

INTRODUCTION

- [1] On July 19, 2024, the Landlord filed a *Landlord Application to Request Additional Rent Increase* (the “Application”) with the Residential Tenancy Office (the “Rental Office”) to request an additional rent increase above the annual allowable guideline established by the Director of Residential Tenancy.
- [2] The Application seeks a total rent increase of 62.7%. The Application contains the current rent, the proposed rent, and an effective date of October 1, 2024.
- [3] On September 5, 2024, a notice of teleconference hearing was emailed to the parties.
- [4] On September 16, 2024, an evidence package was emailed to the parties.
- [5] On September 24, 2024, a teleconference hearing was held before the Residential Tenancy Officer. Two Landlord representatives (the “Representatives”) participated in the hearing.

ISSUE

- i. Does the evidence support a 62.7% rent increase for the Unit?

SUMMARY OF THE EVIDENCE

- [6] The Unit is a single-family house which was purchased in 2014 for \$192,900.00.
- [7] The Landlord submitted into evidence documents supporting the proposed rent increase, including copies of tax documents, mortgage documents, ledgers, and expense documents.

LANDLORD’S EVIDENCE AND SUBMISSIONS

The Representatives’ evidence is summarized as follows.

- [8] The Representatives stated that the Landlord’s expenses have increased, specifically the mortgage, property taxes, water bills, and insurance. The Landlord just renewed the mortgage at a higher interest rate. Rent has never been increased at the Unit since it was purchased. If the Landlord does not receive a rent increase then the Landlord may sell the Unit.

ANALYSIS

Issue i. Does the evidence support a 62.7% rent increase for the Unit?

Adjustments to the Statement

- [9] The Officer’s adjustments to the Statement are provided below and are reflected in Appendix “A” of this Order.

[Lines 1 and 3 – Rental Income]

The Statement disclosed the 2024 annual rental income for the Unit will be \$16,200.00. The requested additional rent increase of 62.7% would increase the 2025 gross rental income to \$26,357.40. Lines 1 and 3 are adjusted.

[Other – Line 15]

The Landlord stated \$460.00 for other expenses was for snow clearing. Line 15 is not adjusted.

[Value of the Investment in the Property]

- [10] As of August 31, 2024, the documentary evidence establishes that the Landlord had an outstanding mortgage of \$130,205.84. In Order LR23-80 the Island Regulatory and Appeals Commission (the "Commission") referred to "equity" when calculating return on investment. To properly calculate a Landlord's equity, I find that a mortgage deduction is necessary to normalize the treatment of landlords with varying amounts of loaned funds for residential properties.
- [11] I find that the Landlord's value of investment in the property to be **\$62,694.16**, which is calculated as the purchase price minus the current mortgage (\$192,900.00 - \$130,205.84).

Factors

- [12] In order to determine the proposed rent increase, I must consider the following factors in subsection 50(3) of the Act:
1. The rent history for the affected Unit in the three years preceding the date of the Application.
 2. A change in operating expenses and capital expenditures in the three years preceding the date of the Application that the Director considers relevant and reasonable.
 3. The expectation of the Landlord to have a reasonable return on the Landlord's capital investment.
 4. The expectation of the Tenant that a rent increase will remain within the annual guidelines.
- [13] Subsection 50(4) provides me with discretion to consider any other relevant factor and any factor prescribed in the Residential Tenancy Regulations (the "Regulations"). The only other factor stated in the Regulations is that the purchase of a residential property should not require an increase of rent within the first year in order to achieve a reasonable return on the landlord's capital investment. This factor is not relevant in this case because the Landlord has owned the Unit since it was purchased in 2014.

Review and Weighing the Factors

- [14] I find in this case the totality of the factors weighs in favour for approval of an additional rent increase for the Unit. In coming to this conclusion, I note in particular:
- a) The rent has not increased since 2014.
 - b) The Landlord submitted documentary evidence establishing operating expenses have increased, particularly, the interest on the mortgage and property taxes.
- [15] The Application requests an additional rent increase of 62.7%. The Act restricts the additional rent increase to 3.0% each year in addition to the allowable guideline set by the Director, which is 3.0% in 2024.
- [16] With a 6.0% rent increase, rent would be **\$1,431.00**, with a return of investment of **5.9%**. In LR24-27 the Commission commented that 4.0% to 7.0% to be a reasonable return on investment. A return on investment of 5.9% is within the guidelines noted by the Commission.
- [17] If I were to further phase in the 2025 allowable guideline rent increase of 2.3% and the above allowable increase of 3.0%, the rent for 2025 would increase to **\$1,506.84**, with a return of investment of **7.3%**. Although 7.3% is above the guidelines noted by the Commission, I find that an additional 0.3% increase above the guidelines to be reasonable in this case.

[18] I find that the Landlord is entitled to a 6.0% rent increase beginning November 1, 2024.

[19] I find that the Landlord is entitled to a 5.3% rent increase beginning November 1, 2025.

CONCLUSION

[20] The Landlord's Application for an above guideline rent increase is allowed in part.

[21] The rent for the Unit is increased as provided below.

[22] **This decision contains sensitive information and the parties are required to preserve its confidentiality pursuant to subsection 75(3) of the Act.**

IT IS THEREFORE ORDERED THAT

A. Effective November 1, 2024, the maximum allowable rent for the Unit is \$1,431.00.

B. Effective November 1, 2025, the maximum allowable rent for the Unit is \$1,506.84.

DATED at Charlottetown, Prince Edward Island, this 2nd day of October, 2024.

(sgd.) Mitchell King
Mitchell King
Residential Tenancy Officer

APPENDIX "A"
Revised Statement of Income & Expenses (Form 10)

	<u>Current</u>	<u>Proposal (62.7%)</u>	<u>Allowed 2024 (6.0%)</u>	<u>Allowed 2025 (5.3%)</u>
<u>Income</u>				
Rental Income at 100% (Line 1)	\$16,200.00	\$26,357.40	\$17,172.00	\$18,082.12
Vacancy Arrears/Losses (Line 2)	\$0.00	\$0.00	\$0.00	\$0.00
<u>Net Income before expenses (Line 3)</u>	\$16,200.00	\$26,357.40	\$17,172.00	\$18,082.12
<u>Expenses</u>				
1st Mortgage Interest (Line 4)	\$4,325.43	\$4,325.43	\$4,325.43	\$4,325.43
2nd Mortgage Interest (Line 5)	\$0.00	\$0.00	\$0.00	\$0.00
Fuel (Line 6)	\$0.00	\$0.00	\$0.00	\$0.00
Water & Sewer (Line 7)	\$880.72	\$880.72	\$880.72	\$880.72
Electricity (Line 8)	\$0.00	\$0.00	\$0.00	\$0.00
Insurance (Line 9)	\$2,474.00	\$2,474.00	\$2,474.00	\$2,474.00
Property Tax (Provincial) (Line 10)	\$5,359.94	\$5,359.94	\$5,359.94	\$5,359.94
Property Tax (Municipal) (Line 11)	\$0.00	\$0.00	\$0.00	\$0.00
Management Fee (Line 12)	\$0.00	\$0.00	\$0.00	\$0.00
Maintenance Fee (Line 13)	\$0.00	\$0.00	\$0.00	\$0.00
Capital Expenditures (Line 14)	\$0.00	\$0.00	\$0.00	\$0.00
Other (Line 15)	\$460.00	\$460.00	\$460.00	\$460.00
<u>Total Operating Expenses (Line 16)</u>	<u>\$13,500.09</u>	<u>\$13,500.09</u>	<u>\$13,500.09</u>	<u>\$13,500.09</u>
Net Profit or (Loss) (Line 17)	\$2,699.91	\$12,857.31	\$3,671.91	\$4,582.03
Value of Investment in Property	\$62,694.16	\$62,694.16	\$62,694.16	\$62,694.16
Operating Income (Line 17)	\$2,699.91	\$12,857.31	\$3,671.91	\$4,582.03
Return on Investment (ROI)	4.3%	20.5%	5.9%	7.3%

NOTICE

Right to Appeal

This Order can be appealed to the Island Regulatory and Appeals Commission by serving a Notice of Appeal with the Commission and every party to this Order within **20 days of this Order**. If a document is sent electronically after 5:00 p.m., it is considered received the next day that is not a holiday. If a document is sent by mail, it is considered served on the third day after mailing.

Filing with the Court

If no appeal has been made within the noted timelines, this Order can be filed with the Supreme Court of Prince Edward Island and enforced as if it were an order of the Court.