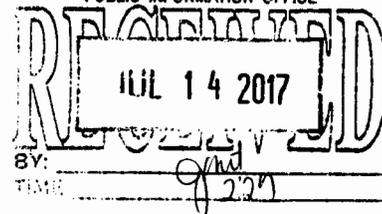




Republic of the Philippines
 Supreme Court
 Manila

SUPREME COURT OF THE PHILIPPINES
 PUBLIC INFORMATION OFFICE



FIRST DIVISION

TEODORICO A. ZARAGOZA,
 Petitioner,

G.R. No. 224022

Present:

- versus -

ILOILO SANTOS TRUCKERS,
 INC.,
 Respondent.

SERENO, C.J., Chairperson,
 LEONARDO-DE CASTRO,
 DEL CASTILLO,
 PERLAS-BERNABE, and
 CAGUIOA, JJ.

Promulgated:

JUN 28 2017

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DECISION

PERLAS-BERNABE, J.:

Assailed in this petition for review on *certiorari*¹ are the Decision² dated July 22, 2015 and the Resolution³ dated April 8, 2016 of the Court of Appeals (CA) in CA-G.R. CEB-SP No. 07839 which affirmed the Decision⁴ dated July 5, 2013 of the Regional Trial Court of Iloilo City, Branch 23 (RTC-Br. 23) in Civil Case No. 12-31294, and accordingly, held, *inter alia*, that petitioner Teodorico A. Zaragoza (petitioner) could not eject respondent Iloilo Santos Truckers, Inc. (respondent) from the leased premises as the latter complied with its obligation to pay monthly rent thru consignment.

¹ *Rollo*, pp. 8-20.

² Id. at 25-33. Penned by Associate Justice Germano Francisco D. Legaspi with Associate Justices Pamela Ann Abella Maxino and Jhosep Y. Lopez concurring.

³ Id. at 36-37.

⁴ Id. at 297-309. Penned by Judge Edgardo L. Catilo.

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The Facts

On June 26, 2003, petitioner Teodorico A. Zaragoza (petitioner) bought a 3,058-square meter (sq. m.) parcel of land located at Cabatuan, Iloilo, denominated as Lot No. 937-A, from his parents, Florentino and Erlinda Zaragoza,⁵ and eventually, had the same registered under his name in Transfer Certificate of Title No. 090-2010009190.⁶ Petitioner claimed that unknown to him, his father leased⁷ a 1,000-sq. m. portion of Lot 937-A (subject land) to respondent Iloilo Santos Truckers, Inc. (respondent), for a period of eight (8) years commencing on December 5, 2003 and renewable for another eight (8) years at the sole option of respondent.⁸ This notwithstanding, petitioner allowed the lease to subsist and respondent had been diligent in paying its monthly rent amounting to ₱10,000.00 per month⁹ (₱11,200.00¹⁰ including value added tax¹¹) pursuant to the lease contract.

Petitioner claimed that when Florentino died, respondent stopped paying rent. On the other hand, respondent maintained that it was willing to pay rent, but was uncertain as to whom payment should be made as it received separate demands from Florentino's heirs, including petitioner.¹² Thus, respondent filed an interpleader case before the Regional Trial Court of Iloilo City, Branch 24 (RTC-Br. 24), docketed as Civil Case No. 07-29371. After due proceedings, RTC-Br. 24 issued: (a) Order¹³ dated June 22, 2010 dismissing the action for interpleader, but at the same time, stating that respondent may avail of the remedy of consignation; and (b) Order¹⁴ dated August 17, 2010 which, *inter alia*, reiterated that respondent may consign the rental amounts with it in order to do away with unnecessary expenses and delay. Pursuant thereto, respondent submitted a Consolidated Report¹⁵ dated January 26, 2011 and a Manifestation and Notice¹⁶ dated May 30, 2011 informing petitioner that it had consigned the aggregate amount of ₱521,396.89¹⁷ before RTC-Br. 24.¹⁸

This notwithstanding, petitioner sent respondent a letter¹⁹ dated May 24, 2011, stating that granting without conceding the propriety of consignation, the same did not extinguish the latter's obligation to pay rent

⁵ See Deed of Absolute Sale, *id.* at 47.

⁶ *Id.* at 44.

⁷ See Lease Contract, *id.* at 50-53.

⁸ *Id.* at 26.

⁹ See *id.*

¹⁰ The monthly rent, however, varied: from February-May 2007, rent fee was ₱11,700.00 and on June 2007, rent fee was ₱11,325.00. See *CA rollo*, p. 282.

¹¹ See Position Paper dated November 19, 2011; *id.* at 263-275. See also Statement of Account on Unpaid Rentals, *id.* at 281-284.

¹² *Rollo*, p. 26.

¹³ *Id.* at 80-81. Penned by Judge Danilo P. Galvez.

¹⁴ *Id.* at 114-115.

¹⁵ *CA rollo*, pp. 208-211.

¹⁶ *Id.* at 216-218.

¹⁷ See *id.* at 212-214 and 219.

¹⁸ See *rollo*, p. 26.

¹⁹ *CA rollo*, p. 285.

because the amount consigned was insufficient to cover the unpaid rentals plus interests from February 2007 to May 2011 in the amount of ₱752,878.72. In this regard, petitioner demanded that respondent pay said amount and at the same time, vacate the subject land within fifteen (15) days from receipt of the letter. In its reply,²⁰ respondent reiterated that it had already paid rent by consigning the amount of ₱521,396.89 with RTC-Br. 24 representing monthly rentals from February 2007 to March 2011, and maintained that it is not obligated to pay interests under the lease contract. In a letter²¹ dated June 9, 2011, petitioner clarified that the aforesaid amount consigned by respondent was insufficient to cover monthly rentals from February 2007 to March 2011 which already amounted to ₱562,125.00 without interest. He likewise reiterated that his earlier demand to pay was for the period of February 2007 to May 2011. Thus, petitioner posited that respondent had continuously failed and refused to comply with the terms and conditions of the lease contract concerning the payment of monthly rental, with or without consignment.²² As his demands went unheeded, petitioner filed on June 21, 2011 a suit²³ for unlawful detainer against respondent before the Municipal Trial Court in Cities, Iloilo City, Branch 10 (MTCC), docketed as Civil Case No. 32-11.²⁴

In its defense, respondent maintained, *inter alia*, that its consignment of rental amounts with RTC-Br. 24 constituted compliance with the provisions of the lease contract concerning the monthly rental payments. As such, petitioner has no cause of action against it, and accordingly, it cannot be ejected from the subject land.²⁵

Pending the unlawful detainer suit, respondent sent petitioner a letter²⁶ dated September 29, 2011 expressing its intention to renew the lease contract. In response, petitioner sent letters dated October 10, 2011²⁷ and October 11, 2011²⁸ rejecting respondent's intent to renew in view of the latter's failure to timely pay its monthly rentals.

The MTCC Ruling

In a Decision²⁹ dated December 29, 2011, the MTCC ruled in petitioner's favor, and accordingly, ordered respondent to: (a) vacate the subject land; and (b) pay petitioner back rentals in the amount of ₱10,000.00 a month from February 2007 and the succeeding months thereafter until it vacates the subject land, plus legal interest of twelve percent (12%) per

²⁰ See letter dated June 7, 2011, *id.* at 286.

²¹ *Id.* at 287-288.

²² *Id.*

²³ See Complaint for Unlawful Detainer with Damages dated June 13, 2011; *rollo*, pp. 38-43.

²⁴ *Rollo*, pp. 26-27.

²⁵ See Answer with Counterclaim dated July 22, 2011; *CA rollo*, pp. 224-239.

²⁶ *Id.* at 289-290.

²⁷ *Id.* at 291.

²⁸ *Id.* at 292.

²⁹ *Rollo*, pp. 195-228. Penned by Presiding Judge Enrique Z. Trespeces.

annum from extrajudicial demand until full payment, ₱20,000.00 as attorney's fees, ₱50,000.00 as litigation expenses, and the costs of suit.³⁰

The MTCC found that petitioner's complaint properly makes out a case for unlawful detainer as it alleged that respondent defaulted in its rental payments from February 2007 to May 2011 in the total amount of ₱752,878.72 and that the latter failed to pay the same and to vacate the subject land despite demands to do so.³¹ Further, the MTCC opined that respondent's consignment with RTC-Br. 24 is void, and thus, did not serve to release respondent from paying its obligation to pay rentals. As there was no valid consignment, respondent was held liable to pay unpaid rentals and that petitioner was justified in terminating the lease contract.³²

Aggrieved, respondent appealed³³ to the RTC-Br. 23, docketed as Civil Case No. 12-31294.

The RTC-Br. 23 Ruling

In a Decision³⁴ dated July 5, 2013, the RTC-Br. 23 reversed and set aside the MTCC ruling, and accordingly, dismissed petitioner's complaint. Contrary to the MTCC's findings, the RTC-Br. 23 ruled, *inter alia*, that respondent's consignment of the rental amounts was proper, considering that: (a) it was made pursuant to RTC-Br. 24's order, which had jurisdiction over the interpleader case, consignment being an ancillary remedy thereto; (b) it was made even before petitioner's filing of the unlawful detainer case and that petitioner knew of such fact; and (c) petitioner even withdrew the consigned amounts. Thus, the consignment effectively released respondent from its obligation to pay rent, and hence, petitioner's complaint for unlawful detainer must necessarily fail.³⁵

Dissatisfied, petitioner appealed to the CA via a petition for review,³⁶ docketed as CA-G.R. CEB-SP No. 07839.

The CA Ruling

In a Decision³⁷ dated July 22, 2015, the CA affirmed the RTC-Br. 23 ruling. It held, *inter alia*, that while petitioner's complaint for unlawful detainer sufficiently states a cause of action on its face, petitioner, however,

³⁰ Id. at 227-228.

³¹ See id. at 217-220.

³² See id. at 220-224.

³³ See Memorandum-On-Appeal dated March 30, 2012; id. at 232-271.

³⁴ Id. at 297-309.

³⁵ See id. at 303-307.

³⁶ Dated July 31, 2013. CA *rollo*, pp. 22-47.

³⁷ *Rollo*, pp. 25-33.

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failed to substantiate his allegation that respondent violated the terms and conditions of the lease contract by intentionally failing to pay the monthly rentals.³⁸ In this regard, the CA found that respondent was actually ready and willing to comply with its obligation to pay rent, but was in a quandary as to whom it should remit its payment.³⁹ Hence, it showed good faith by consigning its rental payments to RTC-Br. 24, which was properly made and was acknowledged by petitioner by withdrawing the consigned amounts in court. There being no violation of the lease contract, petitioner could not validly eject respondent from the subject land.⁴⁰

Undaunted, petitioner moved for reconsideration,⁴¹ which was, however, denied in a Resolution⁴² dated April 8, 2016; hence, this petition.

The Issue Before the Court

The issue for the Court's resolution is whether or not the CA correctly ruled that petitioner could not eject respondent from the subject land as the latter fully complied with its obligation to pay monthly rent thru consignment.

The Court's Ruling

The petition is meritorious.

In *Spouses Manzanilla v. Waterfields Industries Corporation*,⁴³ the Court discussed the requisites of an unlawful detainer suit in instances where there is a subsisting lease contract between the plaintiff-lessor and defendant-lessee, to wit:

For the purpose of bringing an unlawful detainer suit, two requisites must concur: (1) there must be failure to pay rent or comply with the conditions of the lease, and (2) there must be demand both to pay or to comply and vacate. The first requisite refers to the existence of the cause of action for unlawful detainer, while the second refers to the jurisdictional requirement of demand in order that said cause of action may be pursued. Implied in the first requisite, which is needed to establish the cause of action of the plaintiff in an unlawful detainer suit, is the presentation of the contract of lease entered into by the plaintiff and the defendant, the same being needed to establish the lease conditions alleged to have been violated. Thus, in *Bachrach Corporation v. Court of Appeals* [(357 Phil. 483, 492 [1998])], the Court held that **the evidence needed to establish the cause of action in an unlawful detainer case is**

³⁸ Id. at 30.

³⁹ See id. at 32.

⁴⁰ See id. at 31-33.

⁴¹ See motion for reconsideration dated September 2, 2015; CA *rollo*, pp. 504-517.

⁴² *Rollo*, pp. 36-37.

⁴³ 739 Phil. 94 (2014).

(1) a lease contract and (2) the violation of that lease by the defendant.⁴⁴ (Emphases and underscoring supplied)

In other words, for an unlawful detainer suit to prosper, the plaintiff-lessor must show that: ***first***, initially, the defendant-lessee legally possessed the leased premises by virtue of a subsisting lease contract; ***second***, such possession eventually became illegal, either due to the latter's violation of the provisions of the said lease contract or the termination thereof; ***third***, the defendant-lessee remained in possession of the leased premises, thus, effectively depriving the plaintiff-lessor enjoyment thereof; and ***fourth***, there must be a demand both to pay or to comply and vacate and that the suit is brought within one (1) year from the last demand.⁴⁵

In this case, the first, third, and fourth requisites have been indubitably complied with, considering that at the time the suit was instituted on June 21, 2011: (a) there was a subsisting lease contract⁴⁶ between petitioner and respondent; (b) respondent was still in possession of the subject land; and (c) the case was filed within one (1) year from petitioner's letter⁴⁷ dated May 24, 2011 demanding that respondent pay monthly rentals and at the same time, vacate the subject land. Thus, the crux of the controversy is whether or not the second requisite has been satisfied, that is, whether or not respondent violated the terms and conditions of the lease contract, specifically with regard to the payment of monthly rentals.

According to the RTC-Br. 23 and the CA, respondent did not breach its obligation to pay rent as its consignment of its monthly rentals with RTC-Br. 24 constitutes sufficient compliance thereof.

The RTC-Br. 23 and the CA are mistaken.

To recapitulate, in its letter⁴⁸ dated May 24, 2011, petitioner demanded payment for, among others, monthly rentals for the period of **February 2007 to May 2011**. In response thereto,⁴⁹ respondent claimed that it had already complied with its obligation to pay monthly rentals via consignment with RTC-Br. 24, as evidenced by the Manifestation and Notice⁵⁰ dated May 30, 2011 it filed before said court. However, a closer reading of such letter-reply and Manifestation and Notice reveals that the amount consigned with RTC-Br. 24 represents monthly rentals only for the period of **February 2007 to March 2011**, which is two (2) whole months short of what was being demanded by petitioner. In fact, petitioner pointed

⁴⁴ Id. at 106, citing *Fideldia v. Spouses Mulato*, 586 Phil. 1, 14 (2008).

⁴⁵ See *Zacarias v. Anacay*, 744 Phil. 201, 208-209 (2014), citing *Cabrera v. Getaruela*, 604 Phil. 59, 66 (2009).

⁴⁶ *Rollo*, pp. 50-53.

⁴⁷ *CA rollo*, p. 285.

⁴⁸ Id.

⁴⁹ See letter dated June 7, 2011, id. at 286.

⁵⁰ Id. at 216-218.

out such fact in his letter⁵¹ dated June 9, 2011 to respondent, but the latter still refused to make any additional payments, by either making further consignations with RTC-Br. 24 or directly paying petitioner.

From the foregoing, it appears that even assuming *arguendo* that respondent's consignment of its monthly rentals with RTC-Br. 24 was made in accordance with law, it still failed to comply with its obligation under the lease contract to pay monthly rentals. It is apparent that at the time petitioner filed the unlawful detainer suit on June 21, 2011, respondent was **not** updated in its monthly rental payments, as there is no evidence of such payment for the months of April, May, and even June 2011. Irrefragably, said omission constitutes a violation of the lease contract on the part of respondent.

Considering that all the requisites of a suit for unlawful detainer have been complied with, petitioner is justified in ejecting respondent from the subject land. Thus, the rulings of the RTC-Br. 23 and the CA must be reversed and set aside, and accordingly, the MTCC ruling must be reinstated. However, in light of prevailing jurisprudence, the rental arrearages due to petitioner shall earn legal interest of twelve percent (12%) per annum, computed from first demand on May 24, 2011 to June 30, 2013, and six percent (6%) per annum from July 1, 2013 until fully paid. The other amounts awarded by the MTCC, *i.e.*, ₱20,000.00 as attorney's fees, ₱50,000.00 as litigation expenses, and the costs of suit) shall likewise earn legal interest of six percent (6%) per annum from finality of the Decision until fully paid.⁵²

WHEREFORE, the petition is **GRANTED**. The Decision dated July 22, 2015 and the Resolution dated April 8, 2016 of the Court of Appeals in CA-G.R. CEB-SP No. 07839 are hereby **REVERSED** and **SET ASIDE**. Accordingly, the Decision dated December 29, 2011 of the Municipal Trial Court in Cities, Iloilo City, Branch 10 in Civil Case No. 32-11 is hereby **REINSTATED** with **MODIFICATION** in that the rental arrearages due to petitioner Teodorico A. Zaragoza shall earn legal interest of twelve percent (12%) per annum, computed from first demand on May 24, 2011 to June 30, 2013, and six percent (6%) per annum from July 1, 2013 until full satisfaction. The other amounts awarded in favor of petitioner Teodorico A. Zaragoza, such as the ₱20,000.00 as attorney's fees, ₱50,000.00 as litigation expenses, and the costs of suit shall also earn legal interest of six percent (6%) per annum from finality of the decision until fully paid.

⁵¹ Id. at 287-288.

⁵² See *Nacar v. Gallery Frames*, 716 Phil. 267 (2013).

SO ORDERED.

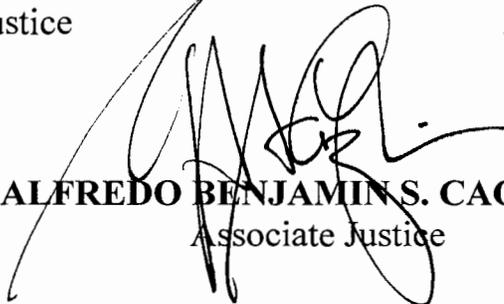

ESTELA M. PERLAS-BERNABE
Associate Justice

WE CONCUR:


MARIA LOURDES P. A. SERENO
Chief Justice


TERESITA J. LEONARDO-DE CASTRO
Associate Justice


MARIANO C. DEL CASTILLO
Associate Justice


ALFREDO BENJAMIN S. CAGUIOA
Associate Justice

CERTIFICATION

Pursuant to Section 13, Article VIII of the Constitution, 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