

INTRODUCTION

[1] The Landlord requests a 5.3% rent increase for the Unit.

DISPOSITION

[2] The evidence supports the Landlord's request for a 5.3% rent increase for the Unit.

BACKGROUND

[3] The Unit is the bottom half of an over-under duplex (the "Residential Property") that the Landlord purchased in 2019 for \$380,000.00.

[4] On September 17, 2024, the Landlord served the Tenants with a *Form 9 Landlord Application to Request Additional Rent Increase* (the "Application") and a *Form 8 Tenant Notice of Annual Allowable Rent Increase*.

[5] The Landlord filed the Application with the Residential Tenancy Office (the "Rental Office") on September 18, 2024.

[6] The Application shows the current rent, the proposed rent, the date of the last rent increase, and the proposed effective date for the rent increase as follows:

Current Rent	Proposed Rent (5.3%)	Date of Last Rent Increase	Proposed Effective Date
\$1,957.00	\$2,060.00	March 1, 2024	March 1, 2025

[7] On October 1, 2024, the Rental Office mailed and emailed the parties notice of a teleconference hearing scheduled for October 29, 2024.

[8] On October 18, 2024, the Rental Office shared an evidence package with the parties via TitanFile.

[9] On October 29, 2024, the Landlord and Tenants participated in a teleconference hearing.

[10] The Landlord was permitted to submit additional evidence after the hearing, and the Tenants received copies of the evidence. The Tenants did not submit any further evidence.

ISSUE

A. Does the evidence support a 5.3% rent increase for the Unit?

ANALYSIS**Adjustments to the Statement**

[11] The adjustments to the Statement are provided below in Appendix "A."

[Line 1 – Rental Income]

[12] The documentary evidence shows that the 2024 Rental Income will be \$23,370.00. Line 1 is adjusted.

[Line 9 - Insurance]

[13] The Landlord’s additional documentary evidence shows that the current insurance expense for the Unit is \$1,304.00. Line 9 is adjusted.

[Lines 10/11 – Property Taxes]

[14] The Landlord’s additional documentary evidence shows that the current property tax expense for the Unit is \$3,616.70. Lines 10/11 are adjusted.

[Line 14 - Capital Expenditures]

[15] The Landlord included capital expenses for the other half of the Residential Property on the Statement. I have not included these capital expenses in the calculations for the Unit. The documentary evidence shows the capital expenses for the Unit are as follows:

Item	Cost	Expected Life (Yrs)	Annual Write-Off
Ceiling fans	\$962.55	10	\$96.25
Heat pump	\$3,587.50	10	\$358.75
Windows	\$4,126.00	20	\$206.30
2020 Renovations	\$24,248.38	10	\$2,424.83
Total	\$32,924.43		\$3,086.13

[Value of the Investment in the Property]

[16] I have deducted the mortgage from the purchase price to calculate the value of the Unit based on the Landlord’s equity. This mortgage deduction is necessary to normalize the treatment of landlords with varying amounts of loaned funds for residential properties.

[17] I note in Order LR23-80 that the Island Regulatory and Appeals Commission (the "Commission") referred to using a landlord’s “equity” when calculating value.

[18] The Landlord stated that the purchase price for the Residential Property in 2019 was \$380,000.00. Since the Unit is 50% of the entire Residential Property, I calculate the purchase price of the Unit as \$190,000.00.

[19] The Landlord added \$32,924.43 in capital expenses to the Unit, which I included in the Unit’s purchase price when calculating the value of the Landlord’s investment. The calculation of the Landlord’s equity is the purchase price (\$190,000.00) + capital expenditures (\$32,924.43), totaling \$222,924.43.

[20] As of September 2024, the outstanding mortgage for the Residential Property was \$244,143.81. Since the Unit is 50% of the entire Residential Property, I adjusted the mortgage by 50% to \$122,071.91.

[21] The Landlord’s investment value in the Residential Property is **\$100,852.52**, calculated as the purchase price and capital expenses minus the current mortgage (\$222,924.43 - \$122,071.91).

Reviewing the Factors

- [22] To determine if the Application is allowed, I must consider and weigh the following factors in subsection 50(3) of the *Residential Tenancy Act* (the "Act"):
- a. The rent history for the Unit in the three years preceding the date of the Application.
 - i. The Landlord has provided the rent history for the past three years. The rent for the Unit was last increased by 3.0% on March 1, 2024.
 - b. A change in operating and capital expenses in the three years preceding the date of the Application that the Director considers relevant and reasonable.
 - i. The Landlord submitted documents as evidence that disclosed a change in the operating expenses over the past three years. In the disclosed three years, the operating expenses for the Unit have changed, with some of the costs increasing, such as fuel, water and sewer, and insurance. \$32,924.43 in capital expenses have been added to the Unit since the Landlord purchased it.
 - c. The expectation of the Landlord to have a reasonable return on the Landlord's capital investment.
 - i. After adjusting the Statement's income and expenses, as shown in Appendix "A," the Landlord is currently making a return on investment of 6.2%. With the inclusion of the requested additional increase, the Landlord would be making a return on investment of 7.6%.
 - d. The Tenants' expectation that rent increases will remain within the annual guidelines.
 - i. The Tenants stated that a 2.3% rent increase is reasonable, but a 5.3% rent increase is too high.
- [23] Subsection 50(4) provides that I have the 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 a residential property should not require a rent increase within the first year of purchase to achieve a reasonable return on the Landlord's capital investment. This factor is irrelevant because the Landlord has owned the Unit since 2019.

Weighing the Factors

- [24] After considering and weighing all the factors and evidence, the factors weigh in favour of the Landlord's request. In coming to this conclusion, I note in particular:
- a. In Order LR24-27, the Commission commented that a reasonable return on investment is between 4.0% and 7.0%. The Commission has used 7.0% as an appropriate return on investment when the landlord relies on a recent purchase price or the tax-assessed value. A lower rate of 4.0% is applicable when the landlord uses a blend of tax-assessed value and an appraisal.
 - b. The Landlord is currently earning a return on investment of 6.2%. With the requested additional rent increase, this would increase to 7.6%. Although this is slightly above the Commission's guidelines, the Landlord has added \$32,924.23 in capital expenses to the Unit.

[25] The Landlord may increase the rent by 5.3% effective March 1, 2025.

[26] **This decision contains sensitive information, and the parties must preserve its confidentiality under subsection 75(3) of the Act.**

IT IS THEREFORE ORDERED THAT

1. Effective March 1, 2025, the maximum allowable rent for the Unit is \$2,060.00.

DATED at Charlottetown, Prince Edward Island, this 22nd day of November, 2024.

(sgd.) Mitchell King

Mitchell King
Residential Tenancy Officer

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

	<u>Current</u>	<u>Proposal</u>	<u>Allowed (5.3%)</u>
<u>Income</u>			
Rental Income at 100% (Line 1)	\$23,370.00	\$24,728.65	\$24,728.65
Vacancy Arrears/Losses (Line 2)	\$0.00	\$0.00	\$0.00
<u>Net Income before expenses (Line 3)</u>	\$23,370.00	\$24,728.65	\$24,728.65
<u>Expenses</u>			
1st Mortgage Interest (Line 4)	\$3,689.61	\$3,689.61	\$3,689.61
2nd Mortgage Interest (Line 5)	\$0.00	\$0.00	\$0.00
Fuel (Line 6)	\$3,276.70	\$3,276.70	\$3,276.70
Water & Sewer (Line 7)	\$447.35	\$447.35	\$447.35
Electricity (Line 8)	\$280.12	\$280.12	\$280.12
Insurance (Line 9)	\$1,304.00	\$1,304.00	\$1,304.00
Property Tax (Provincial) (Line 10)	\$3,616.70	\$3,616.70	\$3,616.70
Property Tax (Municipal) (Line 11)	\$0.00	\$0.00	\$0.00
Management Fee (Line 12)	\$1,000.00	\$1,000.00	\$1,000.00
Maintenance Fee (Line 13)	\$400.00	\$400.00	\$400.00
Capital Expenditures (Line 14)	\$3,086.13	\$3,086.13	\$3,086.13
Other (Line 15)	\$0.00	\$0.00	\$0.00
Total Operating Expenses (Line 16)	\$17,100.61	\$17,100.61	\$17,100.61
Net Profit or (Loss) (Line 17)	\$6,269.39	\$7,628.04	\$7,628.04
Value of Investment in Property	\$100,852.52	\$100,852.52	\$100,852.52
Operating Income (Line 17)	\$6,269.39	\$7,628.04	\$7,628.04
Return on Investment (ROI)	6.2%	7.6%	7.6%

NOTICE

Right to Appeal

This Order can be appealed to the Island Regulatory and Appeals Commission (the "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, which 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.