Republic of the Philippines
Supreme Court
Manila

FIRST DIVISION

N O T I C E

Sirs/Mesdames:

Please take notice that the Court's First Division issued a Resolution dated **August 9, 2023** *which reads as follows:*

"G.R. No. 189370 (*Maunlad Construction and Development Corporation vs. Bargain Specialists, Inc.*); and G.R. No. 208798 (*Maunlad Construction and Development Corporation, represented by Nemencio C. Pulumbarit, Sr. vs. The Province of Bulacan and Bargain Specialists, Inc.*). — Before the Court are two consolidated[1] Appeals[2] by *certiorari.* Both cases arose out of the petition/complaint for preliminary injunction with prayer for the issuance of a temporary restraining order (*TRO*) and for declaration of nullity of lease agreement filed by Maunlad Construction and Development Corporation (*petitioner*) against the Provincial Government of Bulacan (*PGB*) and Bargain Specialists, Inc. (*BSI*) before the Regional Trial Court of Malolos City, Branch 9 (*RTC*), docketed as Civil Case No. 641-M-2005.

The first appeal, docketed as G.R. No. 189370 in this Court, seeks to reverse and set aside the August 28, 2009 Decision[3] of the Court of Appeals (*CA*) in CA-G.R. CV No. 88477. The CA denied the appeal assailing the April 7, 2006[4] and July 14, 2006[5] Orders of the RTC, which granted the motion to dismiss filed by BSI and dismissed the complaint as against the latter.

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1 By virtue of the Resolution dated December 4, 2013; *rollo* (G.R. No. 189370), p. 165 and *rollo* (G.R. No. 208798), p. 121.

2 *Rollo* (G.R. No. 189370), pp. 29-56; *rollo* (G.R. No. 208798), pp. 28-51.

3 *Rollo* (G.R. No. 189370), pp. 14-26; penned by Associate Justice Isaias P. Dicdican and concurred in by Associate Justices Remedios A. Salazar-Fernando and Romeo F. Barza.

4 RTC records, Vol. I, pp. 489-493; penned by Acting Judge Manuel R. Ortiguerra.

5 Id., Vol. II, pp. 80-81.

The second appeal, docketed as G.R. No. 208798, seeks to reverse and set aside the August 30, 2013 Decision[6] of the CA in CA-G.R. CV No. 96812. The CA affirmed the March 15, 2011 Decision[7] of the RTC, which, after a full-blown trial, dismissed the complaint against the PGB.

The Antecedents

On June 21, 1995, petitioner entered into a Lease Agreement[8] with the PGB. The property subject of the lease is a parcel of land located at MacArthur Highway, Malolos, Bulacan, with an area of 8,653 square meters and covered by Original Certificate of Title No. 40-2172 (OCT-104) in the name of the PGB (*subject property*).[9]

The purpose of the lease was to utilize the premises for office and commercial purposes, for a term of 25 years commencing on June 1, 1995, renewable upon the mutual agreement of the parties. Petitioner, thereafter, constructed Maunlad Mall 3 on the subject property and operated the same.[10]

During the effectivity of the lease, petitioner failed to pay rentals on their due dates. Hence, on September 23, 2002, the PGB instituted a complaint for ejectment against petitioner before the Municipal Trial Court in Cities, Malolos City, Bulacan, Branch 2 (*MTCC*), docketed as Civil Case No. 02-112 (*ejectment case*). The MTCC decided in favor of the PGB in its May 20, 2003 Decision,[11] the dispositive portion of which reads:

> WHEREFORE, under the premises, judgment is hereby rendered in favor of the plaintiff by ordering the defendant and his [successor-in-interest]:
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> 1. To vacate the premises subject matter of the lease agreement and to deliver the peaceful possession thereof to the plaintiff;
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> 2. To pay the plaintiff [₱]5,940,429.92 as rentals in arrears;
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> 3. To pay the plaintiff a rental of [₱]91,310.78 per month counted from September 2002 and every succeeding end of the [month] thereafter; and

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6 *Rollo* (G.R. No. 208798), pp. 53-66; penned by Associate Justice Sesinando E. Villon and concurred in by Associate Justices Florito S. Macalino and Pedro B. Corales.
7 RTC records, Vol. III, pp. 486-506; penned by Presiding Judge Veronica A. Vicente-De Guzman.
8 *Rollo* (G.R. No. 208798), pp. 78-82.
9 Id. at 54.
10 Id. at 54-55.
11 MTCC records, Vol. I, pp. 150-153; penned by Judge Nemesio V. Manlangit.

4. To pay plaintiff attorney's fees of [₱]20,000.00 plus cost of suit.

SO ORDERED.[12]

The trial court ruled, among others, that petitioner failed to pay rentals due in violation of the terms and conditions of the Lease Agreement, and that such constituted sufficient ground for the termination of the lease.[13]

Dissatisfied, petitioner filed a Notice of Appeal.[14]

The PGB filed a Motion for Immediate Execution[15] of the May 20, 2003 Decision, which was granted by the MTCC in an Order[16] dated June 18, 2003. The MTCC ratiocinated that petitioner failed to either file a supersedeas bond to stay the execution of the judgment, or pay the accrued rentals. A Writ of Execution[17] was issued by the MTCC on the same date, but was not implemented.[18]

In the meantime, on August 5, 2003, petitioner entered into a Contract of Lease[19] with BSI over Maunlad Mall 3 for a period of 10 years beginning September 1, 2003. This contract, a sublease agreement, excluded an area which petitioner retained to house its offices.[20]

On December 10, 2003, petitioner's appeal of the ejectment case was dismissed due to petitioner's failure to file its appeal memorandum.[21] On August 26, 2005, the PGB filed before the MTCC a Motion for Issuance of [an] Alias Writ of Execution.[22]

On September 21, 2005, petitioner instituted a Petition[23] for preliminary injunction with prayer for the issuance of a TRO against the PGB before the RTC. This was docketed as Civil Case No. 641-M-2005 and is the action subject of these appeals.

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12 Id. at 153.
13 Id. at 152-153.
14 Id. at 157.
15 Id. at 158-160.
16 Id. at 161.
17 Id. at 162-163.
18 *Rollo* (G.R. No. 208798), p. 56.
19 RTC records, Vol. II, pp. 729-735.
20 *Rollo* (G.R. No. 208798), p. 56; MTCC records, Vol. II, p. 80.
21 MTCC records, Vol. I, p. 172.
22 Id., Vol. II, pp. 1-4.
23 RTC records, Vol. I, pp. 7-22.

Meanwhile, the MTCC granted the motion of the PGB and in its September 29, 2005 Order,[24] directed the court sheriff to implement the Writ of Execution earlier issued on June 18, 2003. Upon service of said Order and the attached Writ of Execution to BSI, then the sublessee of petitioner, BSI constructively turned over the subject property through a Letter[25] dated September 30, 2005 addressed to the city sheriff.[26]

On October 4, 2005, the PGB and BSI entered into a Lease Agreement[27] over the subject property.

As a result of this, petitioner filed an Amended Petition/Complaint[28] in Civil Case No. 641-M-2005, captioning it as one for "preliminary injunction with prayer for the issuance of temporary restraining order; and for declaration of nullity of lease agreement," and impleaded BSI as a defendant.

On July 20, 2006, the PGB filed before the MTCC an Urgent *Ex Parte* Motion to Order the City Sheriff to Fully Implement the Writ of Execution.[29] This was in relation to the refusal of petitioner to vacate its offices located on the subject property, and its nonpayment of the remaining monetary obligation in the amount of ₱2,726,279.96.[30] In an Order[31] dated July 27, 2006, the MTCC granted the motion and issued an Alias Writ of Execution.[32]

In the Sheriff's Report[33] dated August 7, 2006, the city sheriff described that in each of her visits to petitioner's office (DOPS Room) on the premises to serve the Alias Writ of Execution, the door was always closed. the PGB moved for the issuance of a break-open order, which the MTCC granted in its August 11, 2006 Resolution.[34]

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24 MTCC records, Vol. II, pp. 85-86.
25 Id. at 89.
26 Id. at 78.
27 Id. at 92-99.
28 RTC records, Vol. I, pp. 194-217.
29 MTCC records, Vol. II, pp. 77-84.
30 Id. at 80.
31 Id. at 100-101.
32 Id. at 102-103.
33 Id. at 106.
34 Id. at 111-112.

G.R. No. 189370 – Dismissal of the case against BSI

On December 16, 2005, BSI filed a Motion to Dismiss[35] the complaint against it.

The RTC Ruling

In its April 7, 2006 Order, the RTC granted the motion to dismiss. The dispositive portion provides:

> WHEREFORE, on the basis of the laws/jurisprudence applicable thereon, the foregoing Motion To Dismiss is hereby **GRANTED**. The case against private respondent/defendant Bargain Specialists, Inc. is ordered **DISMISSED**.
>
> SO ORDERED.[36]

First, the RTC held that petitioner's representative, Nemencio C. Pulumbarit (*Pulumbarit*), was not duly authorized by the Board of Directors of petitioner to file the Amended Petition/Complaint against BSI. Pulumbarit argued that his authority was derived from the board resolution attached to the original petition, but the RTC observed that such resolution failed to include any statement authorizing Pulumbarit to institute and pursue action against BSI. Thus, he had no legal capacity to sign the certification against forum shopping and he had no capacity to sue BSI in the absence of any board resolution authorizing him to do so. This, for the RTC, necessitates the dismissal of the case against BSI.[37]

Second, the RTC ruled that the complaint states no cause of action against BSI. It observed that the May 20, 2003 Decision of the MTCC in the ejectment case had attained finality. BSI had already turned over and surrendered the subject property to the PGB. Simply, BSI cannot be blamed for its reliance on the final judgment of the MTCC. The contract of lease it entered into with the PGB is but a logical consequence of an exercise of the right of the PGB as the prevailing party in the ejectment case. BSI violated no legal right of petitioner.[38]

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35 RTC records, Vol. I, pp. 421-458.
36 Id. at 493.
37 Id. at 489-490.
38 Id. at 491-492.

Third, the RTC held that the doctrine of *res judicata*, particularly in its aspect of conclusiveness of judgment, mandates the dismissal of the complaint against BSI. It noted that, although BSI was not a party in the ejectment case, the matters determined therein, such as the termination of the June 21, 1995 lease contract between the PGB and petitioner, as well as the transfer of ownership of the subject property, are "conclusive as to the matters adjudged involving herein defendant movant [BSI]."[39]

Petitioner filed a motion for reconsideration, which the RTC denied in its July 14, 2006 Order.

Aggrieved, petitioner filed a Notice of Appeal,[40] elevating the matter to the CA. The case was docketed as CA-G.R. CV No. 88477.

The CA Ruling

In its August 28, 2009 Decision, the CA denied the appeal and affirmed the April 7, 2006 and July 14, 2006 Orders of the RTC. The *fallo* reads:

> **WHEREFORE**, in view of all the foregoing premises, the instant appeal is **DENIED** and, consequently, **DISMISSED** and the assailed orders dated April 7, 2006 and July 14, 2006 issued by the Regional Trial Court (RTC), Branch 9, in Malolos City in Civil Case No. 641-M-2005 are hereby **AFFIRMED**.
>
> **SO ORDERED**.[41]

On the alleged lack of authority of Pulumbarit to file the complaint against BSI, the CA held that his authority to file the Amended Petition/Complaint was confirmed and ratified by petitioner when it attached the Board Resolution dated April 20, 2006 to its motion for reconsideration to the April 7, 2006 Order of the RTC. This constituted substantial compliance with procedural rules.[42]

On the merits, however, the CA agreed with the RTC. It held that the allegations in the Amended Petition/Complaint did not constitute a cause of action. The CA observed that petitioner's right had long been dissolved

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39 Id. at 492-493.
40 Id. at 84-85.
41 *Rollo* (G.R. No. 189370), p. 25.
42 Id. at 20-21.

when it violated the Lease Agreement with the PGB. Further, the CA agreed with BSI that the acceptance of rental in arrears does not constitute waiver of default in the payment of rentals as a valid cause of action for ejectment. The termination of the Lease Agreement between petitioner and the PGB carried with it the termination of the sublease contract between petitioner and BSI. BSI cannot be said to have acted in bad faith against petitioner when it only observed court processes and orders involving the subject property it subleased. Finally, assuming the allegations in the Amended Petition/Complaint are true, the trial court could not render a valid judgment since petitioner failed to file a sufficient supersedeas bond to stay the execution of the judgment of ejectment. The Amended Petition/Complaint also failed to allege facts that would be a valid ground to declare the lease contract between the PGB and BSI null and void.[43]

On the applicability of the doctrine of conclusiveness of judgment, the CA held that the ejectment case already settled the issue of possession by petitioner of the subject property. The lease contract between petitioner and the PGB was deemed terminated due to the violation of the terms and conditions thereof. Petitioner cannot anymore litigate on the issue of its rights as a lessee under the original Lease Agreement with the PGB and as a lessor in its sublease agreement with BSI. The termination of its lease contract barred petitioner's action to assail the validity of the lease agreement between the PGB and BSI.[44]

Aggrieved, petitioner filed the instant appeal for *certiorari* before this Court, docketed as G.R. No. 189370.

G.R. No. 208798 – Dismissal of the case against the PGB

Meanwhile, the case against the PGB proceeded. The PGB filed a Motion to Dismiss[45] the action against it on the following grounds: (1) the act sought to be restrained and enjoined has become moot and academic; (2) the complaint states no cause of action; and (3) the doctrine of *res judicata* applies.[46] The RTC deferred the resolution of the motion, allowed petitioner to finish presenting its evidence, and continued with the main case.[47]

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43 Id. at 23.
44 Id. at 23-25.
45 RTC records, Vol. II, pp. 319-336.
46 Id. at 319-320.
47 Id. at 577.

The RTC Ruling

In its March 15, 2011 Decision, the RTC dismissed the action against the PGB for want of cause of action. The *fallo* reads:

> WHEREFORE, finding no valid reason to enjoin the acts of possession or ownership of herein respondent Provincial Government of Bulacan over the property subject of the Lease Agreement (Exhibit "C"/Exhibit "1") executed by and between Maunlad Construction and Development Corporation and the Province of Bulacan, this case is hereby DISMISSED for want of cause of action.
>
> SO ORDERED.[48]

Preliminarily, the RTC remarked that since the issue of propriety of the dismissal of the complaint as against BSI was pending before this Court, the issues that it must resolve were limited to the following: (1) the propriety of issuing an order restraining or enjoining the issuance of the alias writ of execution by the MTCC; and (2) the propriety of issuing an order restraining or enjoining the PGB from exercising acts of possession and ownership over the subject property in question, including the permanent structures built by petitioner on the subject property.[49]

On the first issue, the RTC held that it is constrained to deny the same since the acts sought to be enjoined were already moot and academic. The MTCC had already issued the alias writ of execution, and possession of the subject property had already been delivered to the PGB.[50]

On the second issue, the RTC ratiocinated that the action before it is one for injunction, and thus, it cannot rule on the matter involving the building or mall built by petitioner on the subject property since the case was not for recovery of possession. The RTC is limited to determining whether there is good reason to enjoin the PGB from acts of possession or ownership over the subject property.[51]

Petitioner argued that the payments it made to the PGB after the rendition of the judgment in the ejectment case established a novation of the parties' original lease contract. The RTC rejected such claim. It found that

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48 Id., Vol. III, pp. 505-506.
49 Id. at 501-502.
50 Id. at 502.
51 Id.

the communication[52] from Ma. Gladys Sta. Rita (*Sta. Rita*), the Provincial Administrator of the PGB, to Pulumbarit does not establish that a new contract or arrangement was entered into between them. Besides, any new agreement could not have been valid because it had not been entered into by the Provincial Governor of Bulacan as the duly authorized representative of the PGB. Lastly, the RTC held that petitioner merely continued payment of its arrears under its original Lease Agreement with the PGB.[53]

Petitioner again filed a Notice of Appeal.[54] The appeal before the CA was thereafter docketed as CA-G.R. CV No. 96812.

The CA Ruling

In its August 30, 2013 Decision, the CA affirmed the March 15, 2011 Decision of the RTC. The dispositive portion provides:

> **WHEREFORE**, in light of all the foregoing, the decision dated March 15, 2011 of Branch 9, Regional Trial Court of Malolos City, Bulacan in Civil Case No. 641-M-2005 is hereby **AFFIRMED**.
>
> SO ORDERED.[55]

The CA held that there was no merit to petitioner's appeal. It declared that petitioner does not have any clear or vested right which warrants the issuance of an injunction, whether provisionally or permanently. Further, petitioner seeks to enjoin the execution of the May 20, 2003 Decision of the MTCC in the ejectment case. However, the same was already executory. Hence, injunction is no longer a viable recourse for petitioner. Besides, the act sought to be enjoined – the delivery of the subject property to the PGB – had already been performed or accomplished. Injunction will not lie anymore since the act sought to be enjoined had already become *fait accompli* or an accomplished act. As regards the validity of the October 4, 2005 Lease Agreement between the PGB and BSI, BSI is an indispensable party in such issue, and thus, the RTC could no longer rule thereon after it granted BSI's motion to dismiss.[56]

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52 Id., Vol. II, p. 744.
53 Id., Vol. III, pp. 503-505.
54 Id. at 507-508.
55 *Rollo* (G.R. No. 208798), p. 65.
56 Id. at 60-65.

Dissatisfied, petitioner instituted before this Court the appeal by *certiorari* docketed as G.R. No. 208798.

The Issues

In G.R. No. 189370, petitioner raised the following issues:

I

DID THE COURT OF APPEALS COMMIT A [*sic*] GRAVE ABUSE OF DISCRETION AMOUNTING TO LACK OR EXCESS OF JURISDICTION, WHEN IT CONCLUDED THAT THE ALLEGATIONS OF THE AMENDED PETITION/COMPLAINT IN CIVIL CASE NO. 641-M-2005 DO NOT CONSTITUTE A VALID CAUSE OF ACTION AS AGAINST BARGAIN SPECIALISTS, INC., ONE OF THE DEFENDANTS THEREIN?

II

DID THE COURT OF APPEALS COMMIT A [*sic*] GRAVE ABUSE OF DISCRETION, AMOUNTING TO LACK OR EXCESS OF JURISDICTION, WHEN IT HELD THAT THE CONTRACT OF LEASE BETWEEN THE PROVINCIAL GOVERNMENT OF BULACAN (BULACAN) AND MAUNLAD CONSTRUCTION AND DEVELOPMENT CORPORATION (MCDC); AND THE CONTRACT OF LEASE BETWEEN MCDC AND BARGAIN SPECIALISTS, INC. (BSI) HAVE CEASED TO EXIST; AND THAT THE CONTRACT OF LEASE BETWEEN BULACAN AND BSI, IS VALID AND SUBSISTING, WITHOUT THE APPELLATE COURT FIRST WAITING FOR THE DECISION THEREON OF THE RTC, THEREBY TRANGRESSING THE RULE ON JUDICIAL HIERARCHY?

III

DID THE COURT OF APPEALS COMMIT A [*sic*] GRAVE ABUSE OF DISCRETION, AMOUNTING TO LACK OR EXCESS OF JURISDICTION, WHEN IT DIGNIFIED, IN EFFECT, THE IMPLEMENTATION OF THE ALIAS WRIT OF EXECUTION IN THE EJECTMENT CASE BY THE [MTCC] DESPITE THE CHANGE IN THE SITUATION OF THE PARTIES WHICH MADE THE IMPLEMENTATION OF THE ALIAS WRIT OF EXECUTION INEQUITABLE?

IV

DID THE COURT OF APPEALS COMMIT A [*sic*] GRAVE ABUSE OF DISCRETION, AMOUNTING TO LACK OR EXCESS OF JURISDICITON, WHEN IT RULED THAT THE DECISION OF THE [MTCC] IN THE EJECTMENT SUIT BARS THE AMENDED

PETITION/COMPLAINT IN RTC CIVIL CASE NO. 641-M-2005, APPLYING THE PRINCIPLE OF *RES JUDICATA*?[57]

In G.R. No. 208798, petitioner raised the following issues:

I

DID THE COURT OF APPEALS ERR IN SUSTAINING THE RULING OF THE RTC WHICH DENIED THE PRAYER FOR INJUNCTION OF PETITIONER ON THE GROUND OF *FAIT ACCOMPLI* DESPITE THERE BEING NO VALID DELIVERY OR SURRENDER OF THE SUBJECT PROPERTY BY PETITIONER TO RESPONDENT PROVINCIAL GOVERNMENT OF BULACAN?

II

DID THE COURT OF APPEALS ERR IN ADOPTING THE FINDINGS OF FACT OF THE TRIAL COURT ON THE MERE PRESUMPTION THAT "FINDINGS OF FACT OF THE TRIAL COURT ARE ENTITLED TO GREAT WEIGHT ON APPEAL AND SHOULD NOT BE DISTURBED EXCEPT FOR STRONG AND VALID REASONS?[58] (Italics omitted)

Arguments of the Parties

G.R. No. 189370

First, petitioner asserts that a careful reading of its allegations in the Amended Petition/Complaint shows that petitioner's rights as lessor of BSI were violated when the latter, in bad faith and utter disregard of its subsisting contract of lease with petitioner, surreptitiously entered into another contract of lease with the PGB. Worse, BSI turned over to the PGB the building constructed by petitioner without the latter's knowledge and consent. Thus, with these allegations, the Amended Petition/Complaint states a valid cause of action against BSI.[59]

Second, petitioner claims that the CA erred when it ruled on the validity and/or subsistence of the three different contracts of lease involved in the case at bar. These issues were being litigated between petitioner and the PGB before the RTC. They had yet to be determined by the RTC. It was not for the CA to make any determination or pronouncement regarding the

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[57] *Rollo* (G.R. No. 189370), pp. 40-41.
[58] Id. at 38.
[59] Id. at 42.

validity, subsistence, extinguishment, or status of the various contracts of lease. It was not within the CA's province to decide on the issue of good faith or bad faith in the dealings of the parties. This was the province of the RTC, where, at the time the CA rendered its decision, the main case was still being tried.[60]

Third, petitioner contends that another valid cause of action against the PGB and BSI is petitioner's charge that it made payments to the PGB pursuant to a new agreement. Judgment in the ejectment case had been novated, and the execution of the MTCC Decision would be inequitable and unjust to petitioner since the PGB would be unjustly enriched at petitioner's expense.[61]

Fourth, petitioner insists that the principle of *res judicata* does not apply in the case at bar. The elements of *res judicata,* it claims, are not present. The ejectment case involved the issue of possession, while the instant case involves the issue of ownership of the mall, the validity of the three contracts of lease, and the enforcement of the alias writ of execution in the ejectment case. Further, petitioner contends that the causes of action in an ejectment case are not the same as the causes of action in a civil case for annulment of contracts.[62]

In its February 8, 2010 Comment,[63] BSI argues that the appeal by *certiorari* raises issues of fact, not of law, which is not allowed in said mode of appeal. BSI claims that the lower court's finding that the Amended Petition/Complaint did not present a valid cause of action against BSI is a question of fact since it entails the examination of the Amended Petition/Complaint itself as evidence. Similarly, the issues as to the validity of the contracts of lease and the propriety of the implementation of the alias writ of execution all necessitate an inquiry into the facts and evidence on record. Further, the petition contains a mere reiteration of the issues already passed upon by the CA. Finally, BSI echoes the CA's discussion on the application of *res judicata* in the concept of conclusiveness of judgment. It prays that the Court dismiss the appeal for lack of merit.[64]

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60 Id. at 43-45.
61 Id. at 45-47.
62 Id. at 47-48.
63 Id. at 108-113.
64 Id. at 108-112.

G.R. No. 208798

First, petitioner argues that contrary to the findings of the CA, there was no valid delivery of the subject property to the PGB. Petitioner cites Clause 8 of its Lease Agreement with the PGB,[65] which provides that:

> **8. TURN OVER OF PREMISES**
>
> Upon the termination or expiration of the lease, the **LESSEE** shall peacefully and quietly surrender the leased premises to the **LESSOR**, and likewise any permanent structures or improvements shall be transferred to the possession and ownership of the **LESSOR**.[66]

Petitioner contends that it remains the owner of the improvements constructed on the leased premises because it has not transferred possession and ownership thereof to the PGB. Petitioner points out that the decision of the MTCC in the ejectment case only ordered the transfer of the possession of the leased premises, meaning the parcel of land leased. The transfer of ownership and possession of the improvements may only be ordered by a court of competent jurisdiction, in a proper case brought for such purpose, and not by an ejectment court. Further, the surrender of the subject property to the PGB was defective and irregular. It was done by BSI, a third party, and not by petitioner. Petitioner asserts that it did not authorize BSI to effect such surrender. Thus, there was no valid surrender of the subject property and no *fait accompli*.[67]

Second, petitioner argues that interference with the final and executory decision of the MTCC in the ejectment case is proper because of intervening events. In particular, petitioner points out the alleged agreement between itself and the PGB for the settlement of petitioner's judgment by installment payments until December 2005. Petitioner made payments and only ₱2,374,080.20 remained outstanding. The PGB, however, did not wait until December 2005 for the full payment, but instead proceeded to enforce the writ of execution. Petitioner asserts that this belies the intent of the PGB to get ownership and possession of the building and permanent improvements after being paid the full amount of the judgment debt. This constitutes unjust enrichment at the expense of petitioner. Given the

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65 *Rollo* (G.R. No. 208798), p. 39.
66 Id. at 80.
67 Id. at 39-41.

foregoing, the enforcement of the MTCC Decision in the ejectment case had become patently inequitable and unjust to petitioner.[68]

Third, petitioner contends that the CA erred in ruling that it is bound by the findings of fact of the RTC. The CA should have reviewed and reevaluated the findings of fact of the lower court since the latter ignored, misunderstood, and failed to properly appreciate the facts and evidence presented by petitioner.[69]

In its Comment,[70] the PGB argues that petitioner's arguments are seriously misplaced. The adverse judgment rendered by the MTCC in the ejectment case is directed to petitioner and all persons claiming rights under it. Hence, it is binding on BSI who was in possession of the subject property. BSI did not err when it voluntarily surrendered possession to the PGB. With the lawful delivery of possession to the PGB, there is nothing to enjoin. Further, the Decision of the MTCC in the ejectment case had already attained finality. Petitioner was obliged to peacefully and quietly surrender the leased premises to the PGB and to transfer ownership of any permanent structure or improvement built thereon. The subject property was voluntarily surrendered by BSI, petitioner's sublessee. Hence, there is nothing more to enjoin. Finally, the PGB alleges that the payments made to it by petitioner were in partial compliance with the execution of the MTCC Decision, and not a new agreement depriving the PGB from reaping the fruits of its successful ejectment suit.[71]

The Court's Ruling

The consolidated appeals are denied for lack of merit.

Preliminarily, the Court restates the issues for simplicity: (1) whether the CA erred in affirming the dismissal of the case against BSI; (2) whether the Amended Petition/Complaint against BSI is barred by *res judicata*; (3) whether the enforcement of the May 20, 2003 Decision of the MTCC may be enjoined or restrained; and (4) whether the lease agreement between the PGB and BSI should be declared null and void.

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68 Id. at 41-43.
69 Id. at 43-44.
70 Id. at 148-153.
71 Id. at 148-151.

The Amended Petition/Complaint against BSI did not fail to state a cause of action.

The CA held that the dismissal of the case against BSI was proper because petitioner failed to state a cause of action against BSI in its initiatory pleading and that the doctrine of *res judicata* bars the action.

To properly determine whether the Amended Petition/Complaint stated a cause of action against BSI, a scrutiny of the allegations in said pleading is necessary. At this juncture, BSI's contention that the Court cannot take cognizance of this appeal because this particular issue is a question of fact must be addressed.

The question of whether the Amended Petition/Complaint stated a cause of action against BSI is not a question of fact but a question of law.

It is axiomatic that there is a question of fact when the doubt or controversy arises as to the truth or falsity of the alleged facts. Meanwhile, there is a question of law when the issue does not call for an examination of the probative value of the evidence presented, the truth or falsehood of facts being admitted, and the doubt concerns the correct application of law and jurisprudence on the matter.[72]

In the instant case, the controversy lies in determining whether the allegations made by petitioner in its Amended Petition/Complaint constitute a cause of action against BSI. It does not involve determining the truth or falsity of such allegations. In short, the Court needs only to refer to the allegations in the Amended Petition/Complaint and apply the principles governing causes of action to resolve the issue. The truth or falsity of pieces of evidence need not be determined by the Court to properly resolve the matter; it needs only to apply the law to arrive at a conclusion. Thus, plainly, this issue is one of law and not of fact.

Section 2, Rule 2 of the 2019 Revised Rules of Civil Procedure defines a cause of action as the act or omission by which a party violates a right of another.

> Otherwise stated, a cause of action has three elements, to wit, (1) a right in favor of the plaintiff by whatever means and under whatever law it

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[72] *Heirs of Cabigas v. Limbaco*, 670 Phil. 274, 285 (2011).

> arises or is created; (2) an obligation on the part of the named defendant to respect or not to violate such right; and (3) an act or omission on the part of such defendant violative of the right of the plaintiff or constituting a breach of the obligation of the defendant to the plaintiff.[73]

Petitioner arranged its Amended Petition/Complaint by discussing two causes of action.

For its first cause of action, petitioner detailed the payments it made to the PGB from May 15, 2003 to August 23, 2005,[74] then proceeded to allege as follows:

> FIRST CAUSE OF ACTION
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> x x x x
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> 03. THAT the May 20, 2003 decision dignified the LEASE AGREEMENT between the Provincial Government of Bulacan [(PGB)] and the defendant, MAUNLAD [CONSTRUCTION] AND DEVELOPMENT CORP. [(Maunlad)], particularly the provision requiring the faithful compliance of the provision about the payment of rentals and the sanctions [in case] of the [nonpayment] thereof. The contract imposed upon [Maunlad] the obligation to pay its monthly rentals. This contractual imposition was violated with [nonpayments]; thus, the Honorable Court [*a quo*] directed [Maunlad] to pay its rental arrearages in the amount of [₱]5,940,429.92. The Honorable Court also directed [Maunlad] "to pay the [PGB] rental of [₱]91,310.78/monthly from September 2002 and every succeeding end of the month thereafter; to pay [attorney's] fees in the amount of [₱]20,000.00"; and, to vacate the premises and deliver the peaceful possession thereof to the plaintiff. **While there was a WRIT OF EXECUTION that was ordered by the Honorable Court [*a quo*], the same was never implemented. Why? It was not because of the appeal to the Honorable Regional Trial Court; but, because the parties agreed to enter into a new arrangement.** This is unequivocably [*sic*] and clearly shown thru the foregoing payments made by [Maunlad] and the corresponding [acknowledgment] by the [PGB]. The old obligation of [Maunlad] under the lease agreement is on every point incompatible with the new arrangement between the same parties. [T]here have been changes in the principal conditions. The old obligation under the initial lease agreement was obliterated. There was novation x x x.
>
> 04. THAT undeniably the [PGB] has absolute rights as owner of the land in issue. It could never be said that the [PGB] slept on its rights because it enforced and protected the same rights [*vis-à-vis*] its lease agreement with [Maunlad] thru the instant judicial action. And, the Honorable Court

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73 *China Banking Corp. v. Court of Appeals*, 499 Phil. 770, 775 (2005).
74 RTC records, Vol. I, pp. 197-206.

judiciously recognized these rights of the [PGB]. **Be that as it may, the [PGB] abandoned and relinquished those rights, advantage, benefit, claim or privilege when it gave [Maunlad] the opportunity to comply with its obligations under the lease agreement under a new set of arrangements**. These new arrangements between the parties were deliberately and intelligently made by them. Consequently, the [PGB] waived its rights under the initial lease agreement and acknowledged the new proposals for payment offered by [Maunlad]. The [PGB] and [Maunlad] defined their new relationship. [Maunlad] complied with its new obligations and the [PGB], on the other hand, acknowledged said compliance inspite the sporadic failures of [Maunlad] to pay. In a number of occasions, the [PGB] demanded for payments under the new arrangements. Everytime demands were made, [Maunlad] paid. And, the [PGB] acknowledged receipt of such payments.

There was waiver on the part of the [PGB] of its contractual rights under the initial lease agreement and even on the sporadic failures of [Maunland] to pay under the new arrangement. When the [PGB], under the new arrangement, accepted payments after every demand, it may then be considered as having waived its rights which it intended to enforce and to protect under the demands. And, this being so, the [PGB] is under estoppel to enforce such rights. **It is crystal clear that it has adhered to renew their new contractual relationship every time it acknowledges payments made by [Maunlad].** The [PGB] benefited from the payments made by [Maunlad]. It cannot renege from [its] acceptance of payments from [Maunlad]. In "MACAHILIG vs. HEIRS OF GRACE M. MAGALIT, x x x", the High Tribunal said – "After having performed affirmative acts upon which a person acted in good faith, the actor cannot thereafter repudiate those acts or renege on their effects, to the prejudice of the former." When the [PGB] agreed to the new proposals of [Maunlad] and accepted payments under the same agreement, it cannot disown its bilateral arrangements with [Maunlad] without jeopardize [*sic*] the rights of the latter. The Supreme Court has to say about this. It ruled that "A party should not, after its opportunity to enjoy the benefits of an agreement, be allowed to later disown the arrangement when the terms thereof ultimately would prove to operate against its hopeful expectations."

x x x x

12. The issuance of the writ of execution or an alias writ of execution has become ministerial to the Honorable Presiding Judge, [MTCC], Branch II, Malolos City, upon the finality of the judgment. However, **in view of the intervening events of payments by [Maunlad] and the corresponding [acknowledgment] of payments by the [PGB], it is more conformable to the principles of justice and equity that the issuance of an alias writ [of] execution must be enjoined**.[75] (Emphases supplied; underscoring and citations omitted)

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[75] Id. at 206-211.

From the foregoing excerpt, it is evident that the first cause of action of petitioner is based on its perceived right arising from the alleged novation of the Lease Agreement between itself and the PGB. This new arrangement is allegedly based on the PGB's acceptance of payments after the rendition of the MTCC Decision in the ejectment case. According to petitioner, the PGB, having accepted the payments, cannot renege on the new arrangement. Thus, petitioner claimed that the PGB violated its rights under the new agreement when the PGB applied for the issuance of an alias writ of execution of the MTCC Decision. All elements of a cause of action are present herein. Since there is no controversy regarding the sufficiency of the allegations of this particular cause of action, the Court will not belabor on this point.

Meanwhile, petitioner set out its second cause of action in the following paragraphs:

SECOND CAUSE OF ACTION

> 15. Meanwhile, in addition to the foregoing facts and circumstances, on or about August 5, 2003, petitioner/plaintiff Maunlad Construction Development Corporation [(Maunlad)] entered into a Contract of Lease with respondent/defendant Bargain Specialists, Inc. [(BSI)] covering the parcel of land leased by respondent/defendant [PGB] to Maunlad, but this time the Contract of Lease between Maunlad and [BSI] covered also the permanent improvements constructed by Maunlad on the property including, among others, a building, Maunlad spending therefor more than [₱]164 Million. The Contract of Lease, Xerox copy of which is hereto attached as Annex "D" hereof, fixed a period of ten (10) years counted from September 1, 2003, as term of the lease.
>
> 16. **Respondent/defendant [BSI] incurred rental arrearages amounting to more than [₱]2 Million, in violation of its Contract of Lease with petitioner/plaintiff [Maunlad]. Demands for payment of said rentals-in-arrears made by petitioner/plaintiff [Maunlad] remain uheeded [*sic*] by respondent/defendant [BSI] up to now and without any justifiable reason.**
>
> 17. In disregard of its obligations under the terms and conditions of the Contract of Lease to petitioner/plaintiff [Maunlad], respondent/defendant [BSI], hoodwinking the former, leading it to believe that [BSI] was pleading for leniency in the payment of its rentals-in-arrears as well as its current monthly rental payments, was in fact, and in bad faith, already secretly dealing directly with respondent/defendant [PGB], for the establishment of an agreement of lease between [BSI] and the [PGB], in total disregard, albeit illegally, of the subsisting Contract of Lease between petitioner/plaintiff [Maunlad], as lessor, and respondent/defendant [BSI], as lessee. In fact, **under date of October 4, 2005, the lease agreement between the respondent/defendant [PGB] and respondent/defendant**

[BSI] appears to have been executed without the knowledge and consent of petitioner/plaintiff [Maunlad]. Such new agreement of lease is null and void because the contract of lease between Maunlad and [BSI].

18. **The execution of the agreement between respondent/defendant [PGB] and [BSI] as lessee, violates the rights of petitioner/plaintiff [Maunlad] under its subsisting Contract of Lease with [BSI] which cannot just be brushed aside and disregarded since rights have already accrued thereunder in favor of Maunlad.** Moreover, **such conduct of both respondents/defendants [PGB and BSI] constitutes clear violations of the provisions of the Civil Code on Human Relations**. Among other things, respondents/defendants did not act with justice, nor did they give [Maunlad] its due, and observed honesty and good faith. Their conduct is contrary to law and good customs, among others.

19. It likewise surfaced that when the [MTCC] of Malolos ordered the issuance of an alias writ of execution in the ejectment case, and the writ was served by the Sheriff of said Court on **respondent/defendant [BSI], in bad faith and in utter disregard of its overdue obligation to pay rentals-in-arrears to petitioner/plaintiff [Maunlad], respondent/defendant [BSI] pretended to have surrendered possession of the subject matter of the Contract of Lease including the permanent improvements therein ownership of which still belongs up to now to [Maunlad], something which only [Maunlad] could do because under par. 8 of the agreement of lease:**

> "8. Turnover of Premises. Upon the termination or expiration of the lease, the LESSEE shall peacefully and quietly surrender the leased premises to the LESSOR, and likewise any permanent structures or improvements shall be transferred to the possession and ownership of the LESSOR."

20. Clearly, not even the [MTCC] of Malolos in the ejectment suit could order the transfer of ownership of the permanent structures referred to above due to lack of jurisdiction the issue of ownership being a matter that pertains exclusively to courts of general jurisdiction, i.e., the RTC.

21. In view of the foregoing, it is all too clear that **the agreement of lease between the respondents/defendants [PGB] and [BSI] is null and void having been entered into in clear violation of the human relations provisions of the Civil Code and other legal precepts; and while the Contract of Lease between Maunlad and [BSI] was and is still subsisting**. Technically, **the said agreement between respondents/defendants [PGB and BSI] is a simulated agreement, and, all the more so that it is void [*ab initio*]**.

22. Consequently, **all the proceedings held before the [MTCC] of Malolos in the ejectment suit insofar as enforcement of the alias writ of execution issued therein is concerned, including the pretended**

> **voluntary surrender by [BSI] of the premises, to cover possession and ownership of the permanent structures therein built and owned by petitioner/plaintiff [Maunlad], are null and void; and any and all further acts under the circumstances by or through/under the authority of respondent Judge are beyond the latter's jurisdiction, and may be enjoined by injunction**, otherwise, Maunlad, which has already suffered heavy losses, will continue to suffer irreparable damage and may not be amply protected in its rights which have been violated with impunity. As above-pointed out, Maunlad is willing to post the required injunction bond in such reasonable amount as may be fixed by this Honorable Court.[76] (Emphases supplied; underscoring omitted)

It is evident from the foregoing that the second cause of action of petitioner is for the nullification of the lease agreement between the PGB and BSI and the enforcement of petitioner's own lease agreement with BSI. The theory of petitioner for this second cause of action is rooted in its belief that it remains the owner of the improvements built on the subject property since it was the owner at the inception, and ownership and possession thereof was not properly transferred to the PGB. As such, for petitioner, it remains the owner of the improvements and the proper lessor of such improvements. Its contract of lease with BSI subsists and must be respected. Its right as an owner was violated by the PGB and BSI when they entered into their own lease agreement. Further, when BSI turned over possession of the subject property to the PGB, BSI did so in violation of petitioner's rights under its lease with the PGB. Petitioner even quoted Clause 8 of said Lease Agreement between itself and the PGB as basis. Hence, it prayed that the lease agreement between the PGB and BSI be nullified, its own lease agreement with BSI be enforced, and that injunction be issued to enjoin the PGB and BSI from exercising acts of possession and ownership over the permanent structures allegedly owned by petitioner.

Do these allegations set out a cause of action against BSI?

The Court answers in the affirmative.

Contrary to the findings of the RTC and the CA, these allegations sufficiently set out a cause of action concerning the nullification of the lease agreement between the PGB and BSI, the enforcement of petitioner's lease agreement with BSI, and the issuance of a writ of injunction to enjoin the PGB and BSI from exercising acts of possession and ownership over the improvements. All the elements of a cause of action – the assertion of a right, the concomitant obligation of the other party to respect the same, and

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[76] RTC records, Vol. I, pp. 211-214.

the alleged violation of such right by the other party – were alleged by petitioner in its Amended Petition/Complaint.

Truth be told, the disquisition of the RTC and the CA concerning this issue leaves a lot to be desired. The discussions of both deal with the merits of the cause of action, not the sufficiency of the allegations itself. To recall, the RTC held that the complaint states no cause of action against BSI because BSI did not violate any legal right of petitioner. It found that BSI merely relied on the final judgment of the MTCC in surrendering possession of the subject property to the PGB. Further, the RTC stated that the lease contract BSI entered into with the PGB is a logical consequence of the prevailing right of the PGB. The CA agreed with the RTC. It held that petitioner's right under its Lease Agreement with the PGB had long been dissolved when it violated the terms thereof. It held that, even assuming the allegations in the Amended Petition/Complaint are true, no valid judgment may be rendered thereon since petitioner failed to file a supersedeas bond to stay the execution of the MTCC Decision. Plainly, the discussion of both the RTC and the CA involve the merits of petitioner's contentions.

Time and again, the Court has stressed the difference between failure to state a cause of action and lack of a cause of action. It is the former, not the latter, that could be a ground for a motion to dismiss:

> Failure to state a cause of action and lack of a cause of action are not the same. **Failure to state a cause of action** refers to an **insufficiency of the allegations in the petition/complaint**. It is a ground for dismissal under Rule 16 of the Rules of Court before the defendant or respondent files a responsive pleading. Notably, the dismissal is without prejudice to the refiling of an amended complaint.
>
> On the other hand, the **lack of a cause of action** refers to an **insufficiency of factual or legal basis to grant the complaint**. It applies to a situation where the evidence failed to *prove* the cause of action alleged in the pleading. It is a ground for dismissal using a demurrer to evidence under Rule 33 after the plaintiff has completed presenting his evidence. The dismissal constitutes *res judicata* on the issue and will bar future suits based on the same cause of action.[77] (Emphases and italics in the original)

Analyzed against this background, it is evident that the RTC and the CA erred when they both concluded that the Amended Petition/Complaint did not state a cause of action. In reaching this conclusion, both courts mistakenly resolved the merits of petitioner's allegations when they should

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[77] *Apostolic Vicar of Tabuk, Inc. v. Spouses Sison*, 779 Phil. 462, 469-470 (2016).

have focused on the sufficiency thereof. The Amended Petition/Complaint sufficiently alleged a cause of action.

Petitioner, in G.R. No. 189370, prays that the CA Decision in CA-G.R. CV No. 88477 be set aside, and that it be granted such other reliefs as may be just and equitable. While not explicitly spelled out in the pleadings, the practical effect of petitioner's prayer would be to have the Court remand the case for trial on the merits in relation to petitioner's action against BSI. However, a remand at this point would serve no practical purpose.

A scrutiny of the allegations in petitioner's Amended Petition/Complaint readily reveals that the underlying rights being asserted by petitioner are the alleged novation of its lease agreement with the PGB, and its continued ownership of the improvements built on the subject property. The resolution of these issues, now before the Court in G.R. No. 208798, is determinative of any cause of action petitioner may have against BSI.

At this juncture, it must be mentioned that petitioner's statement of its second cause of action also included allegations of conduct on the part of the PGB and BSI violative of the provisions of the Civil Code on Human Relations. Ordinarily, such allegations are made when setting out a cause of action for damages on the basis of Article 19, Art. 20, or Art. 21 of the Civil Code, whichever is applicable. In addition to this, petitioner also generally averred that BSI accumulated rental arrears under its lease agreement. However, it is apparent that, aside from making general allegations, petitioner did not pray for either an award of damages or the payment of accrued rental arrears. In fact, petitioner made no mention of any specific amounts in relation to either claim. Considering that neither a claim for damages nor for rental arrears were included in the prayer, the necessary docket fees for the RTC to properly acquire jurisdiction over the subject matter of these two causes of action were not paid. These circumstances led the Court to conclude that petitioner did not intend to pursue these two causes of action in the present action.

The principle of res judicata in the concept of conclusiveness of judgment finds application in the suit against BSI.

Petitioner maintains, contrary to the findings of the RTC and the CA, that the principle of *res judicata* does not apply in its case against BSI

because the ejectment case involves the issue of possession, while the instant case involves the issue of the ownership of the mall, the validity of the three contracts of lease, and the enforcement of the writ of execution in the ejectment case. Further, it insists that the cause of action in ejectment and in annulment of contracts are distinct from each another.

Jurisprudence on *res judicata* is well-established. In *Denila v. Republic*,[78] the Court elucidated:

> *Res judicata* is defined as a matter adjudged; a thing judicially acted upon or decided; a thing or matter settled by judgment. Under this rule, 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 and on all points and matters determined in the previous suit. To invoke *res judicata*, the elements that should be present are: (a) the judgment sought to bar the new action must be final; (b) the decision must have been rendered by a court having jurisdiction over the subject matter and the parties; (c) the disposition of the case must be a judgment on the merits; and (d) there must be as between the first and second action, identity of parties, subject matter, and causes of action.
>
> [Corollary], judgments and final orders constituting *res judicata* are categorized into different concepts which have distinctive effects as provided under Section 47 of Rule 39 as follows:
>
> SECTION 47. *Effect of judgments or final orders.* – The effect of a judgment or final order rendered by a court of the Philippines, having jurisdiction to pronounce the judgment or final order, may be as follows:
>
> (a) In case of a judgment or final order **against a specific thing** or in respect to the probate of a will, or the administration of the estate of a deceased person, or in respect to the personal, political, or legal condition or status of a particular person or his relationship to another, the judgment or final order is conclusive upon the title to the thing, the will or administration, or the condition, status or relationship of the person; however, the probate of a will or granting of letters of administration shall only be *prima facie* evidence of the death of the testator or intestate;
>
> (b) In other cases, the judgment or final order is, **with respect to the matter directly adjudged** or as to any other matter that could have been raised in relation thereto, ***conclusive*** **between the parties and their successors in interest** by title subsequent to the commencement of the action or special proceeding, **litigating for the same thing and under the same title and in the same capacity**; and,

[78] G.R. No. 206077, July 15, 2020, 943 SCRA 599.

> (c) In any **other litigation between the same parties** or their successors in interest, that only is **deemed to *have been adjudged* in a *former* judgment** or final order **which appears upon its face to have been so adjudged**, or which was actually and necessarily included therein or necessary thereto.
>
> It can be deduced in the aforementioned provisions that there are three (3) loose categories of final and executory judgments as regards their effects on subsequent and related proceedings. Paragraph (a) of the foregoing rule is commonly known to speak of judgments *in rem*; paragraph (b) is said to refer to judgments *in personam*; and paragraph (c) is the concept understood in law as "conclusiveness of judgment."[79] (Emphases and italics in the original)

The RTC and the CA both held that *res judicata* in the concept of conclusiveness of judgment applies to petitioner's suit against BSI. The rule concerning the application of this principle of *res judicata* has been explained in the following manner:

> For *res judicata* to serve as a bar to a subsequent action, the following elements must be present: (1) the judgment sought to bar the new action must be final; (2) the decision must have been rendered by a court having jurisdiction over the subject matter and the parties; (3) the disposition of the case must be a judgment on the merits; and (4) there must be as between the first and second action, identity of parties, subject matter, and causes of action. Should identity of parties, subject matter, and causes of action be shown in the two cases, *res judicata* in its aspect as a "bar by prior judgment" would apply. **If as between the two cases, only identity of parties can be shown, but not identical causes of action, then *res judicata* as "conclusiveness of judgment" applies.**[80] (Emphasis supplied)

The Court further elucidated:

> [*R*]*es judicata* in the concept of conclusiveness of judgment, also known as preclusion of issues, states:
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> > [x x x A] fact or question which was in issue in a former suit, and was there judicially passed on and determined by a court of competent jurisdiction, is conclusively settled by the judgment therein, as far as concerns the parties to that action and persons in privity with them, and cannot be again litigated in any future action between such parties or their privies, in the same court or any other court of concurrent jurisdiction on either

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79 Id. at 682-684.

80 *Cruz v. Tolentino*, 830 Phil. 196, 210-211 (2018).

> the same or a different cause of action, while the judgment remains unreversed or unvacated by proper authority.[81]

There is no serious dispute that the first three elements of *res judicata* are present between the complaint for unlawful detainer and the instant action for injunction and declaration of nullity of lease agreements: (1) the MTCC judgment in the ejectment suit is final; (2) it is undisputed that the MTCC had jurisdiction over the subject matter and over the parties; and (3) the disposition by the MTCC in the ejectment suit was a judgment on the merits.

There is likewise identity of the parties involved in the two cases. Both petitioner and the PGB are the same party-litigants in both suits. As to BSI, while it was not yet in the picture at the time the MTCC rendered its judgment, it is undoubtedly bound by the same, having derived its interest over the subject property from petitioner as the latter's sublessee.

> It is settled that a judgment directing a party to deliver possession of a property to another is *in personam*. **It is conclusive**, not against the whole world, but only "**between the parties and their successors in interest by title subsequent to the commencement of the action**." An action to recover a parcel of land is a real action but it is an action *in personam*, for it binds a particular individual only although it concerns the right to a tangible thing. Any judgment therein is binding only upon the parties properly impleaded and duly heard or given an opportunity to be heard. However, this rule admits of the exception that **even a non-party may be bound by the judgment in an ejectment suit where he is any of the following:** (a) trespasser, squatter or agent of the defendant fraudulently occupying the property to frustrate the judgment; (b) guest or occupant of the premises with the permission of the defendant; (c) transferee *pendente lite*; (d) **sublessee**; (e) co-lessee; or (f) member of the family, relative or privy of the defendant.[82] (Emphases supplied)

It cannot be gainsaid that the main relief sought in the action for unlawful detainer was the eviction of petitioner. Even so, an action for unlawful detainer may involve the subject matter of the termination of the parties' lease contract. The termination of a contract need not undergo judicial intervention, and the option to terminate may be exercised by the parties themselves. It is only upon disagreement between the parties as to how it should be undertaken that parties may resort to courts. Thus, the

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81 *Sanggacala v. National Power Corporation*, G.R. No. 209538, July 7, 2021.
82 *Heirs of Yusingco v. Busilak*, 824 Phil. 454, 462-463 (2018).

termination of a lease contract is congruent with an action for unlawful detainer.[83]

Indeed, in deciding the ejectment case, the MTCC specifically ruled that petitioner's nonpayment of rentals constituted a breach of the Lease Agreement which was sufficient ground for its termination. It was on this basis that petitioner was ordered to transfer possession of the subject property to the PGB. Thus, the Court agrees with the RTC and the CA that the principle of *res judicata* in the concept of conclusiveness of judgment applies, but hereby clarifies that it is conclusive only insofar as the issue of termination of the Lease Agreement between petitioner and the PGB and possession over the subject property are concerned.

The issue concerning ownership of the improvements built was not raised or adjudged in the complaint for unlawful detainer before the MTCC and is thus not barred by *res judicata*. In any case, it is well-established that any ruling as to ownership in an action for ejectment is merely provisional and will not preclude another action involving title to the same property.[84]

There was no novation of the Lease Agreement between petitioner and the PGB.

It is undisputed that the May 20, 2003 Decision of the MTCC in the ejectment suit had attained finality. As a matter of course, the PGB, as the prevailing party, is entitled to enforcement thereof. Despite this, petitioner pursued the instant case, arguing that a supervening event rendered the enforcement of the same inequitable.

Time and again, the Court has ruled that a final judgment cannot be altered, amended, or modified, even if it is to correct an erroneous judgment.

> This is the principle of immutability of judgments — to put an end to what would be an endless litigation. *Interest reipublicae ut sit finis litium*. In the interest of society as a whole, litigation must come to an end. But this tenet admits several exceptions, these are: (1) the correction of clerical errors; (2) the so-called *nunc pro tunc* entries which cause no prejudice to any party; (3) void judgments; and (4) whenever circumstances transpire

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83 *Huibonhoa v. Court of Appeals*, 378 Phil. 386, 423 (1999).

84 *Estrellado v. Presiding Judge, MTCC, 11th Judicial Region, Br. 3, Davao City*, 820 Phil. 556, 571 (2017).

> after the finality of the decision rendering its execution unjust and inequitable.[85]

It is this last exception that petitioner relies on in the instant case. It argues that the Lease Agreement between itself and the PGB was novated when the PGB accepted its payment of the rental arrears immediately preceding the rendition of the MTCC judgment, and even thereafter. The acceptance of payments, per petitioner, constituted a supervening event that rendered the execution of the MTCC judgment in the ejectment suit unjust and inequitable.

The Court disagrees.

Contrary to the view of petitioner, there was no novation of its Lease Agreement with the PGB.

In *Spouses Reyes v. BPI Family Savings Bank, Inc.*,[86] the Court discussed the concept of novation:

> Novation is defined as the extinguishment of an obligation by the substitution or change of the obligation by a subsequent one which terminates the first, either by changing the object or principal conditions, or by substituting the person of the debtor, or subrogating a third person in the rights of the creditor.
>
> Article 1292 of the Civil Code on novation further provides:
>
> > Article 1292. In order that an obligation may be extinguished by another which substitute the same, it is imperative that it be so declared in unequivocal terms, or that the old and the new obligations be on every point incompatible with each other.
>
> The cancellation of the old obligation by the new one is a necessary element of novation which may be effected either expressly or impliedly. While there is really no [hard-and-fast] rule to determine what might constitute sufficient change resulting in novation, **the touchstone, however, is irreconcilable incompatibility between the old and the new obligations**.
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> In *Garcia, Jr. v. Court of Appeals*, we held that:
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> > In every novation there are four essential requisites: (1) a previous valid obligation; (2) the agreement of all the

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85 *Republic v. Heirs of Gotengco*, 824 Phil. 568, 578 (2018).
86 520 Phil. 801 (2006).

> parties to the new contract; (3) the extinguishment of the old contract; and (4) validity of the new one. **There must be consent of all the parties to the substitution, resulting in the extinction of the old obligation and the creation of a valid new one.** x x x To sustain novation necessitates that the same be declared in unequivocal terms or that there is complete and substantial incompatibility between the two obligations. An obligation to pay a sum of money is not novated in a new instrument wherein the old is ratified by changing only the terms of payment and adding other obligations not incompatible with the old one or wherein the old contract is merely supplementing the old one.[87] (Emphases supplied; citation omitted)

Thus, for there to be novation, all parties must have consented to the change in contractual relationship, thus leading to the extinction of the old obligation and the creation of a valid new one. Further, there must be absolute incompatibility between the old agreement and the new one.

Aside from the existence of a previous valid lease contract, none of the other essential elements of novation are present in the instant case.

It is undisputed that petitioner incurred delay in paying the rentals due the PGB under the Lease Agreement. Thus, the PGB sent a demand letter to petitioner on April 22, 2002 for the latter to vacate the subject property and to pay its arrears. Despite demand, petitioner failed to comply, resulting in the institution and successful prosecution of the complaint for unlawful detainer.

In demanding that petitioner vacate the subject property and pay the rental arrears, the PGB was exercising its right to terminate the Lease Agreement pursuant to Clause 9 thereof:

> **9. VIOLATION OF TERMS AND CONDITIONS**
>
> Any violation of the terms and conditions of this lease agreement as herein provided shall be sufficient ground for the termination of the lease. The rescission or termination of the lease pursuant to this provision may be effected by the **LESSOR** or **LESSEE** as the case may be.[88]

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87 Id. at 806-808.

88 *Rollo* (G.R. No. 208798), p. 80.

Clause 9 of the Lease Agreement uses both the terms "rescission" or "termination." The Court previously explained the difference between said legal terms in *Huibonhoa v. Court of Appeals*:[89]

> The Regional Trial Court incorrectly held that the complaint was also for rescission of contract, a case that is certainly not within the jurisdiction of the Metropolitan Trial Court. **By the allegations of the complaint, the Gojoccos' aim was to cancel or terminate the contract because they sought its partial enforcement in praying for rental arrearages.** There is a distinction in law between cancellation of a contract and its rescission. **To rescind is to declare a contract void in its inception and to put an end to it as though it never were.** It is not merely to terminate it and release parties from further obligations to each other but to abrogate it from the beginning and restore the parties to relative positions which they would have occupied had no contract ever been made.
>
> **Termination of a contract is congruent with an action for unlawful detainer. The termination or cancellation of a contract would necessarily entail enforcement of its terms prior to the declaration of its cancellation in the same way that before a lessee is ejected under a lease contract, he has to fulfill his obligations thereunder that had accrued prior to his ejectment.** However, **termination of a contract need not undergo judicial intervention**. The parties themselves may exercise such option. **Only upon disagreement between the parties as to how it should be undertaken may the parties resort to courts.**[90] (Emphases supplied)

In the instant case, the PGB clearly elected to terminate the lease agreement between itself and petitioner since it sought to enforce the terms thereof through the demand to pay the rental arrears and to vacate the subject property. This is the very essence of an action for unlawful detainer – the termination of the lease contract which entails enforcement of the terms thereof concerning the lessee's duty to pay rental fees (including arrears) and the concomitant obligation to vacate upon termination or expiration of the lease.

Hence, when the PGB accepted petitioner's payments of its rental arrears from May 15, 2003 to August 23, 2005, it was merely enforcing the terms of the existing Lease Agreement in pursuance of the termination. It must be remembered that the PGB instituted the complaint for unlawful detainer on September 23, 2002. At that point in time, the PGB had already elected to pursue termination of the Lease Agreement. The acceptance of rental arrears from petitioner is not incompatible in even the slightest degree

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89 Supra note 83.
90 Id. at 422-423.

with the original Lease Agreement. It is, in fact, merely enforcement of the terms thereof.

Petitioner even argues that the PGB's acceptance of the rental arrears and insistence on enforcing the writ of execution belies the PGB's intent to attain ownership and possession of the building and permanent improvements after being paid close to the full amount of the judgment debt, constituting unjust enrichment.

This is absolutely incorrect.

The Court cannot stress enough that the demand to vacate the subject property did not affect, in any manner whatsoever, petitioner's obligation to pay the rental fees. Petitioner must be reminded that an action for unlawful detainer requires a prior demand to pay the rental fees due and to vacate the leased property. Furthermore, the judgment in an action for unlawful detainer itself would order the payment of rental fees and the peaceful delivery of the possession of the leased premises to the lessor. These twin reliefs are not incompatible in any manner whatsoever.

Furthermore, the fact that possession of the subject property was transferred to the PGB is but a natural consequence of the enforcement of the terms of the Lease Agreement. Clause 8 of the Lease Agreement governs the turnover of premises after the termination or expiration of the lease:

> **8. TURN OVER OF PREMISES**
>
> Upon the termination or expiration of the lease, the **LESSEE** shall peacefully and quietly surrender the leased premises to the **LESSOR,** and likewise any permanent structures or improvements shall be transferred to the possession and ownership of the **LESSOR**.[91]

From the foregoing, it is evident that upon either termination or expiration of the lease, the lessee, in this case petitioner, is obliged to peacefully and quietly surrender the leased premises to the lessor, the PGB. Hence, the transfer of possession over the subject property is but a consequence of the terms of the Lease Agreement.

The Court rejects petitioner's theory of novation of the Lease Agreement for absolute lack of merit. There is no new agreement to speak

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[91] *Rollo* (G.R. No. 208798), p. 80.

of; the payment of the rental fees was merely in compliance with and an enforcement of the terms of the Lease Agreement itself, and was in compliance with the MTCC judgment. Thus, petitioner's contention that a supervening event rendered the execution of the final and executory MTCC judgment unjust and inequitable lacks merit.

There was valid delivery of the subject property, including improvements thereon, to the PGB.

Petitioner asseverates that, contrary to the findings of the RTC and the CA, there is no *fait accompli* because there was no valid delivery of the subject property to the PGB. It cites Clause 8 of the Lease Agreement, quoted above, and argues that said clause requires that the lessee, meaning petitioner, not BSI, be the one to effect the delivery so as to properly transfer possession of the subject property, along with the buildings and improvements thereon, to the PGB. Since BSI was the one that surrendered possession thereof to the PGB, there was no valid delivery and no *fait accompli*.

In addition to the foregoing, petitioner contends that it remains the owner of the improvements made to the subject property since there was no valid delivery thereof to the PGB. As such, its lease agreement with BSI is subsisting and must be respected. The lease agreement entered into by the PGB and BSI is void since it contravenes the subsisting lease agreement between petitioner and BSI.

Once more, petitioner is sorely mistaken on both counts.

First, there was valid delivery of the subject property, including the improvements thereon, by BSI to the PGB.

As discussed above, a judgment in an ejectment case directing a party to deliver possession of a property to another is conclusive, not only between the parties, but also to their successors-in-interest by title subsequent to the commencement of the action. The judgment in an ejectment suit is likewise binding on a sublessee of the defendant even if not a party to the case.[92] This is precisely BSI's relationship to petitioner as regards the subject property. As a sublessee who came into the subject property after the commencement

[92] *Heirs of Yusingco v. Busilak*, supra note 82.

of Civil Case No. 02-112, BSI is undoubtedly bound by the judgment of the MTCC.

The rationale behind this is not difficult to infer. Such relationship to the defendant in an ejectment suit renders such other person similarly bound by any judgment rendered therein. In particular, a sublessee's authority to occupy the leased premises is contingent on the right of the lessee to continue occupying and subleasing the same. Thus, when the lessee's right to possess the leased property ceases to exist, so does the right of the sublessee cease to exist. A spring cannot rise higher than its source.

Thus, petitioner's myopic position cannot be countenanced. The fact that Clause 8 of the Lease Agreement specifies that it is the lessee who peacefully and quietly surrenders possession over the leased premises to the lessor does not preclude a valid delivery thereof by BSI to the PGB. BSI, then petitioner's sublessee, is bound by the final and executory MTCC Decision. In fact, both the MTCC Decision itself and the Alias Writ of Execution[93] issued by the MTCC are specifically directed against petitioner and its successors-in-interest.

Hence, BSI was merely complying with the orders of the MTCC when it peacefully delivered the subject property, including improvements, to the PGB. Considering that the final and executory judgment of the MTCC in the ejectment suit had already been enforced, the issue concerning the propriety of enjoining its enforcement has been rendered moot and academic. It is *fait accompli*.

Second, petitioner ceased to be the owner of the improvements it introduced to the subject property upon termination of the Lease Agreement between itself and the PGB.

At this juncture, the Court must address the RTC's statement that it cannot rule on the matter involving the building or mall built by petitioner on the subject property because petitioner's cause of action is not one for recovery of possession. Rather, the RTC limited itself to determining if there is good reason to enjoin the PGB from acts of possession or ownership over the subject property.

Contrary to the RTC's finding, it should have made a ruling on the ownership over the building or mall built by petitioner on the subject

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[93] MTCC records, Vol. II, pp. 102-103.

property. While the RTC is correct that recovery of possession is not one of the causes of action of petitioner, the issue concerning ownership over the improvements made upon the subject property has been squarely raised by virtue of the cause of action for declaration of nullity of the lease agreement between the PGB and BSI. This was raised by petitioner as an issue in its Amended Petition/Complaint and was litigated before the trial court. A full disposition of the issues raised in the Amended Petition/Complaint requires a ruling on this matter.

Again, the Court turns its attention to Clause 8 of the Lease Agreement:

> **8. TURN OVER OF PREMISES**
>
> Upon the termination or expiration of the lease, the **LESSEE** shall peacefully and quietly surrender the leased premises to the **LESSOR,** and likewise any permanent structures or improvements shall be transferred to the possession and ownership of the **LESSOR**.

Clause 8 of the Lease Agreement is as plain as day. Upon termination or expiration of the Lease Agreement, any permanent structures or improvements made to the subject property shall be transferred to the possession and ownership of the lessor – the PGB. This transfer of ownership and possession is automatic upon either the termination or expiration of the lease. It does not depend on any delivery by lessee to lessor. The use of the conjunctive "and" plainly illustrates that the condition "[u]pon the termination or expiration of the lease" results in the occurrence of two events: (1) the peaceful and quiet surrender of the leased premises to the lessor; and (2) the transfer of any permanent structures or improvements to the possession and ownership of the lessor.

Petitioner's contentions hold no water and cannot be given even the slightest weight. Upon termination of the lease, which is congruent with the institution of the unlawful detainer case, petitioner ceased to be the owner of the improvements it introduced to the property and ownership thereof was transferred to the PGB. At that point in time, petitioner no longer had any right to lease the subject property or the improvements thereon to BSI since its rights, under the Lease Agreement with the PGB, had been terminated. The PGB, by entering into a separate lease agreement with BSI, was merely exercising its rights as an owner.

Accordingly, petitioner's prayer for declaration of nullity of the lease agreement between the PGB and BSI must likewise be denied for absolute lack of merit.

At the end of the day, it is apparent to the Court that petitioner's bone to pick lies in the amount it spent for the construction of the improvements to the subject property. However, petitioner must abide by the terms of the Lease Agreement it entered into with the PGB. When it defaulted on its payment of rental fees, it violated the terms thereof and gave cause for the termination of the Lease Agreement. Such termination resulted in the transfer of ownership of the improvements from itself to the PGB. These are contractual stipulations that the parties freely entered into and expressly acknowledged in the course of trial. The lease agreement governs the respective rights and obligations of the parties. It must be strictly adhered to for the continued stability of commercial relations.

WHEREFORE, the consolidated appeals in G.R. No. 189370 and G.R. No. 208798 are **DENIED** for absolute lack of merit. The Decisions of the Court of Appeals dated August 28, 2009 in CA-G.R. CV No. 88477 and August 30, 2013 in CA-G.R. CV No. 96812 are **AFFIRMED**.

SO ORDERED."

By authority of the Court:

MARIA TERESA B. SIBULO
Deputy Division Clerk of Court and
Acting Division Clerk of Court
751

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