

SECOND DIVISION

[G.R. No. 190071, August 15, 2012]

UNION BANK OF THE PHILIPPINES, PETITIONER, VS. MAUNLAD HOMES, INC. AND ALL OTHER PERSONS OR ENTITIES CLAIMING RIGHTS UNDER IT, RESPONDENTS.

D E C I S I O N

BRION, J.:

Before the Court is the petition for review on *certiorari*^[1] under Rule 45 of the Rules of Court filed by petitioner Union Bank of the Philippines (*Union Bank*), assailing the decision dated October 28, 2009^[2] of the Court of Appeals (CA) in CA-G.R. SP No. 107772.

THE FACTS

Union Bank is the owner of a **commercial complex located in Malolos, Bulacan**, known as the Maunlad Shopping Mall.

Sometime in August 2002, Union Bank, as seller, and respondent Maunlad Homes, Inc. (*Maunlad Homes*), as buyer, entered into a **contract to sell**^[3] involving the Maunlad Shopping Mall. The contract set the purchase price at P151 million, P2.4 million of which was to be paid by Maunlad Homes as down payment payable on or before July 5, 2002, with the balance to be amortized over the succeeding 180-month period.^[4] Under the contract, Union Bank authorized Maunlad Homes to take possession of the property and to build or introduce improvements thereon. The parties also agreed that if Maunlad Homes violates any of the provisions of the contract, all payments made will be applied as rentals for the use and possession of the property, and all improvements introduced on the land will accrue in favor of Union Bank.^[5] **In the event of rescission due to failure to pay or to comply with the terms of the contract, Maunlad Homes will be required to immediately vacate the property and must voluntarily turn possession over to Union Bank.**^[6]

When Maunlad Homes failed to pay the monthly amortization, Union Bank sent the former a **Notice of Rescission of Contract**^[7] dated February 5, 2003, demanding payment of the installments due within 30 days from receipt; otherwise, it shall consider the contract automatically rescinded. Maunlad Homes failed to comply. Hence, on November 19, 2003, **Union Bank sent Maunlad Homes a letter demanding payment of the rentals due and requiring that the subject property be vacated and its possession turned over to the bank.** When Maunlad Homes continued to refuse, **Union Bank instituted an ejectment suit before the Metropolitan Trial Court (MeTC) of Makati City, Branch 64**, on February 19, 2004. Maunlad Homes resisted the suit by claiming, among others,

that it is the owner of the property as Union Bank did not reserve ownership of the property under the terms of the contract.^[8] By virtue of its ownership, Maunlad Homes claimed that it has the right to possess the property.

On May 18, 2005, the **MeTC dismissed Union Bank's ejectment complaint.**^[9] It found that Union Bank's cause of action was based on a breach of contract and that both parties are claiming a better right to possess the property based on their respective claims of ownership of the property. The MeTC ruled that the appropriate action to resolve these conflicting claims was an *accion reivindicatoria*, over which it had no jurisdiction.

On appeal, **the Regional Trial Court (RTC) of Makati City, Branch 139, affirmed the MeTC** in its decision dated July 17, 2008;^[10] it agreed with the MeTC that the issues raised in the complaint extend beyond those commonly involved in an unlawful detainer suit. The RTC declared that the case involved a determination of the rights of the parties under the contract. Additionally, the RTC noted that the property is located in Malolos, Bulacan, but the ejectment suit was filed by Union Bank in Makati City, based on the contract stipulation that "[t]he venue of all suits and actions arising out or in connection with [the] Contract to Sell shall be [in] Makati City."^[11] The RTC ruled that the proper venue for the ejectment action is in Malolos, Bulacan, pursuant to the second paragraph of Section 1, Rule 4 of the Rules of Court, which states:

Section 1. *Venue of real actions.* - Actions affecting title to or possession of real property, or interest therein, shall be commenced and tried in the proper court which has jurisdiction over the area wherein the real property involved, or a portion thereof, is situated.

Forcible entry and detainer actions shall be commenced and tried in the municipal trial court of the municipality or city wherein the real property involved, or a portion thereof, is situated. [emphasis ours]

The RTC declared that Union Bank cannot rely on the waiver of venue provision in the contract because ejectment is not an action arising out of or connected with the contract.

Union Bank appealed the RTC decision to the CA through a petition for review under Rule 42 of the Rules of Court. **The CA affirmed the RTC decision** in its October 28, 2009 decision,^[12] ruling that Union Bank's claim of possession is based on its claim of ownership which in turn is based on its interpretation of the terms and conditions of the contract, particularly, the provision on the consequences of Maunlad Homes' breach of contract. The CA determined that Union Bank's cause of action is premised on the interpretation and enforcement of the contract and the determination of the validity of the rescission, both of which are matters beyond the jurisdiction of the MeTC. Therefore, it ruled that the **dismissal of the ejectment suit was proper**. The CA, however, made no further ruling on the issue of venue of the action.

From the CA's judgment, Union Bank appealed to the Court by filing the present petition for review on *certiorari* under Rule 45 of the Rules of Court.

THE PARTIES' ARGUMENTS

Union Bank disagreed with the CA's finding that it is claiming ownership over the property through the ejectment action. It claimed that it never lost ownership over the property despite the execution of the contract, since only the right to possess was conceded to Maunlad Homes under the contract; Union Bank never transferred ownership of the property to Maunlad Homes. Because of Maunlad Homes' failure to comply with the terms of the contract, Union Bank believes that it rightfully rescinded the sale, which rescission terminated Maunlad Homes' right to possess the subject property. Since Maunlad Homes failed to turn over the possession of the subject property, Union Bank believes that it correctly instituted the ejectment suit.

The Court initially denied Union Bank's petition in its Resolution dated March 17, 2010.^[13] Upon motion for reconsideration filed by Union Bank, the Court set aside its Resolution of March 17, 2010 (in a Resolution dated May 30, 2011^[14]) and required Maunlad Homes to comment on the petition.

Maunlad Homes contested Union Bank's arguments, invoking the rulings of the lower courts. It considered Union Bank's action as based on the propriety of the rescission of the contract, which, in turn, is based on a determination of whether Maunlad Homes indeed failed to comply with the terms of the contract; the propriety of the rescission, however, is a question that is within the RTC's jurisdiction. Hence, Maunlad Homes contended that the dismissal of the ejectment action was proper.

THE COURT'S RULING

We find the petition meritorious.

The authority of the MeTC to interpret contracts in an unlawful detainer action

In any case involving the question of jurisdiction, the Court is guided by the settled doctrine that *the jurisdiction of a court is determined by the nature of the action pleaded by the litigant through the allegations in his complaint.*^[15]

Unlawful detainer is an action to recover possession of real property from one who unlawfully withholds possession after the expiration or termination of his right to hold possession under any contract, express or implied. The possession of the defendant in unlawful detainer is originally legal but became illegal due to expiration or termination of the right to possess.^[16] Under Section 1, Rule 70 of the Rules of Court, the action must be filed "within one (1) year after [the] unlawful deprivation or withholding of possession[.]" Thus, to fall within the jurisdiction of the MeTC, the complaint must allege that –

1. the defendant originally had lawful possession of the property, either by virtue of a contract or by tolerance of the plaintiff;

2. eventually, the defendant's possession of the property became illegal or unlawful upon notice by the plaintiff to defendant of the expiration or the termination of the defendant's right of possession;
3. thereafter, the defendant remained in possession of the property and deprived the plaintiff the enjoyment thereof; and
4. within one year from the unlawful deprivation or withholding of possession, the plaintiff instituted the complaint for ejectment.^[17]

Contrary to the findings of the lower courts, all four requirements were alleged in Union Bank's Complaint. Union Bank alleged that Maunlad Homes "maintained possession of the subject properties" pursuant to the Contract to Sell.^[18] Maunlad Homes, however, "failed to faithfully comply with the terms of payment," prompting Union Bank to "rescind the Contract to Sell in a Notice of Rescission dated February 5, 2003[.]"^[19] When Maunlad Homes "refused to turn over and vacate the subject premises[,]"^[20] Union Bank sent another Demand Letter on November 19, 2003 to Maunlad Homes requiring it (1) "[t]o pay the equivalent rentals-in-arrears as of October 2003 in the amount of P15,554,777.01 and monthly thereafter until the premises are fully vacated and turned over" to Union Bank, and (2) to vacate the property peacefully and turn over possession to Union Bank.^[21] As the demand went unheeded, Union Bank instituted an action for unlawful detainer before the MeTC on February 19, 2004, within one year from the date of the last demand. **These allegations clearly demonstrate a cause of action for unlawful detainer and vested the MeTC jurisdiction over Union Bank's action.**

Maunlad Homes denied Union Bank's claim that its possession of the property had become unlawful. It argued that its failure to make payments did not terminate its right to possess the property because it already acquired ownership when Union Bank failed to reserve ownership of the property under the contract. **Despite Maunlad Homes' claim of ownership of the property, the Court rules that the MeTC retained its jurisdiction over the action; a defendant may not divest the MeTC of its jurisdiction by merely claiming ownership of the property.**^[22] Under Section 16, Rule 70 of the Rules of Court, "[w]hen the defendant raises the defense of ownership in his pleadings and the question of possession cannot be resolved without deciding the issue of ownership, the issue of ownership shall be resolved only to determine the issue of possession." Section 18, Rule 70 of the Rules of Court, however, states that "[t]he judgment x x x shall be conclusive with respect to the possession only and shall in no wise bind the title or affect the ownership of the land or building."

The authority granted to the MeTC to preliminarily resolve the issue of ownership to determine the issue of possession ultimately allows it to interpret and enforce the contract or agreement between the plaintiff and the defendant. To deny the MeTC jurisdiction over a complaint merely because the issue of possession requires the interpretation of a contract will effectively rule out unlawful detainer as a remedy. As stated, in an action for unlawful detainer, the defendant's right to possess the property may be by virtue of a contract, express or implied; corollarily, the termination of the defendant's right to possess would be governed by the terms of the same contract. Interpretation of the contract between the plaintiff and the defendant is inevitable because it is the contract that initially granted the defendant the right to possess the property; it is this same contract that