demand.<sup>[24]</sup>

Aggrieved, petitioners appealed to the RTC, docketed as Civil Case No. 32,003-07.

### **The RTC Ruling**

In a Decision<sup>[25]</sup> dated June 11, 2009, the RTC reversed and set aside the MTCC-Davao City ruling, and ordered the dismissal of the second ejectment complaint since the venue was improperly laid. It held that venue for real actions does not admit of any exceptions, stating that the proper venue for forcible entry and unlawful detainer cases is the municipal trial court of the municipality or city where said property is situated, which in this case, should be the Municipal Trial Court of Nabunturan, Compostela Valley Province.<sup>[26]</sup> Relative thereto, it enunciated that the parties' stipulation on venue as found in their undated lease contract could not be enforced, considering that the cause of action herein is not one for breach of contract or specific performance, but for unlawful detainer whose venue was specifically provided for by the Rules of Civil Procedure.<sup>[27]</sup>

Respondents moved for reconsideration<sup>[28]</sup> which was, however, denied in an Order<sup>[29]</sup> dated March 1, 2010. Hence, they elevated their case before the CA, docketed as CA-G.R. SP No. 03523-MIN.

### **The CA Ruling**

In a Decision<sup>[30]</sup> dated July 31, 2013, the CA reversed and set aside the RTC issuances and, consequently, reinstated the MTCC-Davao City's Decision. With its discussion solely focused on the propriety of the second ejectment complaint's venue, i.e., whether or not it was properly laid before the MTCC-Davao City, the CA categorically ruled that in unlawful detainer cases, venue may be validly stipulated by the contracting parties.<sup>[31]</sup>

Unconvinced, petitioners filed a motion for reconsideration<sup>[32]</sup> which the CA, however, denied in a Resolution<sup>[33]</sup> dated March 31, 2014, hence, this petition.

### **The Issue Before the Court**

The core issue to be resolved is whether or not the principle of *res judicata* applies – that is, whether or not the second ejectment complaint was barred by prior judgment, *i.e.*, by the MCTC-Nabunturan-Mawab's January 24, 2006 Decision in Civil Case No. 821.

### **The Court's Ruling**

*Res judicata* (meaning, a “matter adjudged”)[34] is a fundamental principle of law which precludes parties from re-litigating issues actually litigated and determined by a prior and final judgment.[35] It means that “a final judgment or decree on the merits by a court of competent jurisdiction is conclusive of the rights of the parties or their privies in all later suits on all points and matters determined in the former suit.”[36]

Notably, *res judicata* has two (2) concepts. The first is “bar by prior judgment” in which the judgment or decree of a court of competent jurisdiction on the merits concludes the litigation between the parties, as well as their privies, and constitutes a bar to a new action or suit involving the same cause of action before the same or other tribunal, while the second concept is “conclusiveness of judgment” in which any right, fact or matter in issue directly adjudicated or necessarily involved in the determination of an action before a competent court in which judgment is rendered on the merits is conclusively settled by the judgment therein and cannot again be litigated between the parties and their privies whether or not the claim, demand, purpose, or subject matter of the two actions is the same.[37]

**There is a bar by prior judgment where there is identity of parties, subject matter, and causes of action between the first case where the judgment was rendered and the second case that is sought to be barred.**[38] There is conclusiveness of judgment, on the other hand, where there is identity of parties in the first and second cases, but no identity of causes of action.[39]

Tested against the foregoing, the Court rules that *res judicata*, in the concept of bar by prior judgment, applies in this case.

As the records would show, the MCTC-Nabunturan-Mawab, through its January 24, 2006 Decision in Civil Case No. 821, dismissed the first ejectment complaint filed by Gilbert against Robert and Gil for the reason that the undated lease contract entered into by Gilbert and Robert was relatively simulated (properly speaking, should be absolutely simulated as will be explained later) and, hence, supposedly non-binding on the parties. To explicate, this pronouncement was made in reference to the cause of action raised in the first ejectment complaint – that is, the alleged breach of the same lease contract due to non-payment of rent. Therefore, to find that the said contract was simulated and thereby non-binding negates the cause of action raised in the said complaint, hence, resulting in its dismissal.

By resolving the substantive issue therein – that is, the right of Gilbert to recover the *de facto* possession of the subject property arising from Robert’s breach of the undated lease contract – the MCTC-Nabunturan-Mawab’s January 24, 2006 Decision should be properly considered as a judgment on the merits. In *Allied Banking Corporation v. CA*, [40] citing *Escarte v. Office of the President*, [41] the Court defined “judgment on the merits” as follows:

As a technical legal term, ‘merits’ has been defined in law dictionaries as a matter of substance in law, as distinguished from matter of form, and as the real or substantial grounds of action or defense, in contradistinction to some technical or collateral matter raised in the

course of the suit. A judgment is upon the merits when it amounts to a declaration of the law to the respective rights and duties of the parties, based upon the ultimate fact or state of facts disclosed by the pleadings and evidence, and upon which the right of recovery depends, irrespective of formal, technical or dilatory objectives or contentions.

Simply stated, a judgment on the merits is one wherein there is an unequivocal determination of the rights and obligations of the parties with respect to the causes of action and the subject matter,<sup>[42]</sup> such as the MCTC-Nabunturan-Mawab's January 24, 2006 Decision which had resolved the substantive issue in Civil Case No. 821 as above-explained. Contrary to respondents' stance,<sup>[43]</sup> said Decision was not premised on a mere technical ground, particularly, on improper venue. This is evinced by the qualifier "*granting arguendo*" which opens the discussion thereof, to show that the first ejectment complaint would, according to the MCTC-Nabunturan-Mawab, have been dismissed on improper venue notwithstanding the undated lease contract's simulated character.<sup>[44]</sup>

Importantly, the MCTC-Nabunturan-Mawab's January 24, 2006 Decision in **Civil Case No. 821** had already attained finality on March 20, 2006 as per an Entry of Final Judgment<sup>[45]</sup> dated August 8, 2006. Thereafter, or on November 13, 2006, Gilbert (now joined by his wife, Analyn) filed a second ejectment complaint before the MTCC-Davao City, docketed as **Civil Case No. 19,590-B-06**, again against the same party, Robert (now joined by his wife, Nenita), involving the **same subject matter**, *i.e.*, the leased portion of Gilbert's 541 square-meter property situated in Poblacion, Nabunturan, Compostela Valley Province, and the **same cause of action**, *i.e.*, Robert's (and Gil's, now Analyn's) ejectment thereat due to Robert's alleged breach of their undated lease contract for non-payment of rentals.

With the **identity of the parties, subject matter, and cause of action** between **Civil Case Nos. 821** and **19,590-B-06**, it cannot thus be seriously doubted that the final and executory judgment in the first case had already barred the resolution of the second. *Res judicata*, which, to note, was raised by petitioners at the earliest opportunity, *i.e.*, in their answer to the second ejectment complaint,<sup>[46]</sup> but was ignored by the MTCC-Davao City, the RTC, and the CA, therefore obtains in their favor. Consequently, the instant petition should be granted.

The Court must, however, clarify that *res judicata* only applies in reference to the cause of action raised by Gilbert in both ejectment complaints – that is, his entitlement to the *de facto* possession of the subject property based on breach of contract (due to non-payment of rent), which was resolved to be simulated and, hence, non-binding. Accordingly, any subsequent ejectment complaint raising a different cause of action – say for instance, recovery of *de facto* possession grounded on tolerance (which was, by the way, not duly raised by the respondents in this case and, therefore, improperly taken cognizance of the MTCC-Davao City in its ruling<sup>[47]</sup>) – is not barred by the Court's current disposition. In effect, the dismissal of the second ejectment complaint, by virtue of this Decision, is without prejudice to the filing of another ejectment complaint grounded on a different cause of action, albeit involving the same parties and subject matter.

As a final point of concern, the Court deems it apt to correct the MCTC-Nabunturan-