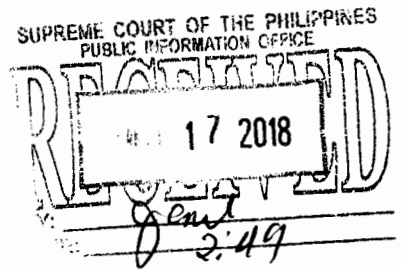




Republic of the Philippines  
**Supreme Court**  
 Manila



**FIRST DIVISION**

**THELMA C. MULLER, GRACE M. GRECIA, KURT FREDERICK FRITZ C. MULLER, and HOPE C. MULLER, in substitution of the late FRITZ D. MULLER,**

*Petitioners,*

- versus -

**PHILIPPINE NATIONAL BANK,**  
*Respondent.*

**G.R. No. 215922**

Present:

LEONARDO-DE CASTRO, C.J.,  
 BERSAMIN,  
 DEL CASTILLO,  
 JARDELEZA, and  
 TIJAM, JJ.

Promulgated:

**OCT 01 2018**

x -----

**DECISION**

**DEL CASTILLO, J.:**

This Petition for Review on *Certiorari*<sup>1</sup> assails the October 30, 2013 Decision<sup>2</sup> and November 14, 2014 Resolution<sup>3</sup> of the Court of Appeals (CA) in CA-G.R. S.P. No. 03731 which respectively reversed the June 2, 2008 Decision<sup>4</sup> of the Iloilo City Regional Trial Court, Branch 33 (RTC) in Civil Case No. 07-29531 and denied herein petitioners' Motion for Reconsideration.<sup>5</sup>

***Factual Antecedents***

As found by the CA, the facts are as follows:

<sup>1</sup> *Rollo*, pp. 13-43.

<sup>2</sup> *Id.* at 46-64; penned by Associate Justice Carmelita Salandanan-Manahan and concurred in by Associate Justices Ramon Paul L. Hernando and Gabriel T. Ingles.

<sup>3</sup> *Id.* at 65-71; penned by Associate Justice Gabriel T. Ingles and concurred in by Associate Justices Ramon Paul L. Hernando and Marilyn B. Lagura-Yap.

<sup>4</sup> *Id.* at 159-166; penned by Judge Narciso M. Aguilar.

<sup>5</sup> *Id.* at 438-450.

x x x [S]pouses Fritz and Thelma Muller<sup>6</sup> are the occupants of two (2) parcels of land with improvements located at Abeto Subdivision, Brgy. Sta. Rosa, Manduriao, Iloilo City owned by [Philippine National Bank<sup>7</sup> (PNB)] with an aggregate area of 1,250 sq. meters, x x x.

x x x x

On May 26, 1987, [PNB] informed the [Mullers] that their lease x x x will expire on June 1, 1987; that they had rental arrears for two and a half years amounting to PhP18,000.00; x x x.<sup>8</sup>

Seeking [to renew the lease contract for] another year, x x x Fritz Muller wrote to [PNB<sup>9</sup> proposing to buy] the subject properties x x x. [PNB] denied the request for renewal of the lease on June 13, 1987 x x x.<sup>10</sup>

On October 2, 1987, [PNB Iloilo] informed x x x Fritz that his x x x offer to purchase the [subject properties] was not given due course by the Head Office. x x x.<sup>11</sup>

x x x x

On [March 17, 1988, [PNB] demanded for [the Mullers] to vacate the subject properties within fifteen (15) day[s] from the said date, in view of the expiration of the lease.<sup>12</sup>

The demand fell [on] deaf ears. x x x.

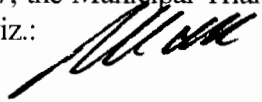
x x x x

Due to continued occupation of the [Mullers, PNB] x x x sent its final demand letter<sup>13</sup> dated July 17, 2006, demanding [from] them the payment [of] the rental arrears from June 1984 up to June 1, 2006, x x x.

[The Mullers] failed to pay due attention to the written demands against them which [prompted PNB] to institute a Complaint<sup>14</sup> for Ejectment x x x.

x x x x

On October 19, 2007, the Municipal Trial Court in Cities of Iloilo City rendered a Decision<sup>15</sup> x x x viz.:



<sup>6</sup> Herein petitioners.

<sup>7</sup> Herein respondent.

<sup>8</sup> *Rollo*, p. 90; Letter of PNB Acting AVP and Manager Edilberto G. Castro (Castro) to Fritz Muller (Fritz) dated May 26, 1987.

<sup>9</sup> *Id.* at 91.

<sup>10</sup> *Id.* at 92; Letter of Castro to Fritz dated July 13, 1987.

<sup>11</sup> *Id.* at 94; Letter of Castro to Fritz dated October 2, 1987.

<sup>12</sup> *Id.* at 97; Letter of PNB Branch Attorney Manuel Javato to Fritz dated March 17, 1988.

<sup>13</sup> *Id.* at 103.

<sup>14</sup> *Id.* at 72-81.

<sup>15</sup> *Id.* at 115-125; penned by Assisting Judge Ma. Theresa N. Enriquez-Gaspar.

**WHEREFORE, premises considered, judgment is hereby rendered in favor of [PNB] and ordering x x x Fritz D. Muller and Thelma Muller:**

1. To vacate the subject premises x x x;
2. To pay [PNB] x x x:
  - a. The amount of PhP18,000.00 as rent from June 1984 to June 1987;
  - b. PhP2,000.00 a month from June 1, 1987 to June 1, 1997; and
  - c. PhP2,500.00 a month from June 1, 1997 to August 1, 2007.

No cost.

**SO ORDERED.**

[The Mullers] filed a Notice of Appeal x x x.

On February 1, 2008 PNB filed an Urgent Motion for Execution of the MTCC Judgment praying for its immediate execution for failure of the [Mullers] to file a supersedeas bond to stay the execution of the judgment. x x x.<sup>16</sup> (Emphasis in the original)

### ***Ruling of the Regional Trial Court***

In its June 2, 2008 Decision,<sup>17</sup> the RTC declared that the reckoning point from which a claimant in an unlawful detainer case, in this case, the PNB, may invoke the accrual of its claims is the date of receipt of last demand; that the MTCC cannot take judicial notice of the fair rental value of the subject properties; and that prescription is applicable to the case. It decreed that:

x x x The receipt of the demand letter dated June 17, 2006 is the date when [the Mullers] became deforciant for which it can be assessed rental. While [PNB] may be entitled to a reasonable compensation from the period [the Mullers] have been in possession of the property prior to receipt of the June 17, 2006 demand letter, the same cannot be awarded in an unlawful detainer suit. In unlawful detainer actions, only rental reckoned from date of receipt of last demand may be awarded x x x.

x x x x

[The Mullers] categorically take exception to the taking of judicial notice by the court *a quo* of the fair rental value of the subject properties. They have reason to do so. There is no showing in the judgment appealed from that the three

<sup>16</sup> Id. at 47-53.

<sup>17</sup> Id. at 159-166; penned by Judge Narciso M. Aguilar.



requisites above-mentioned [in *Herrera vs. Bollos* (G.R. No. 138258, January 18, 2002)] were satisfied as the criteria for such taking.

x x x [I]n the award of rental prior to receipt of last demand letter in 2006, the x x x principles of prescription should be considered. x x x. Notably, the possession from 1984 to 1987 was based on a written lease agreement. x x x. Being an obligation based on a written contract, the action to pay rent prescribes in 10 years pursuant to Article 1144 of the Civil Code. For the possession from 1987 onwards, no rent can be awarded as this has also prescribed pursuant to Article 1145, six years after every month of possession. The possession of [the Mullers] after 1987 is based on an oral contract, hence, any action arising therefrom prescribes within six years. x x x.

The rental fixed by the court *a quo* at Php2,500.00, therefore, cannot be sustained. x x x.

**WHEREFORE**, x x x the Decision of the Municipal Trial Court in Cities, Branch 3, Iloilo City, in Civil Case No. 07-105 rendered on October 19, 2007 is hereby MODIFIED by fixing the reasonable rental awarded to [PNB] at Php1,000.00 per month to be reckoned only from the date of [the Mullers'] receipt of the latest demand letter until August 1, 2007 when they vacated the subject property.

**SO ORDERED.**<sup>18</sup> (Emphasis in the original)

PNB appealed before the CA.

### ***Ruling of the Court of Appeals***

On October 30, 2013, the CA issued the assailed Decision, decreeing that (1) contrary to the RTC ruling, reasonable compensation for the use and occupancy of the subject properties should be reckoned from receipt of initial demand and not receipt of last demand; (2) prescription does not apply hence PNB can collect rentals which accrued prior to receipt of last demand; and (3) the MTCC properly fixed the rental value of the subject properties, *viz.*:

x x x [J]urisprudence dictates that the reasonable compensation for the use and occupancy of the premises should reckon from the date of initial demand for the rentals in arrears of Php18,000.00 in 1987, not from the date of the last demand on June 17, 2006. Records of the case show that as early as May 26, 1987, petitioner bank had demanded rental in arrears amounting to Php18,000.00. x x x

x x x Possession, to constitute the foundation of a prescriptive right, must be adverse. Acts of possessory character performed by one who holds by mere tolerance of the owner are clearly not adverse, and such possessory acts, no matter how long so continued, do not start the running of prescription. In this case, [the Mullers], after the expiration of the contract of lease, occupied the subject premises

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<sup>18</sup> Id. at 164-166.



by mere tolerance. Thus, the doctrine of prescription does not apply. Petitioner bank's action to collect reasonable compensation for the use and occupation of its properties has not prescribed.

x x x x

It is settled that the plaintiff in an ejectment case is entitled to damages caused by his loss of the use and possession of the premises. Damages in the context of Section 17, Rule 70 of the 1997 Rules of Civil Procedure is limited to "rent" or fair rental value or the reasonable compensation for the use and occupation of the property. These damages arise from the loss of the use and occupation of the property, and not the damages which petitioner may have suffered but which have no direct relation to their loss of material possession.

Rule 70, Section 17 of the Rules of Court also authorizes the award of an amount representing arrears of rent or reasonable compensation for the use and occupation of the premises x x x

The rationale for limiting the kind of damages recoverable in an unlawful detainer case was explained in *Araos v. Court of Appeals*, wherein the Court held that:

The rule is settled that in forcible entry or unlawful detainer cases, the only damage that can be recovered is the fair rental value or the reasonable compensation for the use and occupation of the leased property. The reason for this is that in such cases, the only issue raised in ejectment cases is that of rightful possession; hence, the damages which could be recovered are those which the plaintiff could have sustained as a mere possessor, or those caused by the loss of the use and occupation of the property, and not the damages which he may have suffered but which have no direct relation to his loss of material possession.

Taking from the foregoing jurisprudential ruling, We can clearly declare that the damages recoverable in unlawful detainer cases, like the present case, are the rentals or fair rental value or the reasonable compensation for the use and occupation of the property. In this case, records are explicit that [the Mullers] were occupying the subject properties since 1984 and they were not able to pay their rentals from May 1987 to June 2006. [PNB] had been consistent in its demands to pay the rentals but respondents continuously failed to do so. Thus, contrary to the ruling of the RTC, We agree with the MTCC in ordering for the payment of the rentals, not from the date of last demand on June 17, 2006, but from May 26, 1987 or the date of the first demand. It was the time when respondent spouses used and occupied the subject properties without paying for the reasonable compensation, which is justly due to petitioner bank as the registered owner of the properties. The RTC, therefore, gravely erred in granting the rentals in arrears only from the date of last demand for being contrary to law and jurisprudence.

x x x x

As it was undisputed that [the Mullers] were occupying the properties under the tolerance of [PNB], they were obligated to vacate the subject properties upon demand. This, they defied. Rather, they continued possessing the same even



without paying for the monthly rentals. Thus, they should be made liable for damages in the form of rent or reasonable compensation for the occupation of the properties not only from the time of the last demand but starting from the time they have been occupying the subject properties without paying for its rent.

As regards the application of the doctrine of prescription in the instant case by the RTC, We find the same erroneous.

x x x x

In the instant case, the date of last demand was July 17, 2006, while the Complaint was filed on March 26, 2007. Thus, it is well within the period to file the action. Thus, the period to file the action has not prescribed.

x x x x

Petitioner asserts that the RTC erred in reversing the MTCC findings as regards the latter's act of taking judicial notice of the fair rental value of the subject properties x x x

Jurisprudence dictates that the lower court may intervene in fixing the rent as a matter of fairness and equity. It is not the appellate court or RTC's function to weigh the evidence all over again, unless there was a showing that the findings of the MTCC are clearly devoid of any support. In fact, it is the RTC's Decision which reduced the monthly rental to Php1,000.00 without any factual and legal bases.

[Thelma C.] Muller, for her part, declares that the MTCC committed palpable error in merely relying on judicial notice, the requisites of which are not attendant in the instant case.

We rule in favor of [PNB].

x x x x

Truly, mere judicial notice is inadequate, because evidence is required for a court to determine the proper rental value. In the instant case, the MTCC not only [took judicial notice of the fair rental value] of the subject properties x x x [it] also based [the award] on the evidence on record. It is unchallenged that the [Mullers] failed to submit their Answer to the Complaint signifying a waiver to present evidence on their behalf. Clearly, no evidence was presented on the part of [the Mullers]. Thus, the MTCC correctly ruled on awarding the monthly rentals based on the Complaint filed by [PNB].

We quote with approval the ruling of the MTCC, to wit:

On the basis of the foregoing considerations, and taking into account the nature, size and location of the property, the Court finds the claim of PNB as reasonable compensation for the use and occupancy of the property to be just and equitable. The Court however takes exception to the amount payable for the period from June 1984 to June 1987 which should be fixed at ₱18,000.00 only because this was the amount being claimed by PNB in its



demand letters. Furthermore, defendant-spouses are required to pay rent at the rate of ₱2,000.00 from June 1, 1987 to June 1, 1997, and ₱2,500.00 from June 1, 1997 to August 1, 2007 when they actually vacated the premises.

x x x x

**Award of other reliefs**

x x x x

Additionally, the [Mullers are] liable to pay interest by way of damages for [their] failure to pay the rentals due for the use of the subject premises. We reiterate that [PNB's] extrajudicial demand on the [Mullers] was made on May 26, 1987. Thus, from this date, the rentals due from the [Mullers] shall earn interest at 6% per annum, until the judgment in this case becomes final and executory. After the finality of judgment, and until full payment of the rentals and interests due, the legal rate of interest to be imposed shall be 12%.

x x x x

**WHEREFORE**, premises considered, the petition is **GRANTED**. The *Decision* dated June 2, 2008 of the Regional Trial Court (RTC), Branch 33, Iloilo City in Civil Case No. 07-29531 is hereby **REVERSED** and **SET ASIDE**. The *Decision* dated October 19, 2007 of the Municipal Trial Court in Cities, Branch 3, Iloilo City is hereby **REINSTATED with MODIFICATION** that the unpaid rentals shall earn a corresponding interest of six percent (6%) per annum, to be computed from May 26, 1987 until the finality of this decision. After this decision becomes final and executory, a 12% interest shall be computed per annum from such finality on the remaining unpaid balance until its satisfaction.

Attorney's Fees shall be awarded in the amount of ten thousand pesos (PhP10,000.00) and judicial costs.

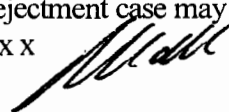
**SO ORDERED.**<sup>19</sup> (Emphasis in the original)

Petitioners moved to reconsider, but in a November 14, 2014 Resolution, the CA held its ground. Hence, the present Petition.

**Issues**

Petitioners submit the following issues to be resolved:

1. Whether x x x the award of rentals in an ejectment case may be reckoned from a date beyond the latest demand to vacate x x x




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<sup>19</sup> Id. at 54-63.

2. Whether x x x the Court of Appeals acted correctly when it cited the case of *Racaza v. Gozum* as basis for ruling that rentals in an ejectment case may be retroactively reckoned beyond the latest demand to vacate?
3. Whether x x x the award of rentals beyond the latest demand letter has prescribed?<sup>20</sup>

### ***Petitioners' Arguments***

Petitioners contend that the award of rentals should be reckoned from the time of receipt of the latest demand - July 17, 2006 - and not prior demands; that prior to said last or latest demand, PNB had no right to collect rent, since it is only after receipt of the latest demand that they may be considered illegal occupants of the bank's property and thus obligated to pay rent; that prior to said latest or last demand, their possession of the subject properties may be said to have been tolerated by PNB, and as such, they were "not required to pay the rent within the period prior to their receipt of the latest demand to vacate";<sup>21</sup> that PNB's claim for the collection of rentals in arrears has prescribed, in that more than 10 years have elapsed since 1987 - the date of the written lease agreement - before PNB filed the ejectment case in 2007; and that even PNB's claim for rentals in arrears after the expiration of the written lease agreement in 1987 has prescribed, since actions arising from written contracts prescribe in 10 years, while that for oral contracts prescribe in six years.

Petitioners thus pray that the CA dispositions be annulled and in lieu thereof, the RTC's June 2, 2008 Decision be reinstated.

### ***Respondent's Arguments***

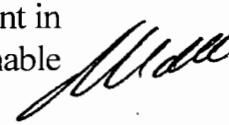
Respondent PNB, on the other hand, argues in its Comment<sup>22</sup> that the Petition is dismissible on account of its defective verification and certification against forum shopping; that as owner, it is entitled to reasonable compensation for petitioners' continued use and occupation of its properties, which thus prevented it from enjoying the same as well as the fruits thereof; that petitioners' occupation was not by mere tolerance, since there was an oral lease agreement between them, and for this reason they must pay rent; and that petitioners' claim of prescription is unavailing to prevent it from recovering damages and rentals in arrears, because there is a continuing lease agreement between the parties all throughout the period in issue, and because the amount demandable and recoverable from a defendant in ejectment proceedings, regardless of its denomination as rental or reasonable

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<sup>20</sup> Id. at 24.

<sup>21</sup> Id. at 32.

<sup>22</sup> Id. at 474-495.





compensation or damages, flows from the detainer or illegal occupation of the property involved and is merely incidental thereto.

### Our Ruling

The Petition is denied.

The only issues involved here are whether respondent PNB is entitled to rentals in arrears prior to July 17, 2006 and whether its claims therefor have prescribed.

Petitioners argue that rentals may be awarded to respondent only from the time of the latest demand and not prior ones; that prior to said latest demand, PNB had no right to collect rent, since it is only after receipt thereof that they may be considered illegal occupants of the bank's property and thus obligated to pay rent; and that prior to said latest or last demand, their possession of the subject properties may be said to have been tolerated by PNB, and as such, they were "not required to pay the rent within the period prior to their receipt of the latest demand to vacate."<sup>23</sup> Such arguments are, however, fundamentally logically flawed, because if they were to be believed, then no lessor would be compensated under a lease; the lessee's outstanding rental obligations would simply be condoned. Any lessee would simply withhold the payment of rent and wait until the lessor makes a demand to vacate - at which point the former will simply vacate the premises, with no obligation to pay rent at all.

Under Article 1670 of the Civil Code, "[i]f at the end of the contract the lessee should continue enjoying the thing leased for fifteen days with the acquiescence of the lessor, and unless a notice to the contrary by either party has previously been given, it is understood that there is an implied new lease, not for the period of the original contract, but for the time established in Articles 1682 and 1687. The other terms of the original contract shall be revived." Thus, when petitioners' written lease agreement with respondent expired on June 1, 1987 and they did not vacate the subject properties, the terms of the written lease, other than that covering the period thereof, were revived. The lease thus continued. In this sense, the prescriptive periods cited by petitioners - as provided for in Articles 1144 and 1145 of the Civil Code<sup>24</sup> - are inapplicable. As far as the parties are concerned,

<sup>23</sup> Id. at 32.

<sup>24</sup> Art. 1144. The following actions must be brought within ten years from the time the right of action accrues:

- (1) Upon a written contract;
- (2) Upon an obligation created by law;
- (3) Upon a judgment.

Art. 1145. The following actions must be commenced within six years:

- (1) Upon an oral contract;
- (2) Upon a quasi-contract.



the lease between them subsisted and prescription did not even begin to set in.

Even then, it can be said that so long as petitioners continued to occupy the subject properties - with or without PNB's consent - there was a lease agreement between them. They cannot escape the payment of rent, by any manner whatsoever. First of all, given the circumstances where liberality is obviously not present and was never a consideration for the lease contract, petitioners cannot be allowed to enjoy PNB's properties without paying compensation therefor; this would be contrary to fundamental rules of fair play, equity, and law. Basically, Article 19 of the Civil Code states that "[e]very person must, in the exercise of his rights and in the performance of his duties, act with justice, give everyone his due, and observe honesty and good faith," and Article 20 provides that "[e]very person who, contrary to law, wilfully or negligently causes damage to another, shall indemnify the latter for the same."

Secondly, even when the parties' lease agreement ended and petitioners failed or refused to vacate the premises, it may be said that a forced lease was thus created where petitioners were still obligated to pay rent to respondent as reasonable compensation for the use and occupation of the subject properties. Indeed, even when there is no lease agreement between the parties, or even when the parties - occupant and property owner - are strangers as against each other, still the occupant is liable to pay rent to the property owner by virtue of the forced lease that is created by the former's use and occupation of the latter's property.

There is no question that after the expiration of the lease contracts which respondent contracted with Aniana Galang and BPI, she lost her right to possess the property since, as early as the actual expiration date of the lease contract, petitioners were not negligent in enforcing their right of ownership over the property.

While respondent was finally evicted from the leased premises, the amount of monthly rentals which respondent should pay the petitioners as forced lessors of said property from 20 June 1988 (for the ground floor) and 15 August 1988 until 6 January 1998 (for the second and third floors), or a period of almost ten years remains to be resolved.

x x x x

At the outset, it should be recalled that there existed no consensual lessor-lessee relationship between the parties. At most, what we have is a forced lessor-lessee relationship inasmuch as the respondent, by way of detaining the property without the consent of herein petitioners, was in unlawful possession of the property belonging to petitioner spouses.

x x x. The plaintiff in an ejectment case is entitled to damages caused by his loss of the use and possession of the premises. Damages in the context of Section 17, Rule 70 of the 1997 Rules of Civil Procedure is limited to "rent" or fair



rental value or the reasonable compensation for the use and occupation of the property. x x x<sup>25</sup>

Indeed, petitioners' obstinate refusal to pay rent and vacate the subject properties, and their insistence that respondent sell the same to them but without meeting respondent's price, is an underhanded maneuver that unduly tied respondent's hand and deprived it of the use and enjoyment of its properties. This is tantamount to holding the properties hostage and forcing respondent to accede to whatever petitioners desired. This practice cannot be sanctioned; on the contrary, it must be condemned.

The CA is thus correct in ruling that petitioners "should be made liable for damages in the form of rent or reasonable compensation for the occupation of the properties not only from the time of the last demand but starting from the time they have been occupying the subject properties without paying for its rent."<sup>26</sup> Suffice it to state that, as correctly cited by respondent, "the amount demandable and recoverable from a defendant in ejectment proceedings regardless of its denomination as rental or reasonable compensation or damages, flows from the detainer or illegal occupation of the property involved and x x x is merely incidental thereto."<sup>27</sup>

Finally, we agree with the CA in finding petitioners "liable to pay interest by way of damages for [their] failure to pay the rentals due for the use of the premises"<sup>28</sup> at the rate of "6% *per annum*, [from May 26, 1987 when PNB made its extrajudicial demand] until the judgment in this case becomes final and executory."<sup>29</sup> However, the 12% interest rate it imposed after the finality of judgment and until full payment<sup>30</sup> shall be modified to 6% *per annum* pursuant to *Nacar v. Gallery Frames*.<sup>31</sup>

**WHEREFORE**, the Petition is **DENIED**. The assailed October 30, 2013 Decision and November 14, 2014 Resolution of the Court of Appeals in CA-G.R. S.P. No. 03731 are **AFFIRMED with modification** that the legal rate of interest of 6% *per annum* shall be imposed after finality of this Decision until full payment.

<sup>25</sup> *Spouses Catungal v. Hao*, 407 Phil. 309, 319-320 (2001).

<sup>26</sup> *Rollo*, p. 57.

<sup>27</sup> Francisco, Rules of Court Annotated, Vol. III, 2nd Ed., p. 855, citing *Mapua v. Suburban Theaters, Inc.*, 87 Phil. 358, 365 (1950).

<sup>28</sup> *Rollo*, p. 63.

<sup>29</sup> *Id.*

<sup>30</sup> *Id.*

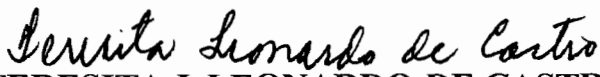
<sup>31</sup> 716 Phil. 267, 282 (2013).



**SO ORDERED.**

  
**MARIANO C. DEL CASTILLO**  
*Associate Justice*

WE CONCUR:

  
**TERESITA J. LEONARDO-DE CASTRO**  
*Chief Justice*

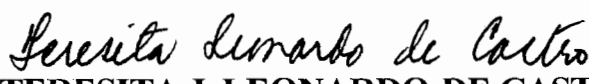
(On official leave)  
**LUCAS P. BERSAMIN**  
*Associate Justice*

  
**FRANCIS H. JARDELEZA**  
*Associate Justice*

  
**NOEL GIMENEZ TIJAM**  
*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.

  
**TERESITA J. LEONARDO-DE CASTRO**  
*Chief Justice*