



Republic of the Philippines
Supreme Court
Manila

FIRST DIVISION

ROBERT and NENITA DE G.R. No. 212277
LEON,

Petitioners, Present:

- versus -

GILBERT and ANALYN DELA
LLANA,

Respondents.

SERENO, C.J., Chairperson,
LEONARDO-DE CASTRO,
BERSAMIN,
PEREZ, and
PERLAS-BERNABE, JJ.

Promulgated:

FEB 11 2015

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DECISION

PERLAS-BERNABE, J.:

Assailed in this petition for review on *certiorari*¹ are the Decision² dated July 31, 2013 and the Resolution³ dated March 31, 2014 of the Court of Appeals (CA) in CA-G.R. SP No. 03523-MIN which reversed and set aside the Decision⁴ dated June 11, 2009 and the Order⁵ dated March 1, 2010 of the Regional Trial Court of Davao City, Branch 11 (RTC) dismissing Civil Case No. 32,003-07.

¹ Rollo, pp. 5-16.

² Id. at 17-23. Penned by Associate Justice Marie Christine Azcarraga-Jacob with Associate Justices Edgardo T. Lloren and Edward B. Contreras concurring.

³ Id. at 32-33.

⁴ Id. at 73-78. Penned by Presiding Judge Virginia Hofileña-Europa.

⁵ CA rollo, pp. 201-202.

2

The Facts

This case stemmed from an unlawful detainer complaint⁶ (**first ejectment complaint**) filed by respondent Gilbert dela Llana (Gilbert) against petitioner Robert de Leon (Robert) and a certain Gil de Leon (Gil) on March 7, 2005 before the **3rd Municipal Circuit Trial Court of Nabunturan-Mawab, Compostela Valley Province (MCTC-Nabunturan-Mawab)**, docketed as **Civil Case No. 821**. In the said complaint, Gilbert averred that sometime in 1999, he, through an undated contract of lease,⁷ leased a portion of a 541 square-meter **property situated in Poblacion, Nabunturan, Compostela Valley Province**, registered in his name,⁸ to Robert, which the latter intended to use as a lottery outlet. The lease contract had a term of five (5) years and contained a stipulation that any case arising from the same shall be filed in the courts of Davao City only.⁹ Gilbert claimed that Robert and Gil failed to pay their rental arrears to him and refused to vacate the subject property, despite repeated demands,¹⁰ thus, the first ejectment complaint.

In their defense, Robert and Gil posited that the aforementioned lease contract was simulated¹¹ and, hence, not binding on the parties.

The MCTC-Nabunturan-Mawab Ruling in Civil Case No. 821

In a Decision¹² dated January 24, 2006 (January 24, 2006 Decision), the MCTC-Nabunturan-Mawab **dismissed the first ejectment complaint**, holding that the undated lease contract was a *relatively* simulated contract and, as such, non-binding. This conclusion was based on its finding that there was no effort on Gilbert's part to collect any rental payments from Robert and Gil for more or less six (6) years and that it was only upon the filing of the said complaint that Gilbert wanted them ejected. Accordingly, it sustained Robert and Gil's assertion that the undated lease contract was a mere formality so as to comply with the requirement of the Philippine Charity Sweepstakes Office (PCSO) in order to install a lottery outlet.¹³

Separately, the MCTC-Nabunturan-Mawab opined that granting *arguendo* that the lease contract is not simulated, the dismissal of Gilbert's complaint was still in order on the ground of improper venue given that the parties expressly agreed that any dispute arising from the same shall be

⁶ *Rollo*, pp. 34-37.

⁷ *Id.* at 58-60.

⁸ See Transfer Certificate of Title No. T-197589; *id.* at 57 (including dorsal portion).

⁹ *Id.* at 58-59.

¹⁰ *Id.* at 35.

¹¹ *Id.* at 47.

¹² *Id.* at 44-50. Penned by Judge Juanito A. Betonio.

¹³ *Id.* at 49.

brought before the courts of Davao City only, to the exclusion of other courts,¹⁴ which does not obtain in this case.

Dissatisfied, Gilbert moved for reconsideration which was, however, denied in an Order¹⁵ dated March 20, 2006, considering that it was a prohibited pleading under the Revised Rules on Summary Procedure.

On August 8, 2006, an Entry of Final Judgment¹⁶ was issued certifying that the MCTC-Nabunturan-Mawab's January 24, 2006 Decision had already become **final and executory on March 20, 2006**.

The MTCC-Davao City Proceedings in Civil Case No. 19,590-B-06

The foregoing notwithstanding, on November 13, 2006, Gilbert, together with his spouse Analyn dela Llana (respondents), filed a second complaint¹⁷ for unlawful detainer, damages, and attorney's fees (**second ejectment complaint**) against Robert and his wife Nenita de Leon (petitioners), also grounded on petitioners' failure to pay rent under the undated lease contract, but this time, before the **Municipal Trial Court in Cities of Davao City, Branch 2 (MTCC-Davao City)**, docketed as **Civil Case No. 19,590-B-06**. In the Verification and Certification of Non-Forum Shopping¹⁸ thereof, respondents disclosed that a previous ejectment complaint had been filed, but was, however, dismissed due to improper venue.

In their Answer,¹⁹ petitioners raised the defense of *res judicata*, particularly averring that the second ejectment complaint should be dismissed given that it was already barred by prior judgment, *i.e.*, by the MCTC-Nabunturan-Mawab's January 24, 2006 Decision in Civil Case No. 821, which had already attained finality.²⁰ In this relation, petitioners further claimed that respondents willfully made false declarations in the Verification and Certification of Non-Forum Shopping of said pleading regarding the status of the pending and related cases at the time of its filing.²¹

In a Decision²² dated July 26, 2007, the MTCC-Davao City ruled in favor of respondents, and thereby ordered petitioners to: (a) vacate the

¹⁴ Id. at 49-50.

¹⁵ Id. at 51.

¹⁶ Id. at 52.

¹⁷ Id. at 53-56; pages 2 and 3 of the second ejectment complaint were erroneously appended first.

¹⁸ Id. at 56.

¹⁹ CA *rollo*, pp. 54-62. See Answer dated December 28, 2006.

²⁰ Id. at 56-57.

²¹ Petitioners claimed that respondents also willfully failed to inform the MTCC-Davao City of the case entitled "*Fely dela Llana de Leon, represented by Robert dela Llana de Leon, as Attorney-in-Fact v. Gilbert E. dela Llana*," before the Regional Trial Court of Nabunturan, Compostela Valley Province, docketed as Civil Case No. 748; *id.* at 55.

²² Id. at 136-142. Penned by Presiding Judge Antonina B. Escovilla.

subject property and turn over its possession to respondents; (b) pay rental arrears in the amount of ₱8,000.00 for the period covering January 1999 up to January 2007; (c) pay monthly rental in the amount of ₱100.00 per month beginning February 2007 until they have vacated the subject property; and (d) pay costs of suit.²³

Without ruling on the issue of whether or not the second ejectment complaint was barred by prior judgment, the MTCC-Davao City found that the undated lease contract was **not** a simulated contract for the reason that the requisites for simulation have not been shown in the case at bar. Nevertheless, it opined that even assuming that said contract was simulated, Robert's actions showed that he clearly recognized Gilbert as the administrator of the subject property. Further, it debunked petitioners' claim of ownership over their occupied portion, considering that title over the subject property was registered under Gilbert's name which thus could not be subjected to a collateral attack. Lastly, it ruled that even without the contract of lease, the complaint could still prosper given that petitioners' occupancy may be regarded as one of tolerance, and, thus, their occupation becomes unlawful upon demand.²⁴

Aggrieved, petitioners appealed to the RTC, docketed as Civil Case No. 32,003-07.

The RTC Ruling

In a Decision²⁵ dated June 11, 2009, the RTC reversed and set aside the MTCC-Davao City ruling, and ordered the dismissal of the second ejectment complaint since the venue was improperly laid. It held that venue for real actions does not admit of any exceptions, stating that the proper venue for forcible entry and unlawful detainer cases is the municipal trial court of the municipality or city where said property is situated, which in this case, should be the Municipal Trial Court of Nabunturan, Compostela Valley Province.²⁶ Relative thereto, it enunciated that the parties' stipulation on venue as found in their undated lease contract could not be enforced, considering that the cause of action herein is not one for breach of contract or specific performance, but for unlawful detainer whose venue was specifically provided for by the Rules of Civil Procedure.²⁷

Respondents moved for reconsideration²⁸ which was, however, denied in an Order²⁹ dated March 1, 2010. Hence, they elevated their case before the CA, docketed as CA-G.R. SP No. 03523-MIN.

²³ Id. at 141.

²⁴ Id. at 139-141.

²⁵ *Rollo*, pp. 73-78.

²⁶ Id. at 77-78.

²⁷ Id. at 78.

²⁸ See Motion for Reconsideration filed on July 8, 2009; CA *rollo*, pp. 192-195.

The CA Ruling

In a Decision³⁰ dated July 31, 2013, the CA reversed and set aside the RTC issuances and, consequently, reinstated the MTCC-Davao City's Decision. With its discussion solely focused on the propriety of the second ejectment complaint's venue, i.e., whether or not it was properly laid before the MTCC-Davao City, the CA categorically ruled that in unlawful detainer cases, venue may be validly stipulated by the contracting parties.³¹

Unconvinced, petitioners filed a motion for reconsideration³² which the CA, however, denied in a Resolution³³ dated March 31, 2014, hence, this petition.

The Issue Before the Court

The core issue to be resolved is whether or not the principle of *res judicata* applies – that is, whether or not the second ejectment complaint was barred by prior judgment, i.e., by the MCTC-Nabunturan-Mawab's January 24, 2006 Decision in Civil Case No. 821.

The Court's Ruling

Res judicata (meaning, a “matter adjudged”)³⁴ is a fundamental principle of law which precludes parties from re-litigating issues actually litigated and determined by a prior and final judgment.³⁵ It means that “a final judgment or decree on the merits by a court of competent jurisdiction is conclusive of the rights of the parties or their privies in all later suits on all points and matters determined in the former suit.”³⁶

Notably, *res judicata* has two (2) concepts. The first is “bar by prior judgment” in which the judgment or decree of a court of competent jurisdiction on the merits concludes the litigation between the parties, as well as their privies, and constitutes a bar to a new action or suit involving the same cause of action before the same or other tribunal, while the second concept is “conclusiveness of judgment” in which any right, fact or matter in issue directly adjudicated or necessarily involved in the determination of an action before a competent court in which judgment is rendered on the merits

²⁹ Id. at 201-202.

³⁰ *Rollo*, pp. 17-23.

³¹ Id. at 21-22.

³² Id. at 24-31.

³³ Id. at 32-33.

³⁴ See definition of “*res judicata*” as cited in *Manila Electric Company v. Phil. Consumers Foundation, Inc.*, 425 Phil. 65, 78 (2002), citing 46 Am Jur § 514.

³⁵ See *Union Bank of the Phils. v. ASB Development Corp.*, 582 Phil. 559, 579 (2008).

³⁶ See *Pryce Corporation v. China Banking Corporation*, G.R. No. 172302, February 18, 2014, citing *Spouses Antonio v. Sayman Vda. de Monje*, 646 Phil. 90, 99 (2010).

is conclusively settled by the judgment therein and cannot again be litigated between the parties and their privies whether or not the claim, demand, purpose, or subject matter of the two actions is the same.³⁷

There is a bar by prior judgment where there is identity of parties, subject matter, and causes of action between the first case where the judgment was rendered and the second case that is sought to be barred.³⁸ There is conclusiveness of judgment, on the other hand, where there is identity of parties in the first and second cases, but no identity of causes of action.³⁹

Tested against the foregoing, the Court rules that *res judicata*, in the concept of bar by prior judgment, applies in this case.

As the records would show, the MCTC-Nabunturan-Mawab, through its January 24, 2006 Decision in Civil Case No. 821, dismissed the first ejectment complaint filed by Gilbert against Robert and Gil for the reason that the undated lease contract entered into by Gilbert and Robert was relatively simulated (properly speaking, should be absolutely simulated as will be explained later) and, hence, supposedly non-binding on the parties. To explicate, this pronouncement was made in reference to the cause of action raised in the first ejectment complaint – that is, the alleged breach of the same lease contract due to non-payment of rent. Therefore, to find that the said contract was simulated and thereby non-binding negates the cause of action raised in the said complaint, hence, resulting in its dismissal.

By resolving the substantive issue therein – that is, the right of Gilbert to recover the *de facto* possession of the subject property arising from Robert's breach of the undated lease contract – the MCTC-Nabunturan-Mawab's January 24, 2006 Decision should be properly considered as a judgment on the merits. In *Allied Banking Corporation v. CA*,⁴⁰ citing *Escarte v. Office of the President*,⁴¹ the Court defined "judgment on the merits" as follows:

As a technical legal term, 'merits' has been defined in law dictionaries as a matter of substance in law, as distinguished from matter of form, and as the real or substantial grounds of action or defense, in contradistinction to some technical or collateral matter raised in the course of the suit. A judgment is upon the merits when it amounts to a declaration of the law to the respective rights and duties of the parties, based upon the ultimate fact or state of facts disclosed by the pleadings and evidence, and upon which the right of recovery depends, irrespective of formal, technical or dilatory objectives or contentions.

³⁷ *Borra v. CA*, G.R. No. 167484, September 9, 2013, 705 SCRA 222, 236-237, citing *Antonio v. Sayman Vda. de Monje*, *infra* at 99 (underscoring supplied).

³⁸ *Borra v. CA*, *id.* at 236 (emphasis supplied).

³⁹ *Id.* at 237.

⁴⁰ G.R. No. 108089, January 10, 1994, 229 SCRA 252, 260.

⁴¹ G.R. No. 58668, December 4, 1990, 192 SCRA 1, 8.

Simply stated, a judgment on the merits is one wherein there is an unequivocal determination of the rights and obligations of the parties with respect to the causes of action and the subject matter,⁴² such as the MCTC-Nabunturan-Mawab's January 24, 2006 Decision which had resolved the substantive issue in Civil Case No. 821 as above-explained. Contrary to respondents' stance,⁴³ said Decision was not premised on a mere technical ground, particularly, on improper venue. This is evinced by the qualifier "*granting arguendo*" which opens the discussion thereof, to show that the first ejectment complaint would, according to the MCTC-Nabunturan-Mawab, have been dismissed on improper venue notwithstanding the undated lease contract's simulated character.⁴⁴

Importantly, the MCTC-Nabunturan-Mawab's January 24, 2006 Decision in **Civil Case No. 821** had already attained finality on March 20, 2006 as per an Entry of Final Judgment⁴⁵ dated August 8, 2006. Thereafter, or on November 13, 2006, Gilbert (now joined by his wife, Analyn) filed a second ejectment complaint before the MTCC-Davao City, docketed as **Civil Case No. 19,590-B-06**, again against the **same party**, Robert (now joined by his wife, Nenita), involving the **same subject matter**, *i.e.*, the leased portion of Gilbert's 541 square-meter property situated in Poblacion, Nabunturan, Compostela Valley Province, and the **same cause of action**, *i.e.*, Robert's (and Gil's, now Analyn's) ejectment thereat due to Robert's alleged breach of their undated lease contract for non-payment of rentals.

With the **identity of the parties, subject matter, and cause of action** between **Civil Case Nos. 821 and 19,590-B-06**, it cannot thus be seriously doubted that the final and executory judgment in the first case had already barred the resolution of the second. *Res judicata*, which, to note, was raised by petitioners at the earliest opportunity, *i.e.*, in their answer to the second ejectment complaint,⁴⁶ but was ignored by the MTCC-Davao City, the RTC, and the CA, therefore obtains in their favor. Consequently, the instant petition should be granted.

The Court must, however, clarify that *res judicata* only applies in reference to the cause of action raised by Gilbert in both ejectment complaints – that is, his entitlement to the *de facto* possession of the subject property based on breach of contract (due to non-payment of rent), which was resolved to be simulated and, hence, non-binding. Accordingly, any subsequent ejectment complaint raising a different cause of action – say for instance, recovery of *de facto* possession grounded on tolerance (which was, by the way, not duly raised by the respondents in this case and, therefore,

⁴² *Sta. Lucia Realty and Development, Inc. v. Cabrigas*, 411 Phil. 369, 391 (2001).

⁴³ See Comment filed on October 28, 2014; *rollo*, pp. 92-93.

⁴⁴ See MCTC-Nabunturan-Mawab's January 24, 2006 Decision; *id.* at 49-49a.

⁴⁵ *Id.* at 52.

⁴⁶ CA *rollo*, p. 56.

improperly taken cognizance of the MTCC-Davao City in its ruling⁴⁷) – is not barred by the Court’s current disposition. In effect, the dismissal of the second ejectment complaint, by virtue of this Decision, is without prejudice to the filing of another ejectment complaint grounded on a different cause of action, albeit involving the same parties and subject matter.

As a final point of concern, the Court deems it apt to correct the MCTC-Nabunturan-Mawab’s characterization of the simulated character of the undated lease contract, which, to note, stands as a mere error in terminology that would not negate the granting of the present petition on the ground of *res judicata*. Properly speaking, the contract, as gathered from the MCTC-Nabunturan-Mawab’s ratiocination, should be considered as an absolutely and not a relatively simulated contract. The distinction between the two was discussed in *Heirs of Intac v. CA*,⁴⁸ viz.:

Articles 1345 and 1346 of the Civil Code provide:

Art. 1345. Simulation of a contract may be absolute or relative. The former takes place when the parties do not intend to be bound at all; the latter, when the parties conceal their true agreement.

Art. 1346. An absolutely simulated or fictitious contract is void. A relative simulation, when it does not prejudice a third person and is not intended for any purpose contrary to law, morals, good customs, public order or public policy binds the parties to their real agreement.

If the parties state a false cause in the contract to conceal their real agreement, the contract is only relatively simulated and the parties are still bound by their real agreement. Hence, where the essential requisites of a contract are present and the simulation refers only to the content or terms of the contract, the agreement is absolutely binding and enforceable between the parties and their successors in interest.

In absolute simulation, there is a colorable contract but it has no substance as the parties have no intention to be bound by it. “The main characteristic of an absolute simulation is that the apparent contract is not really desired or intended to produce legal effect or in any way alter the juridical situation of the parties.” “As a result, an absolutely simulated or fictitious contract is void, and the parties may recover from each other what they may have given under the contract.”⁴⁹ (Emphasis supplied)

The relevant portions of the MCTC-Nabunturan-Mawab’s January 24, 2006 Decision read:

⁴⁷ Id. at 140.

⁴⁸ G.R. No. 173211, October 11, 2012, 684 SCRA 88.

⁴⁹ Id. at 99.

On the issue that the contract is simulated, the [MCTC-Nabunturan-Mawab] affords [Robert's] counsel the benefit of doubt. The Court submits that the contract is relatively simulated for cogent reasons:

It tickles the [MCTC-Nabunturan-Mawab's] imagination why, despite the stark fact that [Robert and Gil have] failed to pay the agreed monthly rentals for more or less six (6) years, it was only upon the filing of the instant complaint that [Gilbert] wanted [Robert and Gil] ejected. In spite of the undeniable fact that [Robert and Gil have] failed to pay their monthly rentals, there was not any effort exerted by [Gilbert] to collect the same prior to the filing of the action.

Failure of other parties to demand performance of the obligation of the other for unreasonable length of time renders the contract ineffective x x x.

Now the [MCTC-Nabunturan-Mawab] entertains the thought that the filing of the case at bench on March 7, 2005 was just a mere leverage or shall we say a cushion in view of [Fely de Leon's] filing of the aforesaid civil case against [Gilbert] on June 28, 2004.

In a simulated contract, the parties do not intend to be bound by the same x x x.

The [MCTC-Nabunturan-Mawab] is now inclined to toe the line of [Robert and Gil] that the execution of the contract was just a mere formality with the requirement of the PCSO for one to install or put up a lottery outlet.⁵⁰

As may be gleaned from the foregoing, it is quite apparent that the MCTC-Nabunturan-Mawab actually intended to mean that the undated lease contract subject of this case was absolutely simulated. Its pronouncement that the parties did not intend to be bound by their agreement is simply inconsistent with relative simulation. Note that regardless of the correctness of its ruling on the contract's simulated character, the fact of the matter is that the same had already attained finality. As a result, the MCTC-Nabunturan-Mawab's January 24, 2006 Decision bars any other action involving the same parties, subject matter, and cause of action, such as the second ejectment complaint.

Further, with the undated lease contract definitely settled as absolutely simulated, and hence, void, there can be no invocation of the exclusive venue stipulation on the part of either party; thus, the general rule on the filing of real actions⁵¹ in the court where the property is situated – as in the

⁵⁰ *Rollo*, pp. 48-49.


⁵¹ Section 1, Rule 4 of the Rules of Court provides:

Section 1. *Venue of real actions*. — Actions affecting title to or possession of real property, or interest therein, shall be commenced and tried in the proper court which has jurisdiction over the area wherein the real property involved, or a portion thereof, is situated.

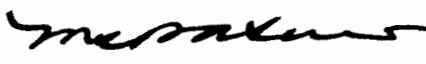
filing of the first ejectment complaint before the MCTC-Nabunturan-Mawab located in Compostela Valley same as the subject property of this case – prevails.

WHEREFORE, the petition is **GRANTED**. The Decision dated July 31, 2013 and the Resolution dated March 31, 2014 of the Court of Appeals in CA-G.R. SP No. 03523-MIN are hereby **REVERSED** and **SET ASIDE**. The ejectment complaint of respondents-spouses Gilbert and Analyn dela Llana in Civil Case No. 19,590-B-06 before the Municipal Trial Court in Cities of Davao City, Branch 2 is **DISMISSED** without prejudice as afore-discussed.

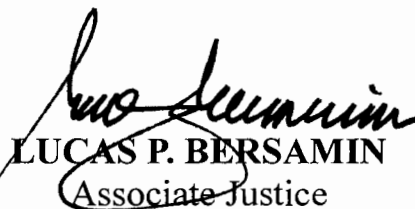
SO ORDERED.


ESTELA M. PERLAS-BERNABE
Associate Justice

WE CONCUR:


MARIA LOURDES P. A. SERENO
Chief Justice
Chairperson


TERESITA J. LEONARDO-DE CASTRO
Associate Justice


LUCAS P. BERSAMIN
Associate Justice


JOSE PORTUGAL PEREZ
Associate Justice

CERTIFICATION

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



MARIA LOURDES P. A. SERENO
Chief Justice