Republic of the Philippines
Supreme Court
Manila

THIRD DIVISION

PRIVATIZATION AND MANAGEMENT OFFICE, Petitioner,	**G.R. No. 214741**
	Present:
-versus-	CAGUIOA, *J.*, *Chairperson*, INTING, GAERLAN, DIMAAMPAO, and SINGH, *JJ.*
FIRESTONE CERAMIC, INC.,• Respondent.	Promulgated: January 22, 2024

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DECISION

CAGUIOA, *J.*:

Before the Court is a Petition for Review on *Certiorari*[1] (Petition) under Rule 45 of the Rules of Court filed by petitioner Privatization and Management Office (PMO), assailing the Decision[2] dated March 20, 2014 (assailed Decision) and Resolution[3] dated September 25, 2014 (assailed Resolution) promulgated by the Court of Appeals[4] (CA) in CA-G.R. SP No. 126940. The assailed Decision reversed the Decision[5] dated May 7, 2012 rendered by Branch 26, Regional Trial Court (RTC) of Manila, (RTC of Manila) in Civil Case No. 10-124494 and affirmed the Orders dated May 31, 2010 and August 11, 2010 issued by Branch 3, Metropolitan Trial Court (MeTC) of Manila, in Civil Case No. 186583-CV.

• Also appears as Firestone Ceramics, Inc. in some parts of the *rollo*.

1 *Rollo*, pp. 28–55, excluding Annexes.

2 *Id.* at 57–67. Penned by Associate Justice Danton Q. Bueser and concurred in by Associate Justices Rebecca De Guia-Salvador and Ramon R. Garcia.

3 *Id.* at 69–70.

4 Third Division and Former Third Division.

5 *Rollo*, pp. 404–412. Penned by Presiding Judge Silvino T. Pampilo, Jr.

Facts

Under Republic Act No. 1160[6] and Executive Order No. 60,[7] series of 1954, the Board of Liquidators (BOL) was created as a government agency tasked to liquidate the assets of the defunct Land Settlement and Development Corporation (LASEDECO). Among the assets of LASEDECO that were turned over to the BOL for administration and liquidation is a building designated as Bodega 2 (the subject property) with a floor area of 1,285 square meters (sq. m.) situated inside the compound of the National Development Company (NDC) in Pureza Street, Sta. Mesa, Manila. This property was the subject of a contract of lease between the BOL and respondent Firestone Ceramic, Inc. (FCI) and its predecessors-in-interest since 1965.[8]

On November 17, 2005, the President of the Philippines issued Executive Order No. 471[9] directing the merger of the BOL and PMO, with the latter being the surviving entity. Consequently, the administration over the subject property was turned over to PMO.[10]

On October 11, 2006, FCI and PMO renewed the Contract of Lease[11] over the subject property for the period of January 1, 2006 up to December 31, 2008. Under the Contract of Lease, FCI agreed to pay PMO Five Thousand Five Hundred Pesos (PHP 5,500.00) as monthly rental. The Contract of Lease also had a renewal clause, as follows:

> 1. **TERM** – This Contract of Lease shall be for a term of two years beginning January 1, 2006 up to December 31, 2008 renewable under such terms and conditions as may be mutually agreed upon by the parties, provided, that the LESSEE shall within sixty (60) days before the expiration of this Contract, give notice in writing to the LESSOR of its intention to renew this Contract otherwise the LESSOR shall have the right to enter into an agreement with third parties.[12]

On November 12, 2007, FCI notified PMO in writing of the former's intention to renew the Contract of Lease for another term of two years or from January 1, 2008 up to December 31, 2009. FCI later clarified its November 12, 2007 letter in another letter dated December 17, 2008 stating that the

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6 An Act to Further Implement the Free Distribution of Agricultural Lands of the Public Domain as Provided for in Commonwealth Act Numbered Six Hundred and Ninety-One, as Amended, to Abolish the Land Settlement and Development Corporation Created Under Executive Order Numbered Three Hundred and Fifty-Five, Dated October Twenty-Three, Nineteen Hundred and Fifty, and to Create in Its Place the National Resettlement and Rehabilitation Administration, and for Other Purposes, June 18, 1954.

7 Designating the Board of Liquidators Created Under Executive Order No. 372, dated November 24, 1950, to Liquidate the Assets and Liabilities of the Land Settlement and Development Corporation (LASEDECO), Abolished under Republic Act No. 1160, August 31, 1954.

8 *Rollo,* pp. 57–58, CA Decision.

9 Directing the Merger of the Board of Liquidators (BOL) and the Privatization and Management Office (PMO), November 17, 2005.

10 *Rollo*, p. 58, CA Decision.

11 *Id.* at 71–75.

12 *Id.* at 72.

renewal term was for three years beginning January 1, 2009 up to December 31, 2011.[13]

On December 23, 2008, PMO replied to FCI's letter dated December 17, 2008 and informed the latter that PMO noted FCI's intention to renew the Contract of Lease but also informed FCI that PMO was still in the process of conducting a market survey on the lease rentals on bodegas/warehouses in the area to determine the prevailing rental rate and that PMO shall thereafter notify FCI regarding the new rental rates on the leased premises.[14] PMO further added that "after December 31, 2008, the lease will be treated on a month[-]to[-]month basis until such time that the parties will enter into a new contract of lease under mutually agreed terms and conditions."[15]

In the meantime, PMO issued a Memorandum[16] dated February 11, 2009 providing its in-house appraisal of the "Fair Rental Value of the LASEDECO Bodega No. 2" at "Php 20/sq.m./mo. for the 1,285 sq. m. or Php 25,700.00 per month."[17] In preparing the Memorandum, PMO "searched the market for comparable properties in Manila" and "consulted with knowledgeable persons conversant with the fair rental rates in the vicinity such as bank appraisers and real estates [sic] brokers and listings from classified ads."[18]

After reviewing its in-house appraisal of the subject property, in a letter dated April 27, 2009, PMO offered to renew the Contract of Lease with FCI at the rental of PHP 35/sq. m./month or PHP 44,975.00 per month because PHP 35/sq. m./month was "the median of the range provided for in the appraisal report [(i.e., the Memorandum dated February 11, 2009)]."[19] PMO also required the conformity of FCI within 15 days upon receipt of this letter; otherwise, PMO would be compelled to offer the subject property to other interested parties.[20]

On May 12, 2009, FCI asked PMO to reconsider its offer contained in its letter dated April 27, 2009 as regards the new rental rate which FCI asserted was a 703% increase from the current monthly rate of PHP 5,500.00. FCI argued that PMO's proposed rental increase borders on a virtual refusal to renew, and not in accordance with the spirit of paragraph 1 of their Contract of Lease that supposedly obliges both parties to renew the same under such terms and conditions that may be mutually agreed upon.[21] FCI further asserted that the new rental rate must be reasonable so as not to defeat the renewal

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13 *Id.* at 58–59, CA Decision.
14 *Id.* at 59.
15 *Id.* at 78, Letter dated December 23, 2008.
16 *Id.* at 298–299.
17 *Id.* at 299.
18 *Id.*
19 *Id.* at 280–281, Answer.
20 *Id.* at 59, CA Decision.
21 *Id.*

clause. FCI also offered to upgrade the rental adjustment from the initial offer of 10% to 15% and the renewal period for three years.[22]

On June 3, 2009, PMO sent a letter to FCI in response to the latter's May 12, 2009 letter. PMO informed FCI that the terms provided under its April 27, 2009 letter "was their final offer for a possible renewal/extension of the lease contract on the LASEDECO Bodega located at NDC Compound, Pureza St., Sta. Mesa, Manila. As a closing statement, [PMO] then said that because of the unacceptable counter-offer of [FCI], it had no other recourse but to officially terminate the ongoing informal lease contract and formally demand through the said letter that [FCI] vacate the premises within thirty (30) days from receipt of the letter; that such failure or refusal to comply as demanded would compel [PMO] to take appropriate legal actions to protect the interest of the Government."[23] PMO thus informed FCI that its counteroffer on the amount of rent was rejected and, in view of the failure of the parties to agree on a renewal of the contract, the month-to-month lease was now terminated.

On July 6, 2009, FCI filed a Complaint for Consignation, Specific Performance, with Temporary Restraining Order (TRO) and Preliminary Injunction[24] against PMO with Branch 116, RTC of Pasay City, (RTC of Pasay City), docketed as Civil Case No. R-PSY-09-01071-CV[25] (the Consignation Case). On August 27, 2009, PMO filed its Answer[26] to FCI's Complaint.[27]

In an Order[28] dated July 23, 2009, the RTC of Pasay City denied FCI's application for TRO but added that the parties shall respect the "renewed lease."[29]

On December 3, 2009, or during the pendency of the Consignation Case, PMO filed a Complaint for Unlawful Detainer/Ejectment[30] against FCI with Branch 3, MeTC of Manila, docketed as Civil Case No. 186583-CV (the Ejectment Case).

On March 31, 2010, FCI filed a Motion to Dismiss[31] before the MeTC asserting, among others, that the central issue in the Ejectment Case is not possession but rather the interpretation, enforcement, and/or rescission of the contract, particularly the renewal clause. FCI further asserted that based on the contrasting positions of the parties, the RTC of Pasay City was tasked to

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22 *Id.* at 60.
23 *Id.*
24 *Id.* at 80–87.
25 Also appears as Civil Case No. R-PSY-09-01071-G and R-PSY-09-1071-CV in some parts of the *rollo*.
26 *Rollo*, pp. 272–296.
27 *Id.* at 60–61, CA Decision.
28 *Id.* at 88–90. Penned by Presiding Judge Racquelen Abary-Vasquez.
29 *Id.* at 90.
30 *Id.* at 100–109.
31 *Id.* at 118–125.

rule on the respective rights of the parties under the renewal clause of the contract. Hence, the MeTC has no jurisdiction since the action for ejectment was "converted" to one that is incapable of pecuniary estimation, which is under the original and exclusive jurisdiction of the RTCs. FCI averred that the reasonableness or unreasonableness of the new rental rate demanded by PMO behooved the MeTC to refrain from proceeding with the ejectment complaint due to the possible danger that the MeTC and the RTC of Pasay City may yield different decisions on one particular issue.[32]

On May 31, 2010, the MeTC issued an Order denying FCI's Motion to Dismiss, but also ordered that the proceedings in the Ejectment Case be held in abeyance pending resolution of the Consignation Case before the RTC of Pasay City.[33]

PMO's motion for partial reconsideration of the MeTC's Order dated May 31, 2010 was denied by the MeTC in an Order[34] dated August 11, 2010.

PMO then assailed the MeTC's Orders dated May 31, 2010 and August 11, 2010 in a Petition for *Certiorari*[35] dated October 12, 2010 before the RTC of Manila, which was docketed as Civil Case No. 10-124494. In its Petition for *Certiorari*, PMO asserted, among others that:

> Jurisprudence instructs us that the pendency of [an] action [for consignation and/or specific performance] in another court . . . [cannot] abate the continuation of an action for unlawful detainer[. H]ence, [as averred by PMO], the respondent judge acted with grave abuse of discretion amounting to lack or excess of jurisdiction when he ordered the holding in abeyance of the ejectment case to await resolution of the case for consignation and specific performance in the Pasay RTC.[36]

On December 22, 2010, FCI filed its Comment on PMO's Petition for *Certiorari*.[37]

The Ruling of the RTC of Manila

In a Decision rendered on May 7, 2012, the RTC of Manila granted PMO's Petition for *Certiorari*. The dispositive portion of the RTC Decision reads:

> WHEREFORE, the petition is hereby GRANTED. The Orders dated May 31, 2010 and August 10, 2010 issued by the Metropolitan Trial Court Branch 3 are hereby reversed and set aside.

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32 *Id.* at 121–123.
33 *Id.* at 146.
34 *Id.* at 158.
35 *Id.* at 159–184.
36 *Id.* at 170.
37 *Id.* at 63, CA Decision.

SO ORDERED.[38]

On June 7, 2012, FCI filed a motion for reconsideration of the Decision, which was denied by the RTC of Manila in an Order dated September 3, 2012.[39]

FCI appealed to the CA under Rule 41 of the Rules of Court.

The Ruling of the CA

In the assailed Decision, the CA granted FCI's appeal. The dispositive portion of the assailed Decision of the CA reads:

> **WHEREFORE**, in view of the foregoing, the present Appeal is hereby **GRANTED**. Accordingly, the Decision of the Regional Trial Court, Branch 26, Manila, is **REVERSED** and . . . the Decision of the Metropolitan Trial Court, Branch 3, Manila, to hold in abeyance the proceedings in the case for unlawful detainer to await the result from Branch 116, Regional Trial Court, Pasay City in the case for consignation, specific performance with prayer for the issuance of a temporary restraining order and writ of injunction, is **AFFIRMED**.
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> **SO ORDERED.**[40]

In the assailed Decision, the CA held that "the reasonableness or unreasonableness of the new rental rate being demanded behooves the MeTC to refrain from proceeding with the ejectment complaint due to the possible danger that said court and the RTC of Pasay City may yield different decisions on one particular issue."[41] Relying on *Villena v. Spouses Chavez*[42] and *De Rivera v. Halili*,[43] the CA opined:

> It bears stressing that because of [PMO's] Verification and Certification Against Forum Shopping in its Complaint regarding the pending case for consignation, specific performance with prayer for the issuance of a temporary restraining order and writ of injunction before Branch 116 of the RTC of Pasay City, docketed as Civil Case No. R-PSY-09-1071-CV, the case for unlawful detainer is converted from ejectment case to one that is for the interpretation and enforcement of the renewal clause under par. 1 of the Lease Contract because of the conflicting position [sic] of the parties in the said case that the RTC is tasked to rule on their respective rights under the renewal clause of the contract.
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> Therefore, it is beyond the competence of the MeTC to hear and decide the case filed by [PMO] as it is one incapable of pecuniary estimation, because the basic issue is not possession but interpretation,

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38 *Id.* at 412, RTC Decision.
39 *Id.* at 64, CA Decision.
40 *Id.* at 66.
41 *Id.*
42 460 Phil. 818 (2003) [Per J. Panganiban, Third Division].
43 118 Phil. 901 (1963) [Per J. Regala, *En Banc*].

enforcement and/or rescission of the contract, which is well within the competence of regional trial courts.[44]

PMO filed a motion for reconsideration, which was denied by the CA in its assailed Resolution.

Hence, the instant Petition.

FCI filed its Comment[45] dated October 12, 2015, to which PMO responded with a Reply[46] dated March 15, 2016.

Issues

PMO asserts the following grounds in support of its Petition:

I. THE [CA] GRAVELY ERRED WHEN IT RULED THAT THE MANILA [METC] IS WITHOUT JURISDICTION BECAUSE THE VERIFICATION AND CERTIFICATION AGAINST FORUM SHOPPING IN [PMO'S] COMPLAINT SUPPOSEDLY CONVERTED [ITS] CASE FOR UNLAWFUL DETAINER TO ONE FOR INTERPRETATION, ENFORCEMENT[,] AND/OR RESCISSION OF A CONTRACT.

. . . .

II. THE [CA] GRAVELY ERRED WHEN IT AFFIRMED THE MANILA M[E]TC'S SUSPENSION OF THE PROCEEDINGS FOR UNLAWFUL DETAINER DUE TO THE PENDENCY OF AN ACTION FOR CONSIGNATION, SPECIFIC PERFORMANCE AND DAMAGES BEFORE THE [RTC] OF PASAY CITY, BRANCH 116.[47]

The Court's Ruling

The Petition is impressed with merit.

I. First-level courts are vested with provisional authority to decide questions concerning the interpretation of provisions in a contract to resolve the issue of possession in cases of unlawful detainer.

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44 *Rollo*, pp. 64–65, CA Decision.
45 *Id.* at 216–231.
46 *Id.* at 466–474.
47 *Id.* at 34–35, Petition.

It is established that jurisdiction is conferred by law and determined by the material allegations of the complaint.[48] This principle applies in cases of unlawful detainer. In *Spouses Santiago v. Northbay Knitting, Inc.*,[49] the Court declared:

> Settled is the rule that jurisdiction over the subject matter is conferred by law and is determined by the material allegations of the complaint. It cannot be acquired through, or waived by, any act or omission of the parties, neither can it be cured by their silence, acquiescence, or even express consent. In ejectment cases, the complaint should embody such statement of facts as to bring the party clearly within the class of cases for which the statutes provide a remedy, as these proceedings are summary in nature. The complaint must show enough on its face to give the court jurisdiction without resort to parol evidence.
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> A complaint sufficiently alleges a cause of action for unlawful detainer if it states the following:
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> 1) possession of property by the defendant was initially by contract with or by tolerance of the plaintiff;
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> 2) eventually, such possession became illegal upon notice by plaintiff to defendant of the termination of the latter's right of possession;
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> 3) thereafter, the defendant remained in possession of the property and deprived the plaintiff of the enjoyment of the same; and
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> 4) within one (1) year from the last demand on defendant to vacate the property, the plaintiff instituted the complaint for ejectment.[50] (Citations omitted)

Moreover, once jurisdiction is vested by the allegations in the complaint, jurisdiction remains vested in the trial court irrespective of whether or not the plaintiff is entitled to recover upon all or some of the claims asserted therein.[51]

In *Vda. de Murga v. Chan*[52] (*Vda. de Murga*), the Court ruled that where the controversy hinges on the correct interpretation of a clause of a contract of lease, that is, whether or not it contemplated an automatic renewal of the lease, the action was not for unlawful detainer but one not capable of pecuniary estimation and, therefore, beyond the competence of a municipal court.[53] Decided in 1968, the pronouncement by the Court in *Vda. de Murga*

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48 *Spouses Santiago v. Northbay Knitting, Inc.*, 820 Phil. 157, 164 (2017) [Per J. Peralta, Second Division].
49 *Id.*
50 *Id.* at 164.
51 *Cabling v. Dangcalan*, 787 Phil. 187, 196 (2016) [Per C.J. Sereno, First Division].
52 134 Phil. 433 (1968) [Per J. Angeles, *En Banc*].
53 *Id.* at 440.

has evolved into more recent rulings in favor of having first-level courts resolve all issues related to possession even in a provisional manner. This is consistent with the summary nature of unlawful detainer cases and the amendments of the applicable provisions from Rules 72 and 70 of the 1940 and 1964 Rules of Court, respectively, by Rule 70, Section 16 of the present Rules of Court, as follows:

> SECTION 4. *Evidence of Title, When Admissible.* — Evidence of title to the land or building may be received solely for the purpose of determining the character and extent of possession and damages for detention. [Rule 72, Rules of Court, July 1, 1940]
>
> SECTION 4. *Evidence of title, when admissible.* — Evidence of title to the land or building may be received solely for the purpose of determining the character and extent of possession and damages for detention. [Rule 70, Revised Rules of Court, January 1, 1964]
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> SECTION 16. *Resolving defense of ownership. — When the defendant raises the defense of ownership in his pleadings and the question of possession cannot be resolved without deciding the issue of ownership, the issue of ownership shall be resolved only to determine the issue of possession.* (4a) [Rule 70, Rules of Court, July 1, 1997] (Emphasis supplied)

Accordingly, in cases of unlawful detainer that involve questions on the interpretation of the provisions of a lease contract, the Court, in *Optimum Development Bank v. Spouses Jovellanos*,[54] ruled that MeTCs are "conditionally vested with authority to resolve" these issues, which "is essential to a complete adjudication of the issue of possession."[55] Thus:

> Metropolitan Trial Courts are **conditionally vested** with authority to resolve the question of ownership raised **as an incident** in an ejectment case where the determination is **essential to a complete adjudication of the issue of possession**. Concomitant to the ejectment court's authority to look into the claim of ownership **for purposes of resolving the issue of possession** is its authority to interpret the contract or agreement upon which the claim is premised. Thus, in the case of *Oronce v. CA*, wherein the litigants' opposing claims for possession was hinged on whether their written agreement reflected the intention to enter into a sale or merely an equitable mortgage, the Court affirmed the propriety of the ejectment court's examination of the terms of the agreement in question by holding that, "because **Metropolitan Trial Courts are authorized to look into the ownership of the property in controversy in ejectment cases**, it behooved MTC Branch 41 to examine the bases for petitioners' claim of ownership that entailed interpretation of the Deed of Sale with Assumption of Mortgage." Also, in *Union Bank of the Philippines v. Maunlad Homes, Inc.* (Union Bank), citing *Sps. Refugia v. CA*, the Court declared that MeTCs have authority to interpret contracts in unlawful detainer cases, *viz.*:

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54 722 Phil. 772 (2013) [Per J. Perlas-Bernabe, Second Division].

55 *Id.* at 781.

> **The authority granted to the MeTC to preliminarily resolve the issue of ownership to determine the issue of possession ultimately allows it to interpret and enforce the contract or agreement between the plaintiff and the defendant.** To deny the MeTC jurisdiction over a complaint merely because the issue of possession requires the interpretation of a contract will effectively rule out unlawful detainer as a remedy. As stated, in an action for unlawful detainer, the defendant's right to possess the property may be by virtue of a contract, express or implied; corollarily, the termination of the defendant's right to possess would be governed by the terms of the same contract. **Interpretation of the contract between the plaintiff and the defendant is inevitable because it is the contract that initially granted the defendant the right to possess the property; it is this same contract that the plaintiff subsequently claims was violated or extinguished, terminating the defendant's right to possess.** We ruled in *Sps. Refugia v. CA* that —
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> **where the resolution of the issue of possession hinges on a determination of the validity and interpretation of the document of title or any other contract on which the claim of possession is premised, the inferior court may likewise pass upon these issues.**
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> The MeTC's ruling on the rights of the parties based on its interpretation of their contract is, of course, not conclusive, **but is merely provisional and is binding only with respect to the issue of possession.** (Emphasis supplied; citations omitted)[56]

Notably, while the foregoing cases concern the issue of ownership raised as a defense in an unlawful detainer suit and not strictly whether a lessee is entitled to possession based on a renewal clause of a contract of lease, the principles apply *a fortiori* to the case at bar. The right to possession such as that arising from a valid renewal of a contract of lease is merely an attribute of ownership and is necessarily subsumed therein since "whoever owns the property has the right to possess it."[57] Hence, if the MeTC can provisionally resolve issues of ownership raised as a defense in a case for unlawful detainer, then with all the more reason can it resolve defenses based on attributes of ownership. Precisely, the greater power includes the lesser.

On this point, the case of *De Tavera v. Encarnacion*,[58] cited by PMO, is instructive. There, the Court declared that "the right of a lessee to occupy

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56 *Id.* at 781–783.

57 *See Gaitero v. Spouses Almeria*, 666 Phil. 539, 544 (2011) [Per J. Abad, Second Division], where the Court ruled that "[p]ossession is an essential attribute of ownership. Necessarily, whoever owns the property has the right to possess it."

58 130 Phil. 635 (1968) [Per J. Angeles, *En Banc*].

the land leased as against the demand of the lessor should be decided"[59] in a case for unlawful detainer:

> The provision of the lease contract entered into between petitioner and respondent is apparently clear that unless the lessor and lessee agreed to a renewal thereof at least thirty days prior to the date of expiration, the lease shall not be renewed. The facts on record show that despite the exchange of communication, proposals and counter-proposals, between the parties regarding a renewal of the lease, they were not able to arrive at an agreement within said period, for while the lessor wanted an increased rental, the lessee, on the other hand, proposed for a reduction. With this failure of an agreement, it is to be presumed that the lessee was aware that an ejectment case against him was forthcoming. Whether or not the case filed before the Cavite Court of First Instance, just one day before the expiration of the lease contract, was an anticipation to block the action for ejectment which the lessor was to take against the lessee, the fact, however, is that the lessee was not disposed to leave the premises. At any rate, while the said case before the Court of First Instance of Cavite appears to be one for specific performance with damages, it cannot be denied that the real issue between the parties is whether or not the lessee should be allowed to continue occupying the land as lessee.
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> The situation is not novel to Us.
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> It has been settled in a number of cases that the right of a lessee to occupy the land leased as against the demand of the lessor should be decided under Rule 70 (formerly Rule 72) of the Rules of Court.
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> *There is no merit to the contention that the lessee's supposed right to a renewal of the lease contract can not be decided in the ejectment suit. In the case of Teodoro v. Mirasol, supra, this Court held that "if the plaintiff has any right to the extension of the lease at all, such right is a proper and legitimate issue that could be raised in the unlawful detainer case because it may be used as a defense to the action." In other words, the matter raised in the Court of First Instance of Cavite may be threshed out in the ejectment suit, in consonance with the principle prohibiting multiplicity of suits.* And the mere fact that the unlawful detainer-ejectment case was filed later, would not change the situation of the foregoing ruling:
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> > "It is to be noted that the Rules do not require as a ground for dismissal of a complaint that there is a prior pending action. They provide that there is a pending action, not a pending prior action. The fact that the unlawful detainer suit was of a later date is no bar to the dismissal of the present action." (Teodoro, Jr. *v.* Mirasol, supra.[])[60] (Emphasis supplied)

Here, PMO asserts that the CA committed reversible error by absolving the MeTC of grave abuse of discretion when the latter held in abeyance the

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59 *Id.* at 640.
60 *Id.* at 639–641.

proceedings in the Ejectment Case to await the result of the Consignation Case.

The Court agrees with PMO.

Grave abuse of discretion exists where an act is performed with a capricious or whimsical exercise of judgment equivalent to lack of jurisdiction. The abuse of discretion must be so patent and so gross as to amount to an evasion of positive duty or to a virtual refusal to perform a duty enjoined by law, or to act at all in contemplation of law, as where the power is exercised in an arbitrary and despotic manner by reason of passion or personal hostility.[61]

The MeTC committed grave abuse of discretion when it refrained from performing its positive duty under Rule 70, Section 16 of the Rules of Court to determine, albeit provisionally, whether there was a valid renewal of the Contract of Lease in the Ejectment Case to "completely adjudicate" the issue of possession.

FCI, however, asserts that "the reasonableness or unreasonableness of the new rental rate being demanded behooves the MeTC to refrain from proceeding with the ejectment complaint due to the possible danger that this court and the RTC of Pasay City may yield different decisions on one particular issue."[62]

This argument is illusory and has no merit.

It is settled that "the disagreement between a lessor and a lessee as to the amount of rent to be paid by a lessee cannot be decided in an action of consignation but in that of forcible entry and unlawful detainer that the lessor institutes when the lessee refuses to pay the lessor the rents that he has fixed for the property."[63] In *Lim Si v. Lim*[64] (*Lim Si*), the Court declared:

> It is apparent from the facts alleged in the complaint that plaintiff instituted the present action in anticipation of the action of unlawful detainer the defendant was about to institute, and which was actually filed one day after the present action was begun. It is also evident that plaintiff has no cause of action against defendant, because there neither has been a violation of a right belonging to the plaintiff nor a breach of duty or obligation on the part of the defendant. According to express statements made in the complaint, defendant fixed the rental at ₱700 a month and demanded the payment of the same from the plaintiff. This he did by virtue of the insistent demands of the plaintiff that the defendant fix the rents. *There never was any agreement or meeting of the minds between the plaintiff and the*

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61 *Local Government Unit of San Mateo, Isabela v. Vda. de Guerrero*, 847 Phil. 54, 68 (2019) [Per J. Caguioa, Second Division].

62 *Rollo*, p. 227, Comment.

63 *Lim Si v. Lim*, 98 Phil. 868, 871–872 (1956) [Per J. Labrador, First Division].

64 *Id.*

defendant as to the amount of the rents. The plaintiff fixed it at ₱700 a month, and when he did so, he was absolutely within his rights. As the defendant disagreed with the rents fixed by the lessor and owner, his duty is to get out of the premises; *he has absolutely no right to have the court fix the rents and continue occupying the premises pending judicial determination of the said rents.* But as he continues occupying the premises and at the same time refuses to pay the rents fixed by the owner, it is the defendant-lessor who has a cause of action against him for his illegal occupancy. *Only the owner has the right to fix the rents. The court can not determine the rents and compel the lessor or owner to conform thereto and allow the lessee to occupy the premises on the basis of the rents fixed by it. A lease is not a contract imposed by law, with the terms thereof also fixed by law. It is a consensual, bilateral, onerous and commutative contract by which the owner temporarily grants the use of his property to another who undertakes to pay rent therefor.* (4 Sanchez Roman, 736.) Without the agreement of both parties, no contract of lease can be said to have been created or established. *Nobody can force another to let the latter lease his property if the owner refuses.* So the owner may not be compelled by action to give his property for lease to another.

Hence, plaintiff herein can not bring an action or has no cause of action against defendant. In procedural terms, there has been no violation of any right or breach of any duty by the defendant. As a matter of fact, plaintiff alleges that he had asked defendant to fix the rent and the latter fixed it at ₱700. If there has been a violation of any right at all, it is the plaintiff who has committed it in insisting to continue in the premises when he is not willing to pay the rents fixed by the owner.

The case of Pue, et al. *vs.* Gonzales, *supra*, has been cited by the defendant-appellee to sustain his theory that the proper action in which the dispute between the plaintiff and the defendant should be threshed out is in the ejectment case which the defendant instituted. In that case, we held thru Mr. Justice Montemayor:

> "Consignation in court under Art. 1176, is not the proper proceedings to determine the relation between landlord and tenant, the period of life of the lease or tenancy, the reasonableness of the amount of rental, the right of tenant to keep the premises against the will of the landlord, etc. These questions should be decided in a case of ejectment or detainer . . . under the provisions of Rule 72 of the Rules of Court. In a case of ejectment, the landlord claims either that the lease has ended or been terminated or that the lessee has forfeited his right as such because of his failure to pay the rents as agreed upon or because he failed or refused to pay the new rentals fixed and demanded by the lessor. The lessee in his turn may put up the defense that according to law, the rental fixed and demanded of him is unreasonable, exhorbitant [sic] and illegal. . . . We repeat that all these questions should be submitted and decided in a case of ejectment and cannot be decided in a case of consignation."

The principle above quoted exactly covers the point at issue, i.e., that *the disagreement between a lessor and a lessee as to the amount of rent to be paid by a lessee cannot be decided in an action of consignation but in*

> *that of forcible entry and unlawful detainer that the lessor institutes when the lessee refuses to pay the lessor the rents that he has fixed for the property.* It may also be added that consignation is proper when there is a debt to be paid, which the debtor desires to pay and which the creditor refuses to receive, or neglects to receive, or cannot receive by reason of his absence. The purpose of consignation is to have the obligation or indebtedness extinguished. In the case at bar, plaintiff seeks to have the obligation determined and fixed, hence his action should not be one of consignation.
>
> For the foregoing considerations, we hold that plaintiff has no cause of action against defendant under the facts alleged in his complaint; that consignation is not the proper remedy; that it is the defendant who has the right or cause of action against the plaintiff because the latter refuses to pay the rents fixed but does not leave the property; and that if the plaintiff claims that the amount of rents demanded by the defendant is unreasonable and he desires to have it fixed judicially, he may set forth the above facts as defenses in the action of ejectment filed by the defendant against him. The judgment of dismissal is hereby affirmed, with costs against the plaintiff-appellant.[65] (Emphasis supplied)

The CA, however, opined that the contents of PMO's Verification and Certification Against Forum Shopping "converted" its complaint for unlawful detainer into one for "interpretation and enforcement of the renewal clause," which was one incapable of pecuniary estimation and thus within the original exclusive jurisdiction of the RTC.[66]

The CA is wrong.

II. PMO's complaint for unlawful detainer was not "converted" into a complaint for "interpretation and enforcement of the renewal clause" because of the former's Verification and Certification Against Forum Shopping.

The CA opined that PMO's complaint for unlawful detainer was "converted" into one incapable of pecuniary estimation:

> It bears stressing that because of [PMO's] Verification and Certification Against Forum Shopping in its Complaint regarding the pending case for consignation, specific performance with prayer for the issuance of a temporary restraining order and writ of injunction before Branch 116 of the RTC of Pasay City, docketed as Civil Case No. R-PSY-09-1071-CV, *the case for unlawful detainer is converted from ejectment case to one that is for the interpretation and enforcement of the renewal clause* under par. 1 of the Lease Contract because of the conflicting position

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65 *Id.* at 870–872.

66 *See rollo*, pp. 64–65, CA Decision.

> [sic] of the parties in the said case that the RTC is tasked to rule on their respective rights under the renewal clause of the contract.[67] (Emphasis supplied)

This is egregious error.

There was no basis for the CA to conclude that the Verification and Certification Against Forum Shopping "converted" PMO's complaint for unlawful detainer into one incapable of pecuniary estimation that placed it beyond the competence of the MeTC. As PMO correctly argued, the statements in the Verification and Certification Against Forum Shopping do not modify the allegations in the body of the complaint and the character of the relief sought by PMO.[68] As earlier stated, once jurisdiction is vested ***by the allegations in the complaint***, jurisdiction remains vested in the trial court irrespective of whether or not the plaintiff is entitled to recover upon all or some of the claims asserted therein.[69]

The purpose of the verification requirement is merely "to secure an assurance that the allegations in the petition have been made in good faith or are true and correct, and not merely speculative."[70] Meanwhile, a certificate against forum shopping is required based on "the principle that a party-litigant shall not be allowed to pursue simultaneous remedies in different fora, as this practice is detrimental to an orderly judicial procedure."[71] Further, the purpose of the aforesaid certification is to prohibit and penalize the evils of forum-shopping.[72]

Here, the allegations in PMO's Complaint met all four requirements to sufficiently allege a cause of action for unlawful detainer. *First,* PMO alleged that it and FCI entered into a Contract of Lease which was in effect until December 2008.[73] *Second,* PMO and FCI failed to reach any agreement on the amount of rental for a renewal of the Contract of Lease—thus prompting PMO to demand that FCI vacate the premises and this notice was received by the latter in June 2009.[74] *Third,* despite receipt of the notice to vacate, FCI continued to occupy the premises without just or legal ground.[75] *Finally,* on December 3, 2009, or within one year from the last demand on FCI to vacate the property, PMO instituted a complaint[76] for unlawful detainer before the MeTC.

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67 *Id.*
68 *See id.* at 36–39, Petition.
69 *See Cabling v. Dangcalan*, *supra* note 51, at 196.
70 *Tendenilla v. Purisima*, G.R. No. 210904, November 24, 2021, p. 11 [Per J. Leonen, Third Division]. Citation omitted.
71 *Id.* Citation omitted.
72 *Benguet Corp. v. Cordillera Caraballo Mission Inc.*, 506 Phil. 366, 370 (2005) [Per J. Quisumbing, First Division].
73 *Rollo*, p. 102, Complaint for Unlawful Detainer/Ejectment.
74 *Id.* at 104–105.
75 *Id.* at 105.
76 *Id.* at 100–109.

FCI's assertion that there was a renewal of the lease precisely pertains to its defense against the presence of the third element. Stated differently, FCI's affirmative allegation that there was supposedly a renewal of the Contract of Lease, if proven, would provide it with a "just or legal ground" to continue occupying the premises. This should have been threshed out before the MeTC in the Ejectment Case.

III. The Consignation Case should be dismissed on the ground of *litis pendentia*.

The case of *Mid Pasig Land Development Corp. v. Court of Appeals*[77] (*Mid Pasig Land*) likewise involved a prior complaint for specific performance filed by the lessee against the lessor with Branch 266, RTC of Pasig City to formalize in a public instrument their lease agreement and prohibiting the petitioner from instituting any action for the ejectment of respondent from the leased premises and a subsequent complaint for unlawful detainer filed by the lessor against the lessee with Branch 70, MeTC of Pasig City after efforts to arrive at a compromise failed.

The Court dismissed the lessee's prior complaint for specific performance on the ground of *litis pendentia* for the following reasons:

> Petitioner likewise asserts that it is the complaint for specific performance that should be dismissed notwithstanding the fact that it was filed ahead of the unlawful detainer case. In *Teodoro, Jr. v. Mirasol*, the first complaint for specific performance was dismissed even if it enjoyed priority in time, considering that the unlawful detainer case filed by respondent was held to be the proper forum for threshing out the real issue of whether or not a lessee should be allowed to continue occupying the property under a contract of lease.
>
> We find merit in petitioner's assertions.
>
> In order to sustain a dismissal of an action on the ground of *litis pendentia*, the following requisites must concur: (a) identity of parties, or at least such as representing the same interest in both actions; (b) identity of rights asserted and relief prayed for, the relief being founded on the same facts[;] and (c) identity in the two cases should be such that the judgment that may be rendered in the pending case would, regardless of which party is successful, amount to *res judicata* in the other. We find the foregoing requisites present in the case at bar.
>
> There can be no question that the parties in RTC Civil Case No. 68213 and MTC Civil Case No. 8788 are one and the same. Anent the second and third requisites, a careful examination of the averments of the complaint before the RTC reveals that the rights asserted and reliefs prayed for therein are no different from those pleaded in the MeTC case, such that

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77 459 Phil. 560 (2003) [Per J. Ynares-Santiago, First Division].

a judgment in one case would effectively bar the prosecution of the other case.

A perusal of the complaint for specific performance shows that its main purpose was to prevent petitioner from ejecting respondent from the leased property. Although the complaint seeks to compel petitioner to execute a formal lease contract, its ultimate intent is to preclude petitioner from filing a complaint for ejectment and for respondent to maintain possession of the property. It must be noted that the right to the execution of a formal agreement is hinged upon the more fundamental issue of whether respondent has a right to the possession of the property under the alleged implied contract of lease. In other words, *the central issue to be resolved in the specific performance case unmistakably boils down to respondent's alleged right to continued possession of the premises, which issue is essentially similar, if not identical, to the one raised in the unlawful detainer case before the MeTC.*

Hence, the appellate court erred in finding that RTC Civil Case No. 68213 and MeTC Civil Case No. 8788 have different causes of action. As stated earlier, the ultimate relief sought in the RTC is *not really "to compel the defendant to formalize in a public instrument its lease agreement with plaintiff," as the Court of Appeals held, but to enjoin petitioner from filing the proper action for respondent's ejectment so that it could remain in possession of the property.* This is evident in respondent's prayer in the complaint for specific performance, where it expressly sought for the issuance of an order from the trial court "prohibiting defendant from instituting any action for the ejectment of plaintiff from the leased premises."

Since the question of possession of the subject property is at the core of the two actions, it can be said that the parties in the instant petition are actually litigating over the same subject matter, which is the leased site, and on the same issue — respondent's right of possession by virtue of the alleged contract. As similarly observed in *Arceo v. Olivares*, the only difference between the two cases herein is that respondent asserts, as a cause of action, its alleged contractual right to possession of the property in the RTC case, while the same matter is set forth as its counterclaim in the MeTC case where it is a defendant. However, the two cases are identical in all other respects, with merely a reversal of the parties' position in the two actions.[78] (Emphasis supplied; citations omitted)

The Court in *Mid Pasig Land* added that between an action for specific performance and an action for unlawful detainer, it is the former that should be dismissed considering that the "more appropriate action" to thresh out the lessee's right of possession is before the MeTC in the unlawful detainer case:

The fact that the unlawful detainer suit was filed later is no bar to the dismissal of the action for specific performance. Where there are two pending cases, the general rule is that the second case filed should be dismissed under the maxim *qui prior est tempore, potior est jure. However, the rule is not a hard and fast one, as the "priority-in-time rule" may give way to the criterion of "more appropriate action."*

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[78] *Id.* at 570–572.

> It has likewise been held that to determine which action should be dismissed given the pendency of two actions, relevant considerations such as the following are taken into account: (1) the date of filing, with preference generally given to the first action filed to be retained; (2) whether the action sought to be dismissed was filed merely to preempt the latter action or to anticipate its filing and lay the basis for its dismissal; and (3) whether the action is the appropriate vehicle for litigating the issues between the parties.
>
> It appears that at the time of the filing of the RTC case, petitioner had communicated to respondent that it filed an ejectment against it for violation of the original lease agreement. Thus, the RTC case, while purportedly one for specific performance, *is in reality a preemptive maneuver intended to block the complaint for ejectment, considering that it was brought merely three days after respondent received the communication from petitioner*. The latter was correct in pointing out that the RTC case was instituted in anticipation of its forthcoming move to eject respondent from the property. It was filed to bind petitioner's hands, so to speak, and to lay the ground for dismissal of any subsequent action that the latter may take pursuant to the notice of eviction.[79] (Emphasis supplied; citations omitted)

Like the lessee in *Mid Pasig Land*, FCI filed its complaint for consignation, specific performance with prayer for the issuance of a TRO and writ of injunction right after it received PMO's letter dated June 3, 2009 demanding FCI to vacate the premises within 30 days from notice and that such "failure or refusal to comply as . . . demanded [would] compel [PMO] to take appropriate legal actions to protect the interest of the Government."[80] Also like the lessee in *Mid Pasig Land*, FCI's Consignation Case was "in reality a preemptive maneuver intended to block the complaint for ejectment" and "filed to bind [PMO's] hands, so to speak, and to lay the ground for dismissal of any subsequent action that the latter [would] take pursuant to the notice of eviction."[81]

Based on FCI's Comment, it appears that the Consignation Case was dismissed by the RTC of Pasay City. FCI then appealed the order of dismissal to the CA, which was docketed as CA-G.R. CV No. 100167.[82] In a Decision[83] dated April 7, 2015, the CA reversed the order of dismissal and remanded the case to the RTC of Pasay City for further proceedings. In light of the foregoing discussion, the Consignation Case docketed as Civil Case No. R-PSY-09-01071-CV pending before the RTC of Pasay City is ordered dismissed with prejudice on the ground of *litis pendentia*.

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79 *Id.* at 574.

80 *Rollo*, p. 79, Letter dated June 3, 2009.

81 *See Mid Pasig Land Development Corp. v. Court of Appeals*, *supra* note 77, at 574.

82 *Rollo*, p. 222, Comment.

83 *Id.* at 324–333. Penned by Associate Danton Q. Bueser and concurred in by Associate Justices Apolinario D. Bruselas, Jr. and Agnes Reyes Carpio.

IV. FCI should be ordered to vacate and compensate PMO for the reasonable value of its use of the latter's premises.

Given the foregoing disquisition, the next step, under normal circumstances, would be for the Court to set aside the assailed Decision and assailed Resolution, remand the case to the MeTC, and direct the latter to resume proceedings on PMO's complaint for unlawful detainer. But this normal course of proceedings would only further delay the final resolution of a simple ejectment controversy that has been pending for nearly 15 years—in stark contrast to, or in violation of, the summary procedure of an ejectment suit. Thus, and considering that the issues raised can easily be resolved on the basis of the pleadings, documents, and exhibits filed, the Court deems it more practical and in the greater interest of justice to now resolve the issue of possession.

In *Sarmiento v. Dizon*,[84] the Court declared:

> An action for unlawful detainer is a summary action which may be filed for the purpose of recovering possession against one who illegally withholds the same after the expiration or termination of his or her right to hold possession under any contract, express or implied. To sustain an action for unlawful detainer, the plaintiff bears the burden of alleging and proving, by preponderance of evidence, the following jurisdictional facts:
>
> (i) initially, possession of property by the defendant was by contract with or by tolerance of the plaintiff;
>
> (ii) eventually, such possession became illegal upon notice by plaintiff to defendant of the termination of the latter's right of possession;
>
> (iii) thereafter, the defendant remained in possession of the property and deprived the plaintiff of the enjoyment thereof; and
>
> (iv) within one year from the last demand on defendant to vacate the property, the plaintiff instituted the complaint for ejectment.[85]

There is no dispute as to the presence of the first, third, and fourth elements. Precisely, only the second element is at issue. FCI asserts that its Contract of Lease with PMO was automatically renewed when it manifested its intent to renew the same, whereas PMO asserts that there was no renewal because the parties could not agree on the rate of rent. Consequently, the question before the Court is the proper interpretation of the renewal clause of

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84 G.R. No. 235424, February 3, 2021, 971 SCRA 608 [Per J. Caguioa, First Division].

85 *Id.* at 630.

the Contract of Lease, particularly on whether the parties agreed to an "automatic" renewal of the Contract of Lease.

The renewal clause reads as follows:

> 1. **TERM** – This Contract of Lease shall be for a term of two years beginning January 1, 2006 up to December 31, 2008 renewable under such terms and conditions as may be mutually agreed upon by the parties, provided, that the LESSEE shall within sixty (60) days before the expiration of this Contract, give notice in writing to the LESSOR of its intention to renew this Contract otherwise the LESSOR shall have the right to enter into an agreement with third parties.[86]

Article 1370 of the Civil Code provides that "[i]f the terms of a contract are clear and leave no doubt upon the intention of the contracting parties, the literal meaning of its stipulations shall control." Between PMO and FCI, did the phrase "*renewable under such terms and conditions as may be mutually agreed upon by the parties*" contemplate an "automatic" renewal of the Contract of Lease?

The Court says no.

A similar question was posed to the Court in *Buce v. Court of Appeals*[87] (*Buce*), where the renewal clause in the contract of lease read: "this lease shall be for a period of fifteen (15) years effective June 1, 1979, *subject to renewal for another ten (10) years, under the same terms and conditions*."[88]

In ruling that the parties did not contemplate an "automatic renewal," the Court in *Buce* declared:

> The phrase "*subject to renewal for another ten (10) years*" is unclear on whether the parties contemplated an automatic renewal or extension of the term, or just an option to renew the contract; and if what exists is the latter, who may exercise the same or for whose benefit it was stipulated.
>
> In this jurisdiction, a fine delineation exists between renewal of the contract and extension of its period. Generally, the renewal of a contract connotes the death of the old contract and the birth or emergence of a new one. A clause in a lease providing for an extension operates of its own force to create an additional term, but *a clause providing for a renewal merely creates an obligation to execute a new lease contract for the additional term. As renewal of the contract contemplates the cessation of the old contract, then it is necessary that a new one be executed between the parties.*
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> . . . .

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86 *Rollo*, p. 72, Contract of Lease.
87 387 Phil. 897 (2000) [Per C.J. Davide, Jr., First Division].
88 *Id.* at 905. Italics supplied.

> [I]n a reciprocal contract like a lease, the period must be deemed to have been agreed upon for the benefit of *both parties*, absent language showing that the term was deliberately set for the benefit of the lessee or lessor alone. We are not aware of any presumption in law that the term was deliberately set for the benefit of the lessee alone. *Koh* and *Cruz* in effect rested upon such a presumption. But that presumption cannot reasonably be indulged in casually in an era of rapid economic change, marked by, among other things, volatile costs of living and fluctuations in the value of domestic currency. The longer the period the more clearly unreasonable such a presumption would be. *In an age like that we live in, very specific language is necessary to show an intent to grant a unilateral faculty to extend or renew a contract of lease to the lessee alone or to the lessor alone for that matter.*
>
> In the case at bar, it was not specifically indicated who may exercise the option to renew, neither was it stated that the option was given for the benefit of herein petitioner. Thus, pursuant to the *Fernandez* ruling and Article 1196 of the Civil Code, the period of the lease contract is deemed to have been set for the benefit of both parties. *Renewal of the contract may be had only upon their mutual agreement or at the will of both of them. Since the private respondents were not amenable to a renewal, they cannot be compelled to execute a new contract when the old contract terminated on 1 June 1994. It is the owner-lessor's prerogative to terminate the lease at its expiration. The continuance, effectivity and fulfillment of a contract of lease cannot be made to depend exclusively upon the free and uncontrolled choice of the lessee between continuing the payment of the rentals or not, completely depriving the owner of any say in the matter. Mutuality does not obtain in such a contract of lease and no equality exists between the lessor and the lessee since the life of the contract would be dictated solely by the lessee.*[89] (Emphasis supplied; citations omitted)

It is evident that when PMO and FCI used the terms "under such terms and conditions as may be mutually agreed upon by the parties," they intended to perfect a new contract of lease upon mutual agreement on all terms and conditions.[90] Hence, the failure of PMO and FCI to agree on the rent for the new lease necessarily means that there was no meeting of the minds and, consequently, no renewal. It is, however, true that under PMO's December 23, 2008 letter the month-to-month informal lease between PMO and FCI would continue "until such time that the parties will enter into a new contract of lease under mutually agreed terms and conditions."[91] However, under Article 1184 of the Civil Code, "[t]he condition that some event happen at a determinate time shall extinguish the obligation as soon as the time expires *or if it has become indubitable that the event will not take place.*"[92] The categorical rejection by PMO of FCI's counteroffer in the former's June 3, 2009 letter as to the amount of rent and the termination of negotiations had

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89 *Id.* at 905–907.

90 *See Tan v. Planters Products, Inc.*, 573 Phil. 416, 431 (2008) [Per J. Reyes, R.T., Third Division].

91 *Rollo*, p. 73.

92 Emphasis supplied.

rendered indubitable that a renewal would not take place. Accordingly, the obligation to respect the month-to-month informal lease has been extinguished.

In its Comment, FCI asserts that:

> It is the respondent's position that PMO cannot renege on its commitment to renew the contract from time to time by imposing new rental at the exhorbitant [sic] rate of P44,975.00 per month in violation of the spirit and intention of the contracting parties. The new rental and terms must be reasonable so as not to defeat the renewal clause.[93]

FCI, however, cites no authority for its proposition. If PMO indeed had a "commitment to renew the contract from time to time," the same could have been provided in the renewal clause of the Contract of Lease. Instead, FCI agreed that the lease may be renewed "under such terms and conditions as may be mutually agreed" by FCI and PMO. PMO was well within its rights to offer FCI a new rental rate and FCI was free to accept or reject the same. This is the essence of the freedom to enter into contracts. In *Kilosbayan, Inc. v. Morato*,[94] for example, the Court declared:

> Surely, the PGMC as owner of the leased equipment is *free to demand the amount of rentals it deems commensurate for the use thereof* and, as long as PCSO agrees to the amount of such rentals, as justifying an adequate net return to it, then the contract is valid and binding between the parties thereto. *This is the essence of freedom to enter into contracts.*[95] (Emphasis supplied)

Notably, a similar situation obtained in *Tan v. Planters Products, Inc.*[96] (*Tan*), where the lessor and lessee could not agree on the non-commercial terms of the lease. In ruling that no new lease was created, the Court opined:

> The evident intention of PPI and Marman is for the new lease contract to be perfected only upon mutual agreement on all terms and conditions of the new lease. This means that there must be an agreement on both the commercial and non-commercial terms of the new lease contracts. This is clear from the general language of the renewal clause. *If the parties intended differently, they could have simply deleted the phrase "under such terms and conditions as may be agreed upon by the parties," which would automatically renew the original contract for another period of ten years upon mere notice to PPI.* Alternatively, they could have included a stipulation in the original lease contract which would limit the terms and conditions that the parties may validly negotiate in order for the contract to be renewed.
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> Here, records disclose that PPI and Marman *did not agree on all terms of the new lease contracts*. [Marman] only accepted the counter offer of PPI with respect to the commercial terms of the new lease. It did not

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93 *Id.* at 226, Comment.
94 316 Phil. 652 (1995) [Per J. Mendoza, *En Banc*].
95 *J.* Padilla, Concurring Opinion in *Kilosbayan, Inc. v. Morato*, *id.* at 719.
96 *Supra* note 90.

> accept the other non-commercial terms and conditions of the new contract, specifically the repair of the middle dock facility and the relocation of the sulfuric acid pipelines. *The new lease contract was not perfected because the parties did not agree on all terms of the lease. The CA correctly ruled that PPI cannot be compelled to execute a new lease contract in favor of Marman.*[97] (Emphasis supplied)

PMO stands on the same footing as the lessor in *Tan*. PMO "cannot be compelled to execute a new lease contract in favor of" FCI given the parties' failure to agree on the amount of rent.[98] Whether the offer of PMO to FCI was reasonable is of no moment. As the Court ruled in *Lim Si*, "*[o]nly the owner has the right to fix the rents*. The court can not determine the rents and compel the lessor or owner to conform thereto and allow the lessee to occupy the premises on the basis of the rents fixed by it. A lease is not a contract imposed by law, with the terms thereof also fixed by law. It is a consensual, bilateral, onerous and commutative contract by which the owner temporarily grants the use of his property to another who undertakes to pay rent therefor."[99] PMO was thus within its rights to fix the rent as it deemed fit. Consequently, there was a failure to perfect a new contract of lease between PMO and FCI because there was no meeting of the minds on the amount of rent.

FCI's possession over PMO's premises thus became illegal 30 days after its receipt of PMO's demand letter dated June 3, 2009, or on July 3, 2009. PMO is, therefore, entitled to reasonable compensation for FCI's use and possession of its property from July 3, 2009 until the latter vacates the same.

Reasonable compensation due to PMO

As to the amount of reasonable compensation for the use and occupation of the subject property due to PMO from FCI, the Court, in *J.B. Tirol Boracay Properties Corp. v. Tapuz, Jr.*,[100] ruled:

> In *Heirs of Spouses Mariano v. City of Naga*, this Court emphasized that the reasonable compensation for the use and occupation of premises partakes the nature of actual damages. Thus, *the court may fix the same, but it must be based on the evidence adduced by the parties. Rental value refers to "the value as ascertained by proof of what the property would rent or by evidence of other facts from which the fair rental value may be determined.*" "Reasonable amount of rent in ejectment cases is to be determined not by mere judicial notice but by supporting evidence."
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> Thus, in *Josefa v. San Buenaventura*, this Court enumerated the factors that may be considered in determining the reasonable amount of rent in ejectment cases: *(a) the prevailing rates in the vicinity; (b) location of the*

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97 *Id.* at 431–432.
98 *See Tan v. Planters Products, Inc., id.* at 432.
99 *Lim Si v. Lim, supra* note 63, at 870. Emphasis supplied.
100 G.R. No. 209622, June 27, 2022 [Unsigned Resolution, Second Division].

property; (c) use of the property; (d) inflation rate; and (e) the testimony of one of the private respondents.[101] (Emphasis supplied; citations omitted)

Hence, the Court deems it proper to remand the case to the MeTC for the sole and singular purpose of receiving evidence and to accordingly determine the amount of reasonable compensation due to PMO from FCI for the use and occupation of the subject property for all the years that had passed, until the present.

ACCORDINGLY, premises considered, the instant Petition is hereby **GRANTED**. The Decision dated March 20, 2014 and Resolution dated September 25, 2014 promulgated by the Court of Appeals in CA-G.R. SP No. 126940 are **REVERSED and SET ASIDE** and the Decision dated May 7, 2012 of Branch 26, Regional Trial Court of Manila, in Civil Case No. 10-124494 is **AFFIRMED**. Respondent Firestone Ceramic, Inc. is ordered to immediately vacate the subject property and to restore the peaceful possession thereof to petitioner Privatization and Management Office and to pay the latter the reasonable compensation for the use of the subject property from July 3, 2009 until it has fully vacated the same, as determined pursuant to the last paragraph below.

Civil Case No. R-PSY-09-01071-CV pending before Branch 116 of the Regional Trial Court of Pasay City is ordered **DISMISSED** on the ground of *litis pendentia.*

This case is ordered **REMANDED** to Branch 3, Metropolitan Trial Court of Manila, to determine the amount of reasonable compensation due to petitioner Privatization and Management Office for respondent Firestone Ceramic, Inc.'s use of the subject property.

SO ORDERED.

ALFREDO BENJAMIN S. CAGUIOA
Associate Justice

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[101] *Id.* at 10–11. This pinpoint citation refers to the copy of the Resolution uploaded to the Supreme Court website.

WE CONCUR:

HENRI JEAN PAUL B. INTING
Associate Justice

SAMUEL H. GAERLAN
Associate Justice

JAPAR B. DIMAAMPAO
Associate Justice

MARIA FILOMENA D. SINGH
Associate Justice

ATTESTATION

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

ALFREDO BENJAMIN S. CAGUIOA
Associate Justice
Chairperson, Third Division

CERTIFICATION

Pursuant to Article VIII, Section 13 of the Constitution and the Division Chairperson's Attestation, it is hereby certified 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.

ALEXANDER G. GESMUNDO
Chief Justice