

THIRD DIVISION

[G.R. No. 138113, October 17, 2000]

EMILIO BUGATTI, PETITIONER, VS. COURT OF APPEALS AND SPOUSES BEN BAGUILAT AND MARIA BAGUILAT, RESPONDENTS.

DECISION

GONZAGA-REYES, J.:

Before us is a petition for review on certiorari of the August 7, 1998 Decision of the Court of Appeals in CA-G.R. CV No. 48900, reversing the July 15, 1994 Decision of the Regional Trial Court in Civil Case No. 348.

The present case traces its origins to an action for recovery of possession and damages filed by respondents Ben and Maria Baguilat on July 11, 1989, with the Regional Trial Court of Lagawe, Ifugao against petitioner Emilio Bugatti.^[1] In their complaint, respondents alleged that they are the owners of a parcel of land situated in Lagawa, Ifugao and that sometime in December, 1987, petitioner offered to lease their land. According to respondents, they discussed the terms and conditions of the lease with petitioner, particularly that petitioner will lease a portion of respondents' land for a period of nine (9) years in return for a monthly rental of P500.00; that petitioner will construct a building on such land, the cost of which shall not exceed P40,000.00; that respondents shall reimburse petitioner for the cost of the building by applying the rentals thereto; that after petitioner is fully reimbursed for the costs of construction in the amount of P40,000.00, he shall continue to pay the monthly rental of P500.00 for the duration of the lease; that upon the termination of the lease, the building shall belong to respondents. It was agreed by petitioner and respondents that the aforesaid terms and conditions should be included in a written contract of lease to be prepared by petitioner and presented to respondents for their approval. However, even before preparing the contract of lease, petitioner occupied respondents' land and began construction on January 18, 1988. Immediately objecting to the construction, respondent Maria Baguilat demanded that the contract of lease should first be signed. However, petitioner assured respondents that he was preparing the contract. Sometime in March, 1988, petitioner finally presented the lease contract to respondents but it did not contain the terms and conditions previously agreed upon. Respondents insisted that petitioner re-draft the contract in accordance with their discussions. The revised document, presented to respondents sometime in April, 1988, contained counter-proposals. Respondents refused to accede to such counter-proposals. Despite the fact that no contract was signed by the parties, petitioner continued to occupy respondents' land.

In an effort to resolve their differences, respondents resorted to extrajudicial measures, such as asking the Barangay Captain to mediate in the hopes of arriving at an amicable settlement. However, petitioner was not receptive and he walked out of the proceedings before the Barangay Captain. Respondents then sent petitioner a demand letter dated November 23, 1988, asking him to vacate their property.

Again, petitioner did not heed respondents' demands. Subsequent efforts of respondents to resolve the conflict proved equally futile. Eventually, respondents obtained the services of counsel - Atty. Evelyn S. Dunuan, who sent petitioner a letter asking him to desist from introducing any further improvements upon respondents' property. Upon obtaining a certification from the Barangay Captain, respondents filed the present case with the Regional Trial Court for recovery of the land in question and damages.^[2]

Contrary to respondents' contentions, petitioner asserts that the lease contract which he prepared in fact embodied the terms and conditions agreed upon, except for the cost of the building. Petitioner claimed that respondents had agreed to the following terms - to lease their entire property to him for a period of nine (9) years at a monthly rental of P500.00; that petitioner would construct a building of strong materials on respondents' property, without any limit as to the cost of construction; that it was later on decided by the parties to extend the period of the lease since the cost of the building had exceeded the total amount of rentals for the nine year period; that the new lease period would begin from the opening of petitioner's business, and would continue at least until the recovery by petitioner of the full amount incurred by him in the construction of the building; that petitioner will only pay rentals when he has been fully reimbursed for construction costs; and finally, that upon the expiration of the lease contract, respondents would own the building.

Petitioner claims that when he first submitted a draft of the lease contract to respondent Maria Baguilat, she did not voice out any objection thereto. About two weeks later, Maria Baguilat told petitioner that she had lost the draft. Petitioner then submitted a second draft, but respondents refused to accept it because it did not conform to the terms and conditions agreed upon. Petitioner told respondents to wait until the building was completely finished before he submitted another draft of the lease contract so that the price of the building could be incorporated therein.

Petitioner claims that respondents did not object to the fact that he had started construction before the signing of the lease contract. On the contrary, petitioner alleges that he felt that respondents had agreed to his proposals and that they had actually given him verbal permission to begin erecting the building. According to petitioner, respondents did not express their disapproval of the ongoing construction during any of their several visits to the construction site. He claims that Ben Baguilat even assisted him in the levelling of the construction area; that Maria Baguilat made suggestions as to the kind of materials that might be used; and that when petitioner informed Maria Baguilat that he had already spent more than P90,000.00 for the construction, she advised him to keep all his receipts in order to serve as a basis for the computation of the total costs of the building. Petitioner further claims that when the building was completed in June, 1988, respondent Ben Baguilat invited him and his wife to their house for the drafting of the contract. However, when petitioner told respondents that his expenses had reached P120,000.00, they pretended to be shocked and refused to sign the lease contract.

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The trial court^[4] held that no contract of lease was perfected between the parties since the element of consent was missing. The drafting of the contract - a task entrusted to petitioner - was deemed by respondents as a condition precedent to the perfection of the lease contract and consequently, to any construction activity

upon their land. Although petitioner submitted two drafts , they did not contain the terms and conditions spoken of by the parties during their negotiations and were accordingly rejected by respondents. However, despite the absence of a perfected contract and in total disregard of respondents' repeated objections, petitioner occupied respondents' land and commenced construction thereon, making him a builder in bad faith. The decretal portion of the trial court's decision provides -

WHEREFORE, premises considered, the Court hereby render[s] judgment ordering the defendant as follows, to wit:

- 1) To vacate the plaintiff's land including the building thereon which is forfeited to the plaintiffs by virtue of this decision;
- 2) To pay plaintiffs the sum of Twenty One Thousand (P21,000.00) Pesos by way of damages representing the estimated cost of the building, and the reasonable compensation for the unjustified occupation and use by defendant of plaintiffs' land for a period of more than six (6) years;
- 3) To pay plaintiffs the sum of Fourteen Thousand (P14,000.00) Pesos as attorney's fees, and
- 4) To pay the cost.

No pronouncement as to moral and exemplary damages as no evidence was introduced to prove the same.

SO ORDERED.^[5]

Reversing the trial court's decision, the Court of Appeals^[6] sustained the view that there was in fact a perfected contract of lease between the parties, which was for a period of nine years, beginning on January, 1988.^[7] Accordingly, the appellate court held that petitioner was in good faith when he acquired possession of the land and started construction thereon, and that he is entitled to reimbursement for the value of the improvements introduced upon the subject property, pursuant to article 1678 of the Civil Code and principles of equity.^[8] However, since the lease terminated on January, 1997, petitioner must vacate the property. The decretal portion of the assailed decision states -

WHEREFORE, in view of the foregoing, the decision dated July 15, 1994 of the Regional Trial Court in Lagawe, Ifugao (Branch 14) in Civil Case No. 348 is hereby REVERSED and SET ASIDE. The defendant-appellant and all persons claiming rights under him are hereby ordered to immediately vacate the subject property and surrender the possession thereof to the plaintiffs-appellees, and to pay to them (plaintiffs-appellees) rentals in arrears in accordance with the fair rental value or reasonable compensation for the use and occupation of the property, which monthly sum should be computed from January, 1988 until he has completely vacated the subject property. On the other hand, the plaintiffs-appellees are ordered to pay the value of the improvement introduced by the defendant-appellant. Further, the awards of attorney's fees and costs are hereby DELETED. Consequently, let this case be REMANDED to the Regional Trial Court for the determination of the current market value of the improvements made by the defendant-

appellant on the subject property, in accordance with Article 1678 of the New Civil Code, and the fair rental value thereof. No pronouncement as to costs.

SO ORDERED.^[9]

Petitioner contends that the Court of Appeals varied the terms of his contract with respondents. In his Memorandum, petitioner summarizes the errors committed by the appellate court and asserts the terms which should have been enforced instead, as follows -

The appellate court correctly reversed and set aside the decision of the trial court finding for the private respondents as contrary to facts and applicable laws, but committed the error, with due respect, of fixing an [sic] entirely new terms and conditions and imposed the same on the parties, such as:

a) for the petitioner to vacate the premises. But the lease, which was upheld by the appellate court, has not yet expired or terminated;

b) to pay rental or compensation for the petitioner's use of the property to be computed from January, 1988 until petitioner vacated the property. There is no question as to payment of rentals [,] the parties having agreed [to] the sum of P500.00 a month to be deducted from the P120,000 petitioner spent in constructing the building until exhausted, not to be computed from the year January, 1988, but to commence on the date of the completion of the building and start of petitioner's business thereat.

c) the appellate court also ordered the private respondents to pay the value of the building to the petitioner, to to [sic] this effect, ordered the case remanded back to the trial court to determine the value of the building or improvement. The agreement of the parties is for the building to be owned by the private respondents after the P120,000 cost of the building is exhausted by the deduction of P500.00 as monthly rental.

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In lieu thereof, it is respectfully prayed that the petitioner and the private respondents be ordered to comply faithfully and in good faith to the terms and conditions of their lease - the petitioner to erect a building on the leased property and completed by him at a cost of P120,000 in March, 1988. Of this amount, the P500.00 monthly rental deducted until exhausted, also to start March, 1988 [-] date petitioner commenced his business thereat. After exhaustion of the P120,000 by way of monthly rentals, private respondents become owners of the building - which are clear and not contrary to law, morals, good customs, public order, and public policy. Lease expires in March, 2008 therefor.^[10]

The threshold issue in the present case is whether or not a contract of lease had been perfected. After receiving the testimonial and documentary evidence of both

parties, the trial court concluded that no contract of lease existed and ruled in favor of respondents herein. The court explained its decision in this wise -

The Court after a careful evaluation of the foregoing portion of plaintiffs' testimony cannot give its imprimatur to the conclusion reached by defendant to the effect that plaintiffs allowed the defendant to enter into a portion of the land in question and construct a building thereon, for such a conclusion is gratuitous as it does not portray the true intention of the plaintiffs as alluded to by the defendant. A cursory reading of the testimony under consideration indubitably show in its clear and unmistakable terms that it is not a blanket authority or permission for defendant to enter the premises of the land in question, but is subject to proviso or terms and conditions to be embodied in writing in the lease contract, which terms and conditions are elsewhere stated earlier in plaintiffs' evidence. In this regard, it is worthy and interesting to note, that at the inception of the work done by the defendant on the land in question by levelling a portion of it, plaintiffs immediately protested and repeatedly demanded the defendant who assumed to prepare the contract embodying the terms and conditions originally agreed upon for their approval before defendant will start on the construction, which never happened due to the dilatory tactics employed by the defendant, a circumstance which belied defendant's contention that plaintiffs allowed defendant to occupy the land and construct a building thereon even before the approval of the lease contract, which to the mind of this Court, is an orchestrated scheme to dispossess the plaintiffs of their land as evidenced by defendant's maneuvers in successfully delaying by dubious means the finalization of a contract of lease embodying the true terms and conditions agreed upon by the parties, furthermore, defendant instead of preparing the supposed lease contract, and after gaining entry on the land in question and had constructed a building thereon, made counter-proposals which were rejected by plaintiffs.

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With the foregoing as a background, the Court ... is of the considered view, that no contract of lease was perfected and/or consummated [sic] between the parties, ... all that was actually done was a negotiation of an intended lease contract which did not actually materialize due to gross violation committed by the defendant of the terms and conditions set or laid down by the plaintiffs in the course of the negotiation for which reason plaintiffs refused to sign the draft prepared by the defendant. On the issue of perfection, and/or consummation of the alleged contract of lease, the evidence on record speaks loud and clear that in the course of the negotiation defendant volunteered to prepare and deliver to plaintiffs [the contract of lease] for their approval, but instead of preparing the intended contract of lease incorporating the terms and conditions agreed upon, the defendant started the construction of a building on plaintiffs' land in January, 1988, whereupon plaintiff Maria Baguilat immediately protested to defendant demanding that the contract of lease over the property should first be signed by the parties before defendant starts any construction work on the land in question, which was adamantly ignored by the defendant. The fact that defendant deliberately failed to prepare