

## SECOND DIVISION

[ G.R. No. 147997, April 05, 2002 ]

**TALA REALTY SERVICES CORPORATION, PETITIONER, VS.  
BANCO FILIPINO SAVINGS AND MORTGAGE BANK,  
RESPONDENT.**

### DECISION

**MENDOZA, J.:**

This is a petition for review on certiorari of the decision, dated December 29, 2000, of the Court of Appeals<sup>[1]</sup> and its resolution, dated April 26, 2001, denying reconsideration. The appeals court affirmed the decision of the Regional Trial Court, Branch 55, Lucena City sustaining the dismissal by the Municipal Trial Court in Cities, Branch II, Lucena City of petitioner's complaint for ejectment against respondent.

The facts are as follows:

On August 25, 1981, petitioner Tala Realty Services Corporation leased several properties found in different parts of the country to respondent Banco Filipino Savings and Mortgage Bank for a period of 20 years, renewable for another 20 years, at the option of respondent, at a monthly rental of P19,300.00. The properties are currently the sites of major branches of respondent bank. Under the contract, respondent was to pay P962,500.00 as advance monthly rentals from the eleventh to the twentieth year.<sup>[2]</sup>

On the same date, another lease contract purporting to cover the lease of the same properties was allegedly executed between the same parties. The monthly rental was the same, but the period of the lease was only for 11 years, renewable for a period of nine years at the option of the lessee (herein respondent). The amount stipulated in the first contract as advance rental was converted into a security deposit for the faithful performance by the lessee of the terms and conditions of the lease contract.<sup>[3]</sup>

On August 19, 1992, 11 years after the execution of the said contracts, Elizabeth H. Palma, director of petitioner Tala Realty, wrote Teodoro O. Arcenas, Jr., president of respondent Banco Filipino, notifying him of the expiration of the lease as stipulated in the second contract of lease. Petitioner Tala Realty claims that it had agreed to discuss the terms and conditions for the renewal of the lease contract, provided that any increased rental agreed upon by the parties should retroact to September 1, 1992.<sup>[4]</sup> In another letter, dated February 10, 1993, Tala Realty, through Elizabeth H. Palma, likewise demanded payment of goodwill money as condition for the renewal of the lease considering the losses allegedly incurred by petitioner during the period of the previous lease contract. Petitioner informed respondent that the failure of the parties to conclude the negotiations would be deemed a waiver of

respondent's option to renew the lease.<sup>[5]</sup>

On June 22, 1993, 10 months after the expiration of the second contract, petitioner Tala Realty wrote another letter to respondent Banco Filipino, notifying the latter that it would charge as part of the rent the difference between what the latter had paid and the proposed new rates demanded by petitioner and that it (petitioner) had decided to exercise its rights to dispose or alienate the properties subject of the contract.<sup>[6]</sup> As the parties had failed to reach an agreement, petitioner Tala Realty gave respondent Banco Filipino until April 30, 1994 within which to vacate the Lucena property and to remit the amount of P3,090,886.00 as unpaid rentals.

Respondent Banco Filipino refused to vacate the property on which its branch site in Lucena City had been built. Hence, petitioner filed on November 3, 1994 a complaint for ejectment in the Municipal Trial Court in Cities, Branch II, Lucena City, alleging that respondent had failed to pay the new rates of rentals and to comply with the other terms and conditions for the renewal of the contract. Petitioner prayed that respondent be ordered to vacate the premises in question and to pay P2,782,890.57, as unpaid rentals until September 30, 1994, and thereafter the amount of P144,301.57 as monthly rental, plus an annual 10% escalation, until the property was vacated. Petitioner likewise sought payment of the costs of suit as well as other reliefs to which it may be entitled.<sup>[7]</sup>

In its answer, respondent alleged that petitioner Tala Realty was actually formed by the major stockholders of respondent for the purpose of unloading and then leasing back from petitioner properties it could not retain under banking laws and regulations; that the first contract of lease for 20 years, renewable, at the option of respondent, for another 20 years, was the valid contract between petitioner and respondent; that the second contract covering the same property was spurious, fabricated, and falsified; that petitioner was not the owner of the property, but a mere trustee holding the said property for the use and benefit of respondent; that there was a pending derivative suit before the Securities and Exchange Commission filed by respondent's stockholders in its behalf, for the reconveyance of the branch sites transferred to petitioner as the sale of the said properties by respondent to the latter was simulated, fictitious, and without sufficient consideration; and that petitioner had no valid cause of action against respondent. Respondent filed a compulsory counterclaim, alleging evident bad faith on the part of petitioner in instituting the case for ejectment and sought the award of P10 million as exemplary damages, P5 million as actual damages, P5 million as moral damages, P500,000.00 as litigation expenses, and P200,000.00 as attorney's fees in its favor.<sup>[8]</sup>

On April 2, 1997, the Municipal Trial Court in Cities, Branch II, Lucena City rendered a decision dismissing petitioner's complaint and respondent's counterclaim. The court held itself without jurisdiction as the issues raised (i.e., which of the lease contracts was valid and whether petitioner was a mere trustee of respondent) were incapable of pecuniary estimation and should thus be raised before the Regional Trial Court. The court pointed out ejectment proceedings under Rule 70 of the Rules of Civil Procedure are summary in nature and, therefore, not proper for threshing out issues such as those raised by the parties.<sup>[9]</sup>

The Regional Trial Court, Branch 55, Lucena City affirmed and later denied petitioner's motion for reconsideration.<sup>[10]</sup>

Petitioner then sought a reversal of the lower court's judgment from the Court of Appeals, but it fared no better there. In a decision, rendered on December 29, 2000, the appeals court ruled that petitioner's complaint had been correctly dismissed by the Municipal Trial Court in Cities. Nonetheless, after holding the first contract of lease to be the valid contract, the Court of Appeals ruled that respondent's refusal to pay the new rate demanded was justified because the contract for a 20-year lease had not yet expired. In any event, it was held, nonpayment of rent was not the ground for petitioner's complaint for ejectment and so could not be raised for the first time on appeal.<sup>[11]</sup> Petitioner filed a motion for reconsideration, but it was denied by the Court of Appeals in its resolution of April 26, 2001. Hence this petition.

Petitioner contends that the Court of Appeals did not follow this Court's ruling in several cases involving leases of its other properties to respondent in which it was held that the contract for a 20-year lease was the real contract between the parties, the 11-year lease agreement being spurious and fabricated and, therefore, void.

Three questions are raised in this appeal:

1. Whether the Municipal Trial Court in Cities, Branch II, Lucena City correctly dismissed petitioner's complaint for ejectment against respondent.
2. Whether the lease of petitioner's Lucena property was for 20 years, renewable for another period of 20 years at the option of respondent, or for 11 years, renewable for another period of nine years also at the option of respondent.
3. Whether respondent is liable for nonpayment of rentals either as provided in the original lease contract for 20 years or for the new rate after the expiration of the lease for 11 years.

As already noted, several contracts were entered into on August 25, 1981 between petitioner and respondent for the lease of other properties of petitioner. These properties, 12 in all, were formerly owned by respondent. In 1979, respondent bank had been confronted with a legal problem. As a savings and mortgage bank, it could hold under the law<sup>[12]</sup> only such real estate as may be necessary for the transaction of its business, provided its total investment in such real estate and its improvements does not exceed 50 per cent of its net worth. Respondent had reached the allowable limit in its branch site holdings. Consequently, it unloaded some of its holdings to petitioner Tala Realty which was organized by respondent's major stockholders Antonio Tiu, Tomas B. Aguirre, Nancy Lim, and Pedro B. Aguirre, from whose family names the acronym Tala was derived. On August 25, 1981, respondent leased back the properties, which are the sites of its major branches, from the newly formed corporation.

The leases later became the subject of litigations between petitioner and respondent as the former claimed in 1992 that the leases, which were entered into on August 25, 1981, had expired and the parties had failed to reach a new agreement. Petitioner alleged its contract with respondent was the one which provided for the lease of its properties for 11 years, renewable for nine years.

In G.R. No. 129887,<sup>[13]</sup> which involved petitioner's property in Urdaneta,

Pangasinan, this Court held in an ejectment suit brought by petitioner against the bank (1) that the Municipal Trial Court of Urdaneta had jurisdiction to decide the validity of the two lease contracts covering the same property and (2) that the lease was covered by the first contract for 20 years because the second contract for 11 years was spurious and fabricated. This Court held:

*First.* Petitioner Tala Realty contends that the municipal trial court has no jurisdiction to decide the issue of ownership in an ejectment case.

Nothing is more settled than the rule that ejectment is solely concerned with the issue of physical or material possession of the subject land or building. However, if the issue of possession depends on the resolution of the issue of ownership which is sufficiently alleged in the complaint, the municipal trial court may resolve the latter although the resulting judgment would be conclusive only with respect to the possession but not the ownership of the property.

In the instant case, the issue of ownership was not even addressed, there being no need to do so as the ejectment case hinged on the question concerning the two (2) lease contracts of the contending parties.

*Second.* Petitioner Tala Realty insists that its eleven (11)-year lease contract controls. We agree with the MTC and the RTC, however, that the eleven (11)-year contract is a forgery because (1) Teodoro O. Arcenas, then Executive Vice-President of private respondent Banco Filipino, denied having signed the contract; (2) the records of the notary public who notarized the said contract, Atty. Generoso S. Fulgencio, Jr., do not include the said document; and (3) the said contract was never submitted to the Central Bank as required by the latter's rules and regulations.

Clearly, the foregoing circumstances are badges of fraud and simulation that rightly make any court suspicious and wary of imputing any legitimacy and validity to the said lease contract.

Executive Vice-President Arcenas of private respondent Banco Filipino testified that he was responsible for the daily operations of said bank. He denied having signed the eleven (11)-year contract and reasoned that it was not in the interest of Banco Filipino to do so. The fact was corroborated by Josefina C. Salvador, typist of Banco Filipino's Legal Department, who allegedly witnessed the said contract and whose initials allegedly appear in all the pages thereof. She disowned the said marginal initials.

. . . .

It is not the eleven (11)-year lease contract but the twenty (20)-year lease contract which is the real and genuine contract between petitioner Tala Realty and private respondent Banco Filipino. Considering that the twenty (20)-year lease contract is still subsisting and will expire in 2001 yet, Banco Filipino is entitled to the possession of the subject premises