



Republic of the Philippines
Supreme Court
 Manila

SECOND DIVISION

**EFREN S. QUESADA, PETER CHUA,
 ARTURO B. PEREJAS, ERLINDA
 ESCOTA, CRISANTO H. LIM,
 VASQUEZ BUILDING SYSTEMS
 CORPORATION, LION GRANITE
 CONSTRUCTION SUPPLY
 CORPORATION, NELLIE M.
 MARIVELES, ALEJANDRO V.
 VARDELEON III, ANGELITA P.
 ROQUE, DAVID LU, J.A.O.
 BUILDERS & DEVELOPMENT
 CORPORATION,**

Petitioners,

G.R. No. 207500

Present:

CARPIO, *J.*, Chairperson,
 BRION,
 DEL CASTILLO,
 MENDOZA,* and
 LEONEN, *JJ.*

Promulgated:

14 NOV 2018

- versus -

BONANZA RESTAURANTS, INC.,
 Respondent.

X-----X

DECISION

BRION, J.:

This is a petition for review on *certiorari* filed by Efren S. Quesada (*Efren*), et al., from the January 16, 2013 decision¹ and June 5, 2013 resolution² of the Court of Appeals (*CA*) in **CA-G.R. SP No. 122063**.³ The *CA* affirmed the Regional Trial Court's (*RTC*) decision⁴ in **Civil Case No. Q-11-69040**⁵ which, in turn, reversed the decision⁶ of the Metropolitan Trial Court (*MeTC*) in **Civil Case No. 38437** and ejected Efren Quesada from the property he was leasing.

* On Official Leave.

¹ *Rollo*, p. 47.

² *Id.* at 60.

³ Both penned by Associate Justice Samuel H. Gaerlan and concurred in by Associate Justices Rebecca L. De Guia-Salvador and Apolinario D. Bruselas, Jr.

⁴ *Rollo*, p. 207.

⁵ *RTC*, Quezon City, Branch 83 through Presiding Judge Ralph S. Lee.

⁶ *Rollo*, p. 121.

Antecedents

Respondent Bonanza Restaurant, Inc. (*Bonanza*) is the registered owner of a 9,404-square meter property covered by Transfer Certificate of Title (*TCT*) No. RT-65703 (*subject lot*) situated at 1077-1079 EDSA, Balintawak, Quezon City.⁷ In 2003, Efren was Bonanza's General Property Manager while his brother, Miguel Quesada, was the Company President.

On July 1, 2003, Bonanza, represented by Miguel, allegedly leased the subject lot to Efren. The lease was supposedly "*effective July 1, 2003 until such time that it is replaced or amended by another resolution agreement*"⁸ and "*effective until such time that the parcel of land is sold.*"⁹

The lease contract further obliged Efren (1) to expressly include a 60-day pre-termination clause in his third party subleasing agreements to ensure that the property be always available for sale, and (2) to furnish Bonanza with copies of the subleasing agreements.¹⁰

Using the contract of lease, Efren entered into various subleases with third parties (*the sublessees*).

On February 7, 2008, Bonanza restaurants informed Efren that it had rescinded the lease contract and formally demanded the return of the subject lot.¹¹ Efren received the demand letter on the same day.

On February 11, 2008, Bonanza also notified Efren's sublessees about the rescission of the lease and formally demanded the surrender of the subject lot.¹²

On March 26, 2008, Bonanza filed a complaint¹³ for unlawful detainer against Efren and his sublessees. The complaint alleged: (1) that Efren's subleases failed to include the mandatory 60-day pre-termination clause;¹⁴ (2) that it had repeatedly questioned the sublease agreements, but Efren ignored its objections because he was forestalling the sale of the property;¹⁵ (3) that Bonanza discovered sometime in November 2006 that Efren had already constructed concrete structures on the subject lot – in bad faith and without its knowledge or consent – to prolong his enjoyment of the lot;¹⁶ (4) that Efren had been forestalling the sale of the subject lot because of the advantageous arrangement he then enjoyed; (5) that Efren's attempts at preventing the sale of the subject lot effectively fulfilled the resolutory

⁷ Id. at 48.

⁸ Id. at 71.

⁹ Id. at 70.

¹⁰ Id. at 70.

¹¹ Id. at 72.

¹² Id. at 73-85.

¹³ Id. at 61.

¹⁴ Id. at 64.

¹⁵ Id.

¹⁶ Id.

condition of the lease;¹⁷ and (6) that on January 8, 2008, Bonanza's Board of Directors resolved to cancel the lease with Efren pursuant to the provision that it "*shall be effective July 1, 2003 and until such time that it is replaced or amended by another resolution.*"¹⁸

In his answer¹⁹ dated April 14, 2008, Efren denied frustrating the sale of the lot or building the improvements in bad faith. As affirmative defenses, Efren also argued: (1) that Bonanza could not unilaterally rescind the lease contract; and (2) that assuming there was legal justification to rescind the contract – an action incapable of pecuniary estimation – then the proper forum was the RTC.

On December 29, 2010, the MeTC dismissed the complaint for prematurity after finding that Bonanza had no cause of action yet against Efren and his sublessees.²⁰

The MeTC reasoned that the basis for the ejectment complaint was Bonanza's unilateral cancellation of the lease. However, it had not yet been established that Efren violated the terms of the lease.²¹ Since Efren had not yet established that the rescission was done in accordance with the law, his allegation – that Efren's possession of the property has become unlawful – was premature.²²

The MeTC further observed that Bonanza's unilateral rescission of the lease was unjustified because the contract did not grant it the power to unilaterally or extrajudicially rescind the agreement. It concluded that it had no jurisdiction over the case based on the complaint and that the correct remedy was for Bonanza to file a case for rescission before the RTC.

On appeal, the RTC reversed²³ the MeTC decision, ejecting Efren and his sublessees from the property.

The RTC noted that the complaint alleged: (1) that Efren possessed the property; (2) that Bonanza formally demanded that Efren vacate the premises; and (3) that Efren and his sublessees refused and continued to refuse to surrender possession of the property.²⁴ Considering that the complaint was filed within one year from the last demand to vacate, the RTC held that the complaint sufficiently made a case for unlawful detainer – an action within the jurisdiction of the MeTC.

The RTC also pointed out that there was no need for a lessor to first file an action for rescission of the lease with the RTC before filing an

¹⁷ Id. at 65
¹⁸ Id. at 65.
¹⁹ Id. at 98.
²⁰ Id. at 128.
²¹ Id.
²² Id.
²³ Id. at 207.
²⁴ Id. at 214.

ejectment case.²⁵ The availability of the action for rescission did not preclude the lessor from resorting to the remedy of ejectment.

The RTC found that Efren had deprived Bonanza of the possession of its property. It also held that the Contract of Lease was simulated because Miguel only agreed to sign the contract without authority from the Board to enable Efren to secure a business permit to lease the property.²⁶ It concluded that Efren and his sublessees' possession of the property became illegal when they refused to vacate upon Bonanza's demand.²⁷

Efren moved for reconsideration, which the RTC denied on October 11, 2011. Thus, he and his sublessees elevated the case to the CA.²⁸

Efren maintained that Bonanza needed to file an action for rescission and that the complaint did not make a case for unlawful detainer but one for *accion publiciana*.²⁹ Efren argued that Bonanza failed to establish a legal cause that justified his summary ejectment from the property.

He also challenged the RTC's finding that the lease was simulated or at least unenforceable.³⁰ He posited that these conclusions should have been reached after conducting a full-blown trial, not a mere summary proceeding.

Lastly, Efren insisted that Bonanza could not have unilaterally rescinded the lease agreement in the absence of a stipulation allowing it or without proof that he violated the terms of the agreement. He argued that Bonanza should have filed a case for rescission before the RTC, rather than an ejectment complaint before the MeTC.³¹

On January 16, 2013, the CA affirmed³² the RTC's decision. It upheld the RTC's finding that the allegations in the complaint sufficiently made a case for unlawful detainer.³³ Assuming *arguendo* that the complaint was one for *accion publiciana*, the RTC was duty bound not to dismiss the case pursuant to Rule 40, Section 8 of the Rules of Court.³⁴

²⁵ Id. at 213.

²⁶ Id. at 214.

²⁷ Id. at 217.

²⁸ Id. at 249.

²⁹ Id. at 261.

³⁰ Id. at 265.

³¹ Id. at 268-271.

³² Id. at 47.

³³ Id. at 54.

³⁴ *SEC. 8. Appeal from orders dismissing case without trial; lack of jurisdiction.* — If an appeal is taken from an order of the lower court dismissing the case without a trial on the merits, the Regional Trial Court may affirm or reverse it, as the case may be. In case of affirmance and the ground of dismissal is lack of jurisdiction over the subject matter, the Regional Trial Court, if it has jurisdiction thereover, shall try the case on the merits as if the case was originally filed with it. In case of reversal, the case shall be remanded for further proceedings.

If the case was tried on the merits by the lower court without jurisdiction over the subject matter, the Regional Trial Court on appeal shall not dismiss the case if it has original jurisdiction thereof, but shall decide the case in accordance with the preceding section,

On the merits, the CA agreed that the lease was simulated and was not intended to produce any legal effect.³⁵ At the very least, the lease was unenforceable pursuant to Article 1403 (1) of the Civil Code for having been entered into without authority from the Corporation.³⁶ Thus, Bonanza's exercise of its right to rescind the lease under the simulated or unenforceable contract is a mere superfluity.³⁷

Efren moved for reconsideration but the CA denied³⁸ the motion on June 5, 2013. Hence, the present recourse to this Court.

The Arguments

Citing the Doctrine of Apparent Authority of Corporate Officers, Efren argues that Bonanza was estopped from denying the existence and enforceability of the Lease Contract.³⁹ He also argues that Bonanza effectively ratified the lease by having accepted its proceeds throughout several years.⁴⁰ Thus, Bonanza is bound by the terms of the agreement which it cannot unilaterally terminate owing to the mutuality of contracts. The lease is effective and should be respected until the property is sold.

Efren further maintains that the original ejectment suit could not prosper without first filing an action for rescission because the validity of the contract was being questioned.⁴¹ He points out that the complaint failed to allege any of the grounds for ejectment under the *Rent Control Act of 2005*⁴² and the Civil Code.⁴³

Bonanza counters: (1) that the Doctrine of Apparent Authority cannot be invoked by one who is not a third party, such as an officer of the corporation; and (2) that Efren failed to present any evidence that the Board of Directors ratified the contract.

Bonanza asserts that its complaint sufficiently made a case for unlawful detainer because it alleged: (a) Efren's possession of the property; (b) a demand for Efren to vacate the leased premises; (c) Efren's continued refusal to surrender possession of the premises; and (d) filing of the case within one year from the demand to vacate.⁴⁴ Therefore, the MeTC had jurisdiction to try the case.⁴⁵

without prejudice to the admission of amended pleadings and additional evidence in the interest of justice.

³⁵ *Rollo*, p. 56.

³⁶ *Id.* at 56.

³⁷ *Id.* at 58.

³⁸ *Id.* at 60.

³⁹ *Id.* at 23.

⁴⁰ *Id.* at 26.

⁴¹ *Id.* at 32.

⁴² Sec. 7, Republic Act No. 9341 (2005).

⁴³ Art. 1673, Republic Act No. 386 (1949).

⁴⁴ *Rollo*, p. 343.

⁴⁵ *Id.* at 334.

Finally, Bonanza points out that the circumstances regarding the execution of the lease contract are factual matters beyond the ambit of a petition for review on *certiorari*.

Our Ruling

The petition is meritorious.

This case is rooted in Bonanza's complaint for unlawful detainer. The complaint theorizes that by constructing concrete structures on the property without Bonanza's permission, Efren effectively forestalled the sale of the property, constructively fulfilling the resolatory condition of the lease.⁴⁶

The complaint also points out that Bonanza's Board of Directors passed a resolution on January 28, 2008, canceling, rescinding, and/or terminating the lease. Therefore, the lease contract, which was "*effective July 1, 2003 and until such time that it is replaced or amended by another resolution*" had already expired.⁴⁷

The lessor's demand to vacate had no legal basis.

At the outset, we observe that Bonanza's complaint for ejectment was prematurely filed. According to Rule 70, Section 2 of the Rules of Court, the lessor can only proceed with a summary action for ejectment upon making a sufficient demand from the lessee:

SEC. 2. *Lessor to proceed against lessee only after demand.*— Unless otherwise stipulated, such action by the lessor shall be commenced only after demand to pay or comply with the conditions of the lease and to vacate is made upon the lessee, or by serving written notice of such demand upon the person found on the premises, or by posting such notice on the premises if no person be found thereon, and the lessee fails to comply therewith after fifteen (15) days in the case of land or five (5) days in the case of buildings.

The Rules requires the concurrence of two conditions. *First*, the lessor must first make a written demand for the lessee: (1) to pay or comply with the conditions of the lease; and (2) to vacate the premises. *Second*, the lessee fails to comply with the demand within the given period.

A careful examination shows that Bonanza did not sufficiently comply with Rule 70, Section 2. Its demand letter reads:

Please be advised that **we have cancelled, rescinded and/or terminated the "Contract of Lease"** dated July 1, 2003, over that real property situated at 1077-79 EDSA, Balintawak, Quezon City, covered by Transfer

⁴⁶ Id. at 64.

⁴⁷ Id. at 65.

Certificate of Title No. 65703. In view thereof, **formal demand is hereby made upon you (and all persons claiming rights under you) to vacate and surrender the property to us** within fifteen (15) days from receipt of this letter.

For a peaceful and proper turnover of the premises, please coordinate with our new legal counsel YULO ALILING PASCUA & ZUÑIGA with offices at the 4th Floor C-J Yulo Building, Pasong Tamo corner Don Bosco Road, Makati City, and telephone number 816-6687. The contact person is Mr. Jose P.O. Aliling IV.

Messrs. Yulo Aliling Pascua & Zuñiga believe that the contract is not really a lease but a usufruct and that because you are a builder in bad faith, you lost what was built without right to indemnity.

The demand did not indicate that Efren breached the lease contract. There was no demand for him to pay rent or comply with any of his obligations under the lease. Instead, it **merely informs him that Bonanza had unilaterally terminated** the lease and demands the surrender of the property.

However, a contracting party cannot unilaterally terminate a contract unless otherwise stipulated beforehand. A contract binds both contracting parties; its validity cannot be left to the will of one of them.⁴⁸ To hold otherwise would offend the mutuality of contracts.

Bonanza's complaint theorized that by constructing concrete structures on the property without Bonanza's permission, Efren effectively forestalled the sale of the property, constructively fulfilling the resolatory condition of the lease.⁴⁹ However, this argument is without basis.

There is no logical connection between the construction of concrete structures on the property and Bonanza's inability to sell it. The argument is a *non sequitur*. Moreover, the lease contract itself specifically recognized the lessee's right to construct on the property:

5. **Improvements** – All construction improvements introduced by LESSEE shall be to his own account. It is also understood that all materials used in the improvements shall be turned over to LESSEE upon the sale of the property based on a submitted control listing of all approved improvements and their respective costs at the end of the construction period.⁵⁰

Bonanza's approval is only relevant with respect to Efren's right to the turnover of materials used upon the sale of the property. Other than that, the contract does not oblige Efren to secure Bonanza's consent prior to constructing improvements.

⁴⁸ Art. 1308, CIVIL CODE.

⁴⁹ *Rollo*, p. 64.

⁵⁰ *Id.* at 70.

Furthermore, Article 1657 of the Civil Code enumerates Efren's statutory obligations as a lessee:

Article 1657. The lessee is obliged:

- (1) To pay the price of the lease according to the terms stipulated;
- (2) To use the thing leased as a diligent father of a family, **devoting it to the use stipulated; and in the absence of stipulation, to that which may be inferred from the nature of the thing leased, according to the custom of the place;**
- (3) To pay expenses for the deed of lease.⁵¹

Bonanza failed to show how any of Efren's constructions go against the permissible use of the property based on its nature. Accordingly, Bonanza had no basis to unilaterally terminate the lease without offending the mutuality of contracts.

The period of the lease had not yet expired.

There is also no merit in Bonanza's contention that the contract which was "*effective July 1, 2003 and until such time that it is replaced or amended by another resolution*" had expired because the Board of Directors had already issued a board resolution terminating the lease. Bonanza interprets the term "resolution" to mean a board resolution from Bonanza. This erroneous interpretation is offensive to the mutuality and obligatory force of contracts.

The contract actually states:

8. **Effectivity** – This agreement shall be effective July 1, 2003 and until such time that it is replaced or amended by another **resolution agreement**.⁵²

We point out that Bonanza has conveniently omitted the word "agreement" whenever it cited the effectivity of the contract. This omission is misleading and unethical.

A lease contract is onerous in character containing reciprocal obligations; any ambiguities in its terms are interpreted in favor of *the greatest reciprocity of interests*.⁵³ Accordingly, "resolution" or "resolution agreement" should be interpreted to mean a subsequent agreement between the lessor and the lessee instead of a unilateral resolution from the lessor's board of directors.

⁵¹ Art. 1657, CIVIL CODE.

⁵² *Rollo*, p. 71.

⁵³ Art. 1378, CIVIL CODE.

There was no ground for summary ejectment.

A summary proceeding for unlawful detainer contemplates a situation where the defendant's possession, while initially lawful, had legally expired. Under the Civil Code, a lessor may judicially eject the lessee for any of the following causes:

Article 1673. The lessor may judicially eject the lessee for any of the following causes:

- (1) When the **period agreed upon**, or that which is fixed for the duration of leases under articles 1682 and 1687, **has expired**;
- (2) **Lack of payment of the price** stipulated;
- (3) **Violation of any of the conditions agreed upon** in the contract;
- (4) When the lessee **devotes** the thing leased to **any use or service not stipulated which causes the deterioration** thereof; or if he does not observe the requirement in No. 2 of article 1657, as regards the use thereof.

The ejectment of tenants of agricultural lands is governed by special laws.⁵⁴

The presence of any of these circumstances authorizes the lessor to directly resort to the MTC/MeTC for summary ejectment. The lessor is no longer required to file a separate complaint for rescission before the RTC.⁵⁵ However, none of these circumstances is present in this case.

First, the contract did not specifically fix the period of the obligation. Therefore, we cannot conclude that the lease had already expired. While the nature and the circumstances of the contract make it apparent that a period was intended, this does not authorize the lessor to unilaterally conclude that the period had lapsed or to summarily eject the lessee. The Civil Code only grants the lessor the right to ask the courts to fix the period.⁵⁶

Second, the complaint did not allege that Efren had been remiss in the payment of the stipulated rent.

Third, Bonanza failed to establish that Efren committed a substantial breach – as opposed to a casual breach – of his legal obligations (both under

⁵⁴ Art. 1673, CIVIL CODE.

⁵⁵ *Cebu Automatic Motors, Inc. v. General Milling Corp.*, 643 Phil. 240, 251 (2010).

⁵⁶ **Art. 1197.** If the obligation does not fix a period, but from its nature and the circumstances it can be inferred that a period was intended, the courts may fix the duration thereof.

The courts shall also fix the duration of the period when it depends upon the will of the debtor.

In every case, the courts shall determine such period as may under the circumstances have been probably contemplated by the parties. Once fixed by the courts, the period cannot be changed by them.

the contract and under Article 1657 of the Civil Code) that would defeat the very object of the parties in making the agreement and warrant the rescission of the contract.

Lastly, Bonanza failed to show that Efren had dedicated the property to a use that is contrary to its commercial nature and that caused its deterioration. On the contrary, Efren had maintained the property and made improvements on it.

The RTC and the CA exceeded the scope of their appellate review.

The CA and the RTC's findings challenging the validity of the lease contract went beyond the scope of their appellate review. We stress that an ejectment proceeding is a *summary action* of limited scope: the validity of the defendant's possession.

Consequently, the appellate courts erred when they passed upon the validity of the contract and Miguel's authority (or lack thereof) – matters outside the scope of the original ejectment suit. Moreover, Bonanza's complaint for unlawful detainer was *implicit recognition of the validity* of the lease contract.

Admittedly, Rule 40, Section 8 authorizes the RTC to decide an appealed case on the merits – *as if it were originally filed before it* – if it finds that it has original jurisdiction over the case. However, this is not the case here because the RTC affirmed the MTC's jurisdiction over the original complaint.

Thus, this Court finds it improper for the RTC and for the CA to have passed upon: (1) the validity (or invalidity) of the lease contract and (2) Miguel's authority (or alleged lack thereof) to enter into the lease. While the RTC has the power to determine the validity or invalidity of contracts, this power is exercised pursuant to its *exclusive original jurisdiction* over cases where the subject is incapable of pecuniary estimation.⁵⁷ Due process demands that, in such cases, the litigants are thoroughly heard in a full-blown trial and not just in a summary proceeding.

WHEREFORE, we hereby **GRANT** the petition. The January 16, 2013 decision and the June 5, 2013 resolution of the Court of Appeals in **CA-G.R. SP No. 122063** are **REVERSED**. The complaint in **Civil Case No. 38437** is **DISMISSED** for lack of merit.

SO ORDERED.


ARTURO D. BRION
Associate Justice

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Sec. 19, BP 129.

WE CONCUR:

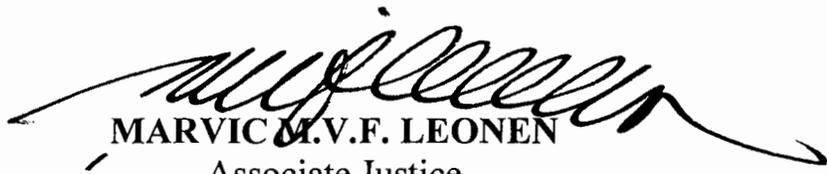


ANTONIO T. CARPIO
Associate Justice
Chairperson



MARIANO C. DEL CASTILLO
Associate Justice

(On Official Leave)
JOSE CATRAL MENDOZA
Associate Justice



MARVIC M.V.F. LEONEN
Associate Justice

ATTESTATION

I attest that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.



ANTONIO T. CARPIO
Associate Justice
Chairperson, Second Division

CERTIFICATION

Pursuant to Section 13, Article VIII of the Constitution, and the Division Chairperson's Attestation, I certify that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.



MARIA LOURDES P. A. SERENO
Chief Justice