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Republic of the Philippines
Supreme Court
Manila

SECOND DIVISION

DAVAO NEW TOWN DEVELOPMENT CORPORATION, Petitioner,	**G.R. No. 174588**
	Present:
-versus-	BRION, *J., Acting Chairperson,* DEL CASTILLO, MENDOZA,* PERLAS-BERNABE, and LEONEN,** *JJ.*
SPOUSES GLORIA ESPINO SALIGA and CESAR SALIGA, and SPOUSES DEMETRIO EHARA and ROBERTA SUGUE EHARA, Respondents.	Promulgated: DEC 11 2013

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DECISION

BRION, *J.*:

We pass upon the petition for review on *certiorari,*[1] under Rule 45 of the Rules of Court, challenging the March 28, 2006 decision[2] and the September 5, 2006 resolution[3] of the Court of Appeals *(CA)* in CA-G.R. SP No. 79377. This CA ruling affirmed the January 12, 2001 decision[4] of the Department of Agrarian Reform Adjudication Board *(DARAB)* in DARAB Case No. 7775. The DARAB set aside the July 6, 1998 decision[5] of the Provincial Agrarian Reform Adjudicator *(PARAD)* that ruled in favor of petitioner Davao New Town Development Corporation *(DNTDC)*.

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* Designated as Acting Member in lieu of Associate Justice Antonio T. Carpio, per Raffle dated December 6, 2013.

** Designated as Acting Member in lieu of Associate Justice Jose P. Perez, per Special Order No. 1627 dated December 6, 2013.

1 Dated October 22, 2006 and filed on October 30, 2006, *rollo*, pp. 9-27.

2 Penned by Associate Justice Normandie B. Pizarro, and concurred in by Associate Justices Edgardo A. Camello and Ricardo R. Rosario, id. at 32-46.

3 Id. at 48-50.

4 Penned by Assistant Secretary Lorenzo R. Reyes, and concurred in by Assistant Secretary Augusto P. Quijano, Edwin C. Sales and Assistant Secretary Wilfredo M. Peñaflor; CA *rollo,* pp. 43-53. The August 28, 2003 resolution of the DARAB denied DNTDC's motion for reconsideration dated August 7, 2001; id. at 29-34.

5 Penned by Regional Adjudicator Norberto Sinsona; id. at 264-270.

The Factual Antecedents

At the root of the present controversy are two parcels of land – 4.9964 hectares[6] and 2.5574 hectares[7] *(subject property)* - situated in Catalunan Pequeño, Davao City and originally registered in the name of Atty. Eugenio Mendiola (deceased).

On February 5, 1998,[8] the respondents - spouses Gloria Espino Saliga and Cesar Saliga *(spouses Saliga)* and spouses Demetrio Ehara and Roberta Sugue Ehara *(spouses Ehara), (*collectively referred to as *respondents)* - filed before the Office of the PARAD in Davao City a complaint for injunction, cancellation of titles and damages against DNTDC. They amended this complaint on February 13, 1998.

In their complaint and amended complaint, the respondents claimed that they and their parents, from whom they took over the cultivation of the landholding, had been tenants of the property as early as 1965. On August 12, 1981, the respondents and Eugenio executed a five-year lease contract.[9] While they made stipulations regarding their respective rights and obligations over the landholding, the respondents claimed that the instrument was actually a device Eugenio used to evade the land reform law.

The respondents also argued that pursuant to the provisions of Presidential Decree *(P.D.)* No. 27, they, as tenants, were deemed owners of the property beginning October 21, 1972 (the Act's effectivity date); thus, the subsequent transfer of the property to DNTDC was not valid. The respondents added that DNTDC could not have been a buyer in good faith as it did not verify the status of the property – whether tenanted or not tenanted - prior to its purchase. The respondents submitted, among others, the pertinent tax declarations showing that the property was agricultural as of 1985.

In its answer, DNTDC alleged in defense that it purchased the property in good faith from the previous owners (Paz M. Flores and Elizabeth M. Nepumuceno)[10] in 1995. At that time, the alleged tenancy relationship between the respondents and Eugenio had already expired following the expiration of their lease contracts in 1986. DNTDC also claimed that prior to the sale, the Davao City Office of the Zoning Administrator confirmed that the property was not classified as agricultural; it pointed out that the affidavit of non-tenancy executed by the vendors affirmed the absence of any recognized agricultural lessees on the property. DNTDC added that the property had already been classified to be within an "urban/urbanizing zone" in the "*1979-2000 Comprehensive Land Use Plan*

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6 Known as Lot 850-C and covered by Transfer Certificate of Title No. T-8929.
7 Known as Lot 850-B-3-D and covered by Transfer Certificate of Title No. T-8930.
8 Filed on February 6, 1998 per the DARAB's January 12, 2001 decision; *supra* note 4.
9 CA *rollo*, pp. 36-40.
10 Respectively, the sister-in-law and the daughter of Eugenio.

for Davao City" that was duly adopted by the City Council of Davao City and approved by the Human Settlement Regulatory Commission *(HSRC)* (now the Housing and Land Use Regulatory Board [*HLURB*]).

In its decision of July 6, 1998, the PARAD ordered the DNTDC to pay the spouses Saliga the sum of ₱20,000.00 and the spouses Ehara the sum of ₱15,000.00 as disturbance compensation, and to allocate to each of the respondent spouses a 150-square meter homelot. While the PARAD conceded that the respondents were tenants of the property, it nevertheless ruled that the property had already been reclassified from agricultural to non-agricultural uses prior to June 15, 1988, the date when Republic Act *(R.A.)* No. 6657 (the Comprehensive Agrarian Reform Law of 1988) took effect. Thus, since R.A. No. 6657 covers only agricultural lands, the property fell outside its coverage.

The respondents appealed the case to the DARAB.

The ejectment case before the MTCC

Pending resolution of the appeal before the DARAB, DNTDC filed before the Municipal Trial Court in Cities *(MTCC)* of Davao City a complaint for unlawful detainer[11] against Demetrio Ehara, Jr., Reynaldo Saliga and Liza Saliga, the children of respondent spouses Ehara and spouses Saliga. DNTDC claimed that it owned the 2.5574-hectare portion of the property which the respondents' children had been occupying by its mere tolerance. Despite its repeated demands, the respondents' children refused to vacate and continued to illegally occupy it.

In their answer, the respondents' children raised the issue of lack of jurisdiction, arguing that the case involved an agrarian dispute. They contended that the law considers them immediate members of the farm household, to whom R.A. No. 3844 and R.A. No. 6657 extend tenurial security. Thus, they claimed that they, as tenants, were entitled to continue occupying the disputed portion.

On December 20, 2000, the MTCC rendered its decision[12] granting the DNTDC's complaint and ordering the respondents' children to vacate the 2.5574-hectare portion of the property. The MTCC ruled that the respondents' children were not tenants of the property because they failed to prove that their stay on the premises was by virtue of a tenancy agreement and because they had been occupying portions different from their parents' landholding. The MTCC also ruled that the 2.5574-hectare portion was no longer agricultural and was thus removed from the coverage of R.A. No. 6657.

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11 Dated March 30, 2000; *rollo*, pp. 51-54.

12 Penned by Judge Antonina B. Escovilla; id. at 55-63.

The prohibition case before the RTC

The respondents' children did not appeal the MTCC decision. Instead, on June 1, 2001, they filed before the Regional Trial Court *(RTC)*, Branch 17, Davao City a petition for Prohibition[13] against DNTDC to enjoin the execution of the MTCC decision. They repeated the defenses and allegations in their pleading before the MTCC. The children of the spouses Saliga – Liza and Reynaldo - however added that Cesar had already died; hence, they were filing the prohibition case in their own right as heirs/successors-in-interest of Cesar.

On November 29, 2001, the respondents' children and DNTDC entered into a compromise agreement.[14] The respondents' children undertook to voluntarily and peacefully vacate the 2.5574-hectare portion of the property and to remove and demolish their respective houses built on its premises, while DNTDC agreed to give each of them the amount of ₱20,000.00 as financial assistance. The RTC approved the compromise agreement in its December 7, 2001 decision.[15]

The Ruling of the DARAB

In its decision[16] of January 12, 2001, the DARAB reversed and set aside the PARAD's ruling. The DARAB ordered DNTDC and all persons acting in its behalf to respect and maintain the respondents in the peaceful possession and cultivation of the property, and the Municipal Agrarian Reform Officer *(MARO)* to enjoin the DNTDC from disturbing and/or molesting the respondents in their peaceful possession and cultivation of it.

As the PARAD did, the DARAB declared that a tenancy relationship existed between Eugenio and the respondents, which was not extinguished by the expiration of the five-year term stated in their lease contracts. Thus, when DNTDC purchased the property, it had been subrogated to the rights and obligations of the previous landowner pursuant to the provisions of R.A. No. 3844.[17]

Unlike the PARAD, however, the DARAB was not convinced that the property had already been reclassified to non-agricultural uses so as to remove it from the coverage of R.A. No. 6657. With Administrative Order No. 5, series of 1994 as basis, the DARAB held that the alleged reclassification of the property did not and could not have divested the respondents of their rights as "deemed owners" under P.D. No. 27. The DARAB also pointed out that while Davao City Ordinance No. 363, series

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13 Petition for Prohibition with TRO, Preliminary Injunction, Damages and Attorney's Fees dated March 15, 2001; id. at 64-71.

14 Id. at 73-74.

15 Penned by Judge Renato A. Fuentes; id. at 75-76.

16 *Supra* note 4.

17 The Agricultural Land Reform Code.

of 1982 (adopting the Comprehensive Development Plan of Davao City), reclassified the property to be within the "urban/urbanizing zone," the DNTDC did not submit the required certifications from the HLURB, adopting the zoning ordinance, and from the DAR, approving the conversion to make the reclassification valid.

When the DARAB denied the DNTDC's motion for reconsideration in its August 28, 2003 resolution,[18] the DNTDC elevated the case to the CA *via* a petition for review.[19]

The Ruling of the CA

In its March 28, 2006 decision,[20] the CA affirmed *in toto* the January 12, 2001 decision of the DARAB. The CA similarly declared that the tenancy relationship established between the respondents and Eugenio was not extinguished by the expiration of the five-year term of their lease contracts or by the subsequent transfer of the property to DNTDC. The CA noted that both the DARAB and the PARAD arrived at the same findings and that the DNTDC impliedly admitted in its pleadings the existence of the tenancy relationship.

The CA was also convinced that the property was still agricultural and was, therefore, covered by R.A. No. 6657. While the CA conceded that the conversion of the use of lands that had been reclassified as residential, commercial or industrial, prior to the effectivity of R.A. No. 6657, no longer requires the DAR's approval, the CA pointed out that the landowner must first comply with certain pre-conditions for exemption and/or conversion. Among other requirements, the landowner must secure an exemption clearance from the DAR. This exemption clearance shall be issued after the landowner files the certifications issued by the deputized zoning administrator, stating that the land had been reclassified, and by the HLURB, stating that it had approved the pertinent zoning ordinance, with both the reclassification and the approval carried out prior to June 15, 1988.

In this case, the CA held that DNTDC failed to secure and present any exemption clearance. The CA also pointed out that: (1) Davao City Ordinance No. 363, series of 1982, adopting the Comprehensive Development Plan of Davao City did not substantially show that it had reclassified the property from agricultural to non-agricultural uses; (2) DNTDC failed to submit during the proceedings before the PARAD and the DARAB the HLURB certification allegedly approving Davao City Ordinance No. 363, series of 1982; (3) while DNTDC attached to its motion for reconsideration of the DARAB's decision a certification from the HLURB stating that by resolution (Resolution No. R-39-4) dated July 31, 1980, it approved the Comprehensive Development Plan, yet at the time of

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18 *Supra* note 4.

19 Dated September 19, 2003; CA *rollo*, pp. 2-23.

20 *Supra* note 2.

the alleged HLURB approval, the pertinent zoning ordinance - Davao City Ordinance No. 363, series of 1982 - adopting such plan had not yet been enacted; and (4) the HLURB certification that DNTDC presented referred to a parcel of land subject of another case.

DNTDC filed the present petition after the CA denied its motion for reconsideration[21] in the CA's September 5, 2006 resolution.[22]

The Petition

In its present petition,[23] DNTDC argues that the CA seriously erred when it: (1) failed to consider the fact that the respondents violated the compromise agreement; (2) ruled that a tenancy relationship exists between it and the respondents; and (3) declared that the subject property is agricultural.[24]

Directly addressing the CA's ruling, DNTDC argues that: *first*, the respondents, in the compromise agreement, categorically agreed to voluntarily vacate the property upon receipt of the stated financial assistance. Since the RTC approved the compromise agreement and the respondents had already received the agreed financial assistance, the CA should have considered these incidents that immediately bound the respondents to comply with their undertaking to vacate.

Second, no tenancy relationship exists between DNTDC and the respondents. DNTDC maintains that while a tenancy relationship existed between the respondents and Eugenio, this relationship was terminated when the MTCC ordered the respondents to vacate the property. It emphasizes that this MTCC decision that ordered the respondents to vacate the property had already become final and executory upon the respondents' failure to seasonably appeal. DNTDC adds that after the respondents' lease contract with Eugenio expired and the latter simply allowed the former to continue occupying the property, the respondents became bound by an implied promise to vacate its premises upon demand. Thus, when, as the new owner, it demanded the return of the property, the respondents were obligated to comply with their implied promise to vacate.

Finally, the property is no longer agricultural, contrary to the findings of the DARAB and the CA. DNTDC points out that the proceedings before the PARAD had sufficiently addressed this issue, which the CA recognized in the assailed decision. Thus, DNTDC contends that the findings of the PARAD should prevail over those of the DARAB.

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21 Dated April 17, 2006; CA *rollo*, pp. 295-306.
22 *Supra* note 3.
23 See also DNTDC's memorandum dated October 27, 2007; *rollo*, pp. 132-149.
24 Id. at 20.

In its reply[25] to the respondents' comment, DNTDC additionally argues that the MTCC and the RTC cases are closely intertwined with and relevant to the present case. It points out that Reynaldo and Liza categorically stated in their petition in the RTC case that they were suing in their own right as heirs/successors-in-interest of Cesar. Consequently, the spouses Saliga, as represented and succeeded by Reynaldo and Liza, are bound by the compromise agreement that the latter signed in the RTC case.

The Case for the Respondents

In their comment,[26] the respondents argue that the MTCC and the RTC cases do not bear any significance to the present controversy. They point out that the parties in the MTCC and the RTC cases, aside from DNTDC, were Demetrio Ehara, Jr., Reynaldo and Liza who are undeniably different from them.

Relying on the ruling of the CA, the respondents also argue that a tenancy relationship exists between them and DNTDC and that the property is still agricultural. The respondents quoted *in toto* the CA's discussions on these issues to support their position.

The Issues

In sum, the issues for our resolution are: (1) whether the property had been reclassified from agricultural to non-agricultural uses prior to June 15, 1988 so as to remove it from the coverage of R.A. No. 6657; (2) whether an agricultural leasehold or tenancy relationship exists between DNTDC and the respondents; and (3) whether the compromise agreement signed by the respondents' children in the RTC case binds the respondents.

The Court's Ruling

We resolve to **GRANT** the petition.

Preliminary considerations

At the outset, we reiterate the settled rule that only questions of law may be raised in a petition for review on *certiorari* under Rule 45 of the Rules of Court.[27] Questions of facts are not allowed in a Rule 45 petition because this Court is not a trier of facts.[28] The Court generally accords respect, if not finality, to the factual findings of quasi-judicial bodies, among them is the DARAB, as these bodies are deemed experts in their respective

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[25] Dated June 20, 2007; id. at 109-112.

[26] Dated January 28, 2007, id. at 90-100. See also the respondents' memorandum dated November 5, 2007; id. at 154-168.

[27] *Pasong Bayabas Farmers Asso., Inc. v. Court of Appeals*, 473 Phil. 64, 90 (2004).

[28] *Heirs of Luis A. Luna and Remegio A. Luna v. Afable*, G.R. No. 188299, January 23, 2013, 689 SCRA 207, 223.

fields.[29] The question of the existence of a tenancy relationship intertwined with the question of reclassification requires for its resolution a review of the factual findings of the agricultural tribunals and of the CA. These are questions we cannot generally touch in a Rule 45 petition.

Nevertheless, the case also presents a legal question as the issue of tenancy relationship is both factual and legal. Moreover, the findings of the PARAD conflict with those of the DARAB. These circumstances impel us to disregard the above general rule and to address both the presented factual and legal issues in view of their social justice implications and the duty to do justice that this Court has sworn to uphold.

We now resolve the merits of the petition.

The subject property had been reclassified as non-agricultural prior to June 15, 1988; hence, they are no longer covered by R.A. No. 6657

At the core of the controversy is the questioned reclassification of the property to non-agricultural uses. This issue is intertwined with and on which depends the resolution of the issue concerning the claimed agricultural leasehold relationship.

In reversing the PARAD and holding that the property was still agricultural, the DARAB considered the Comprehensive Development Plan (approved by the HSRC through Board Resolution R-39-4 dated July 31, 1980) and Davao City Ordinance No. 363, series of 1982 (adopting the Comprehensive Development Plan) as invalid reclassification measures. It gave as reason the absence of the requisite certification from the HLURB and the approval of the DAR. In the alternative, and citing P.D. No. 27, in relation with R.A. No. 6657, as basis, the DARAB considered the alleged reclassification ineffective so as to free the property from the legal effects of P.D. No. 27 that deemed it taken under the government's operation land transfer *(OLT)* program as of October 21, 1972.

We differ from, and cannot accept, the DARAB's position.

We hold that the property had been reclassified to non-agricultural uses and was, therefore, already outside the coverage of the Comprehensive Agrarian Reform Law (CARL) after it took effect on July 15, 1988.

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[29] *Pasong Bayabas Farmers Asso., Inc. v. Court of Appeals, supra* note 27, at 90; and *Heirs of Luis A. Luna and Remegio A. Luna v. Afable, supra* note 28, at 223.

1. *Power of the local government units to reclassify lands from agricultural to non-agricultural uses; the DAR approval is not required*

Indubitably, the City Council of Davao City has the authority to adopt zoning resolutions and ordinances. Under Section 3 of R.A. No. 2264[30] (the then governing Local Government Code), **municipal and/or city officials are specifically empowered to "adopt zoning and subdivision ordinances or regulations** in consultation with the National Planning Commission."[31]

In *Pasong Bayabas Farmers Asso., Inc. v. Court of Appeals,*[32] the Court held that this power of the local government units to reclassify or convert lands to non-agricultural uses is not subject to the approval of the DAR.[33] There, the Court affirmed the authority of the Municipal Council of Carmona to issue a zoning classification and to reclassify the property in dispute from agricultural to residential through the Council's *Kapasiyahang Bilang 30,* as approved by the HSRC.

In the subsequent case of *Junio v. Secretary Garilao,*[34] this Court clarified, once and for all, that "with respect to areas classified and identified as zonal areas not for agricultural uses, like those approved by the HSRC before the effectivity of RA 6657 on June 15, 1988, the DAR's clearance is no longer necessary for conversion."[35] The Court in that case declared the disputed landholding as validly reclassified from agricultural to residential pursuant to Resolution No. 5153-A of the City Council of Bacolod.

Citing the cases of *Pasong Bayabas Farmers Asso., Inc.* and *Junio,* this Court arrived at significantly similar ruling in the case of *Agrarian Reform Beneficiaries Association (ARBA) v. Nicolas.*[36]

Based on these considerations, we hold that the property had been validly reclassified as non-agricultural land prior to June 15, 1988. We note the following facts established in the records that support this conclusion: (1) the Davao City Planning and Development Board prepared the Comprehensive Development Plan for the year 1979-2000 in order to

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30 "AN ACT AMENDING THE LAWS GOVERNING LOCAL GOVERNMENTS BY INCREASING THEIR AUTONOMY AND REORGANIZING PROVINCIAL GOVERNMENTS." Enacted on June 15, 1959.

See also Memorandum Circular No. 74-20 dated March 11, 1974 issued by the Secretary of the Department of Local Government and Community Development authorizing the local legislative bodies to create and organize their respective City Planning and Development Boards.

31 *Pasong Bayabas Farmers Asso., Inc. v. Court of Appeals, supra* note 27, at 94; and *Heirs of Dr. Jose Deleste v. Land Bank of the Philippines (LBP),* G.R. No. 169913, June 8, 2011, 651 SCRA 352, 376 (emphasis and underscore ours).

32 *Supra* note 27.

33 Id. at 95. See also *Heirs of Dr. Jose Deleste v. Land Bank of the Philippines (LBP), supra* note 31, at 376.

34 503 Phil. 154 (2005).

35 Id. at 167.

36 G.R. No. 168394, October 6, 2008, 567 SCRA 540, 553-555.

provide for a comprehensive zoning plan for Davao City; (2) the HSRC approved this Comprehensive Development Plan through Board Resolution R-39-4 dated July 31, 1980; (3) the HLURB confirmed the approval per the certification issued on April 26, 2006;[37] (4) the City Council of Davao City adopted the Comprehensive Development Plan through its Resolution No. 894 and City Ordinance No. 363, series of 1982;[38] (5) the Office of the City Planning and Development Coordinator, Office of the Zoning Administrator expressly certified on June 15, 1995 that per City Ordinance No. 363, series of 1982 as amended by S.P. Resolution No. 2843, Ordinance No. 561, series of 1992, the property (located in barangay Catalunan Pequeño) is within an "urban/urbanizing" zone;[39] (6) the Office of the City Agriculturist confirmed the above classification and further stated that the property is not classified as prime agricultural land and is not irrigated nor covered by an irrigation project as certified by the National Irrigation Administration, per the certification issued on December 4, 1998;[40] and (7) the HLURB, per certification dated May 2, 1996,[41] quoted the April 8, 1996 certification issued by the Office of the City Planning and Development Coordinator stating that "the Mintal District which includes barangay Catalunan Pequeño, is identified as one of the '*urbaning* [sic] *district centers and priority areas and for development and investments'* in Davao City."

We note that while the DNTDC attached, to its motion for reconsideration of the DARAB's decision, the May 2, 1996 certification of the HLURB, both the DARAB and the CA simply brushed this aside on technicality. The CA reasoned that the certificate was belatedly presented and that it referred to a parcel of lot subject of another case, albeit, similarly involving DNTDC, as one of the parties, and property located within the same district.

We cannot support this position of the CA for the following reasons: *first,* while, generally, evidence submitted past the presentation-of-evidence stage is no longer admissible and should be disregarded for reasons of fairness, strict application of this general rule may be relaxed. By way of exception, we relax the application of the rules when, as here, the merits of the case call for, and the governing rules of procedure explicitly command, a relaxation. Under Section 3, Rule I of the 1994 DARAB New Rules of Procedure (the governing DARAB rules), the DARAB shall not be bound by technical rules of procedure and evidence provided under the Rules of Court, which shall not apply even in a suppletory character, and shall employ all reasonable means to ascertain facts of every case.

Time and again, this Court has held that "rules of procedure ought not to be applied in a very rigid, technical sense, for they are adopted to help

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37 *Rollo,* p. 85.
38 CA *rollo,* pp. 151-184.
39 Issued by then Zoning Administrator Hector L. Esguerra; id. at 185-186.
40 Issued by City Agriculturist Dionisio A. Bangkas; id. at 187.
41 Id. at 61-64.

secure, not override, substantial justice."[42] Thus, while DNTDC, in this case, attached the May 2, 1996 HLURB certification only in its motion for reconsideration, the DARAB should have considered it, especially in the light of the various documents that DNTDC presented to support its position that the property had already been reclassified as non-agricultural land prior to June 15, 1988.

And *second*, granting *arguendo* that the May 2, 1996 HLURB certification was issued in relation to another case that involved a different parcel of land, it is not without value. The clear-cut declarations of the HLURB in the certification, which the DARAB and the CA should have considered and which we find sufficiently convincing, show that Catalunan Pequeño (where the property lies) is classified as within the urbanizing district centers of Davao City. Thus, for all intents and purposes, the May 2, 1996 HLURB certification satisfied the purpose of this requirement, which is to establish by sufficient evidence the property's reclassification as non-agricultural land prior to June 15, 1988.

Considering that the property is no longer agricultural as of June 15, 1988, it is removed from the operation of R.A. No. 6657. By express provision, the CARL covers only those public or private lands devoted or suitable for agriculture,[43] the operative word being agricultural. Under Section 3(c) of R.A. No. 6657, agricultural lands refer to lands devoted to agricultural activity and not otherwise classified as mineral, forest, residential, commercial, or industrial land.[44] In its Administrative Order No. 1, series of 1990,[45] the DAR further explained the term "agricultural lands" as referring to "those devoted to agricultural activity as defined in R.A. 6657 and x x x ***not classified in town plans and zoning ordinances as approved by the Housing and Land Use Regulatory Board (HLURB) and its preceding competent authorities prior to 15 June 1988 for residential, commercial or industrial use.***" If only to emphasize, we reiterate - only those parcels of land specifically classified as agricultural are covered by the CARL; any parcel of land otherwise classified is beyond its ambit.

2. No vested rights over the property accrued to the respondents under P.D. No. 27

Under P.D. No. 27, tenant-farmers of rice and corn agricultural lands are "deemed owners" of the land that they till as of October 21, 1972. Under these terms, vested rights cannot simply be taken away by the

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42 *Solmayor v. Arroyo*, 520 Phil. 854, 870 (2006). See also *Heirs of Dr. Jose Deleste v. Land Bank of the Philippines (LBP)*, *supra* note 31, at 373.

43 See Section 4 of R.A. No. 6657.

44 See *Pasong Bayabas Farmers Asso., Inc. v. Court of Appeals*, *supra* note 27, at 92.

45 Entitled "Revised Rules and Regulations Governing Conversion of Private Agricultural Land to Non-Agricultural Uses."

expedience of adopting zoning plans and ordinances reclassifying an agricultural land to an "urban/urbanizing" area.

We need to clarify, however, that while tenant farmers of rice and corn lands are "deemed owners" as of October 21, 1972 following the provisions of P.D. No. 27, this policy should not be interpreted as automatically vesting in them absolute ownership over their respective tillage. The tenant-farmers must still first comply with the requisite preconditions, *i.e.*, payment of just compensation and perfection of title before acquisition of full ownership.[46]

In *Del Castillo v. Orciga,*[47] the Court explained that land transfer under P.D. No. 27 is effected in two (2) stages: *first,* the issuance of a certificate of land transfer *(CLT)*; and *second,* the issuance of an emancipation patent *(EP)*. The first stage - issuance of the CLT - serves as the government's recognition of the tenant farmers' inchoate right as "deemed owners" of the land that they till.[48] The second stage – issuance of the EP – perfects the title of the tenant farmers and vests in them absolute ownership upon full compliance with the prescribed requirements.[49] As a preliminary step, therefore, the CLT immediately serves as the tangible evidence of the government's recognition of the tenant farmers' inchoate right and of the subjection of the particular landholding to the government's OLT program.

In this case, the record does not show that the respondents had been issued CLTs. The CLT could have been their best evidence of the government's recognition of their inchoate right as "deemed owners" of the property. Similarly, the record does not show that the government had placed the property under its OLT program or that the government, through the MARO, recognized the respondents as the actual tenants of the property on the relevant date, thereby sufficiently vesting in them such inchoate right.

Consequently, this Court can safely conclude that no CLTs had ever been issued to the respondents and that the government never recognized any inchoate right on the part of the respondents as "deemed owners" of the property. In effect, therefore, no vested rights under P.D. No. 27, in relation to R.A. No. 6657, accrued to the respondents such that when the property was reclassified prior to June 15, 1988, it did not fall, by clear legal recognition within the coverage of R.A. No. 6657.

Interestingly, the contract of lease executed between Eugenio and the respondents shows that the property was primarily planted with coconut and coffee trees and, secondarily with several fruit-bearing trees. By its explicit

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46 See *Heirs of Dr. Jose Deleste v. Land Bank of the Philippines (LBP), supra* note 31, at 381.

47 532 Phil. 204, 214 (2006).

48 Ibid.

49 See *Dela Cruz v. Quiazon,* G.R. No. 171961, November 28, 2008, 572 SCRA 681, 693; and *Del Castillo v. Orciga, supra* note 48, at 214.

terms, P.D. No. 27 applies only to private agricultural lands primarily devoted to rice and corn production. Thus, the property could never have been covered by P.D. No. 27 as it was not classified as rice and corn land.

For these reasons, we hold that the property is no longer agricultural and that the CA erred when it affirmed the DARAB's ruling that the property – notwithstanding the various documents that unquestionably established the contrary – was agricultural .

No tenancy relationship exists between DNTDC and the respondents; the tenancy relationship between the respondents and Eugenio ceased when the property was reclassified

In *Solmayor v. Arroyo,*[50] the Court outlined the essential requisites of a tenancy relationship, all of which must concur for the relationship to exist, namely:

1. The parties are the landowner and the tenant;
2. The subject is agricultural land;
3. There is consent;
4. The purpose is agricultural production;
5. There is personal cultivation; and
6. There is sharing of harvests.

The absence of any of these requisites does not make an occupant a cultivator, or a planter, a *de jure* tenant.[51] Consequently, a person who is not a *de jure* tenant is not entitled to security of tenure nor covered by the land reform program of the government under any existing tenancy laws.[52]

In this case, we hold that no tenancy relationship exists between DNTDC, as the owner of the property, and the respondents, as the purported tenants; the second essential requisite as outlined above – the subject is agricultural land – is lacking. To recall, the property had already been reclassified as non-agricultural land. Accordingly, the respondents are not *de jure* tenants and are, therefore, not entitled to the benefits granted to agricultural lessees under the provisions of P.D. No. 27, in relation to R.A. No. 6657.

We note that the respondents, through their predecessors-in-interest, had been tenants of Eugenio as early as 1965. Under Section 7 of R.A. No. 3844, once the leasehold relation is established, the agricultural lessee is entitled to security of tenure and acquires the right to continue working on the landholding. Section 10 of this Act further strengthens such tenurial

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[50] *Supra* note 42, at 875-876 citing *Caballes v. Department of Agrarian Reform*, 250 Phil. 255, 261 (1988). See also *Esquivel v. Atty. Reyes*, 457 Phil. 509, 515-516 (2003).

[51] *Solmayor v. Arroyo, supra* note 42, at 876; and *Esquivel v. Atty. Reyes, supra*, at 517.

[52] *Solmayor v. Arroyo, supra* note 42, at 876; and *Esquivel v. Atty. Reyes, supra*, at 520.

security by declaring that the mere expiration of the term or period in a leasehold contract, or the sale, alienation or transfer of the legal possession of the landholding shall not extinguish the leasehold relation; and in case of sale or transfer, the purchaser or transferee is subrogated to the rights and obligations of the landowner/lessor. By the provisions of Section 10, mere expiration of the five-year term on the respondents' lease contract could not have caused the termination of any tenancy relationship that may have existed between the respondents and Eugenio.

Still, however, we cannot agree with the position that the respondents are the tenants of DNTDC. This is because, despite the guaranty, R.A. No. 3844 also enumerates the instances that put an end to the lessee's protected tenurial rights. Under Section 7 of R.A. No. 3844, the right of the agricultural lessee to continue working on the landholding ceases when the leasehold relation is extinguished or when the lessee is lawfully ejected from the landholding. Section 8[53] enumerates the causes that terminate a relationship, while Section 36 enumerates the grounds for dispossessing the agricultural lessee of the landholding.[54]

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[53] Section 8 of R.A. No. 3844 reads:

"Section 8. *Extinguishment of Agricultural Leasehold Relation* - The agricultural leasehold relation established under this Code shall be extinguished by:

(1) Abandonment of the landholding without the knowledge of the agricultural lessor;

(2) Voluntary surrender of the landholding by the agricultural lessee, written notice of which shall be served three months in advance; or

(3) Absence of the persons under Section nine to succeed to the lessee, in the event of death or permanent incapacity of the lessee." (italics supplied)

[54] Section 36 of R.A. No. 3844, as amended by R.A. No. 6389, reads:

"Section 36. *Possession of Landholding; Exceptions* - Notwithstanding any agreement as to the period or future surrender, of the land, an agricultural lessee shall continue in the enjoyment and possession of his landholding except when his dispossession has been authorized by the Court in a judgment that is final and executory if after due hearing it is shown that:

(1) The landholding is declared by the department head upon recommendation of the National Planning Commission to be suited for residential, commercial, industrial or some other urban purposes: Provided, That the agricultural lessee shall be entitled to disturbance compensation equivalent to five times the average of the gross harvests on his landholding during the last five preceding calendar years;

(2) The agricultural lessee failed to substantially comply with any of the terms and conditions of the contract or any of the provisions of this Code unless his failure is caused by fortuitous event or force majeure;

(3) The agricultural lessee planted crops or used the landholding for a purpose other than what had been previously agreed upon;

(4) The agricultural lessee failed to adopt proven farm practices as determined under paragraph 3 of Section twenty-nine;

(5) The land or other substantial permanent improvement thereon is substantially damaged or destroyed or has unreasonably deteriorated through the fault or negligence of the agricultural lessee;

(6) The agricultural lessee does not pay the lease rental when it falls due: Provided, That if the non-payment of the rental shall be due to crop failure to the extent of seventy-five per centum as a result of a fortuitous event, the non-payment shall not be a ground for dispossession, although the obligation to pay the rental due that particular crop is not thereby extinguished; or

(7) The lessee employed a sub-lessee on his landholding in violation of the terms of paragraph 2 of Section twenty-seven." (italics supplied)

Notably, under Section 36(1) of R.A. No. 3844, as amended by Section 7 of R.A. No. 6389,[55] declaration by the department head, upon recommendation of the National Planning Commission, to be suited for residential, commercial, industrial or some other urban purposes, terminates the right of the agricultural lessee to continue in its possession and enjoyment. The approval of the conversion, however, is not limited to the authority of the DAR or the courts. In the case of *Pasong Bayabas Farmers Asso., Inc. v. Court of Appeals*,[56] and again in *Junio v. Secretary Garilao*,[57] the Court essentially explained that the reclassification and conversion of agricultural lands to non-agricultural uses prior to the effectivity of R.A. No. 6657, on June 15, 1988, was a coordinated effort of several government agencies, such as local government units and the HSRC.

In effect, therefore, whether the leasehold relationship between the respondents and Eugenio had been established by virtue of the provisions of R.A. No. 3844 or of the five-year lease contract executed in 1981, this leasehold relationship had been terminated with the reclassification of the property as non-agricultural land in 1982. The expiration the five-year lease contract in 1986 could not have done more than simply finally terminate any leasehold relationship that may have prevailed under the terms of that contract.

Consequently, when the DNTDC purchased the property in 1995, there was no longer any tenancy relationship that could have subrogated the DNTDC to the rights and obligations of the previous owner. We, therefore, disagree with the findings of the CA, as it affirmed the DARAB that a tenancy relationship exists between DNTDC and the respondents.

The respondents are not bound by the November 29, 2001 compromise agreement before the RTC

The respondents argue that the compromise agreement of Demetrio Ehara, Jr., Reynaldo and Liza – entered into with DNTDC on November 29, 2001 and approved by the RTC on December 7, 2001 – does not and cannot bind them as they are different from the former.

We agree for two plain reasons.

First, the respondents' position on this matter finds support in logic. Indeed, as the respondents have well pointed out and contrary to DNTDC's position, this similarity in their last names or familial relationship cannot automatically bind the respondents to any undertaking that their children in

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55 "AN ACT AMENDING REPUBLIC ACT NUMBERED THIRTY-EIGHT HUNDRED AND FORTY-FOUR, AS AMENDED, OTHERWISE KNOWN AS THE AGRICULTURAL LAND REFORM CODE, AND FOR OTHER PURPOSES."

56 *Supra* note 27, at 92-95.

57 *Supra* note 34, at 165-166.

the RTC case had agreed to. This is because DNTDC has not shown that the respondents had expressly or impliedly acquiesced to their children's undertaking; that the respondents had authorized the latter to bind them in the compromise agreement; or that the respondents' cause of action in the instant case arose from or depended on those of their children in the cases before the MTCC and the RTC. Moreover, the respondents' children and DNTDC executed the compromise agreement in the RTC case with the view of settling the controversy concerning only the issue of physical possession over the disputed 2.5574-hectare portion subject of the ejectment case before the MTCC.

And *second,* the issues involved in the cases before the MTCC and the RTC are different from the issues involved in the present case. In the ejectment case before the MTCC, the sole issue was possession *de jure,* while in the prohibition case before the RTC, the issue was the propriety of the execution of the decision of the MTCC in the ejectment case. In contrast, the issues in the present controversy that originated from the PARAD boil down to the respondents' averred rights, as tenants of the property.

With these considerations, therefore, whatever decision that the MTCC in the ejectment case arrived at, which was limited to possession *de jure* of the disputed 2.5574-hectare portion of the property, could not have affected any right that the respondents may have had, as tenants, over the property. Consequently, any agreement that the respondents' children had entered into in the RTC case could not have bound the respondents in the present controversy as the respondents' claim over the property and their alleged right to continue in its possession clearly go beyond mere possession *de jure,* whether of the 2.5574-hectare portion of the property that was subject of the ejectment case before the MTCC or of the entire property in the present case.

WHEREFORE, in view of these considerations, we hereby **GRANT** the petition, and accordingly **REVERSE** and **SET ASIDE** the decision dated March 28, 2006 and the resolution dated September 5, 2006 of the Court of Appeals in CA-G.R. SP No. 79377. We **REINSTATE** the decision dated July 6, 1998 and the resolution dated September 8, 1998 of the **PARAD** in DARAB Case No. XI-1418-DC-98.

SO ORDERED.

ARTURO D. BRION
Associate Justice

WE CONCUR:

MARIANO C. DEL CASTILLO
Associate Justice

JOSE CATRAL MENDOZA
Associate Justice

ESTELA M. PERLAS-BERNABE
Associate Justice

MARVIC MARIO VICTOR F. LEONEN
Associate Justice

ATTESTATION

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

ARTURO D. BRION
Associate Justice
Acting Chairperson

CERTIFICATION

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

MARIA LOURDES P. A. SERENO
Chief Justice