

**\*\*Title:\*\*** \*Emilio Bugatti vs. Court of Appeals and Spouses Ben and Maria Baguilat\*

**\*\*Facts:\*\***

The origin of this case lies in an action for the recovery of possession and damages filed by the Spouses Ben and Maria Baguilat against Emilio Bugatti on July 11, 1989, in the Regional Trial Court (RTC) of Lagawe, Ifugao. The Baguilats alleged ownership of a parcel of land and claimed that Bugatti had, in December 1987, proposed to lease this land. An agreement was purportedly reached wherein Bugatti would lease the land for nine years for a monthly payment of P500.00, construct a building on it at a cost not exceeding P40,000.00, with the construction cost to be offset against the rent, and upon reimbursement, the building would become the property of the Baguilats. Despite reaching this verbal agreement, Bugatti started construction without a finalized contract, leading to disputes regarding the terms. Efforts for an amicable settlement failed, prompting the Baguilats to take legal action after Bugatti continued construction and use of the property without their consent.

The case escalated through the judicial levels: Initially, the RTC decided in favor of the Baguilats, finding no perfected lease contract existed due to the absence of mutual consent on the terms, branding Bugatti a builder in bad faith. Bugatti appealed to the Court of Appeals (CA), which reversed the RTC's decision, declaring a perfected lease contract existed, making Bugatti a builder in good faith, entitled to reimbursement for improvements made on the property but ordered him to vacate post-lease expiration. Dissatisfied, Bugatti filed a petition for review on certiorari to the Supreme Court.

**\*\*Issues:\*\***

1. Whether a contract of lease was perfected between the parties.
2. Whether Bugatti was a builder in bad faith or good faith regarding the improvements made on the Baguilat's property.

**\*\*Court's Decision:\*\***

The Supreme Court granted Bugatti's petition, setting aside the CA's decision. It held no contract of lease was perfected because a critical element, the mutual consent on specific terms of the lease (duration, rental amount, area to be leased, and cost of construction to be offset against the rent), was missing. The negotiations did not culminate in an agreement that reflected a meeting of the minds. Bugatti's continuation of construction despite the absence of a formal contract and against the Baguilats' objections classified him as a builder in bad faith. Therefore, the Baguilats were entitled to elect among options provided by the law, including demanding the removal of the building at Bugatti's expense or appropriating

the improvements without compensation.

**\*\*Doctrine:\*\***

The case reiterates the doctrine regarding the stages of contract formation: negotiation, perfection, and consummation. A contract of lease is consensual and is perfected at the moment the parties come to an agreement over the object and consideration. However, mutual consent on all essential elements, notably on the object and the price, is indispensable for the perfection of the contract.

**\*\*Class Notes:\*\***

- A lease contract, being consensual, requires a meeting of the minds upon the object and price as essential elements.
- The stages of a contract are negotiation, perfection, and consummation.
- A builder in good faith is one who builds with the belief of rightful possession, whereas a builder in bad faith is aware of his lack of rights over the property.
- The builder in bad faith has no rights to indemnity for the improvements made and may be required to compensate for the use of the land.

**\*\*Historical Background:\*\***

This case underscores the critical importance of clear agreements and formal documentation in real estate transactions to avoid disputes. It reflects the nuances of property law in the Philippines, emphasizing the protections accorded to landowners against unauthorized occupancy and improvements by presumptive lessees or builders. The ruling sets a precedent on the significance of consent and mutual agreement in contract law, particularly in lease agreements.