

INTRODUCTION

- [1] The Landlords request approval of a 5.3% rent increase, being an additional 3% increase above the 2025 annual allowable guideline.

DISPOSITION

- [2] I find that the evidence supports the Landlords' request for a 5.3% rent increase effective February 1, 2025.

BACKGROUND

- [3] The Unit is a rental unit in a 4-unit building (the "Residential Property").
- [4] On Thursday, October 3, 2024, the Landlords' representative (the "Representative") emailed the Tenant a *Form 8 Tenant Notice of Annual Allowable Rent Increase* (the "Notice") and a *Form 9 Landlord Application to Request Additional Rent Increase* (the "Application"). The Notice and the Application are dated Tuesday, October 1, 2024.
- [5] In error, the email did not include the Notice and the Application as attachments.
- [6] On Thursday, October 3, 2024, the Representative filed the Application with the Residential Tenancy Office (the "Rental Office").
- [7] The Application shows the current rent, the proposed increased rent, the date of the last rent increase and the proposed effective date for the rent increase as follows:

Details	Amount
Current Rent	\$1,162.40
Proposed Rent (5.3%)	\$1,224.00
Date of Last Increase – January 1, 2024	6.0% increase
Effective Date of Proposed Increase	January 1, 2025

- [8] On October 25, 2024, the Representative emailed the Tenant the Notice and the Application.
- [9] Subsection 50(2) of the *Residential Tenancy Act* (or the "Act") requires the Landlords to serve a copy of the Application to the Tenant within ten days of filing it with the Rental Office. Clause 85(1)(n) of the Act allows me to extend any notice period. In this case, I find it appropriate to exercise this authority under the Act, because the Representative did attempt to email a copy to the Tenant in the October 3rd email.
- [10] On November 1, 2024, the Rental Office mailed and emailed the parties notice of a teleconference hearing, scheduled for November 26, 2024.
- [11] On November 19, 2024, the Rental Office emailed the parties an evidence package. Included in the evidence package was a *Form 10 Landlord Statement of Income and Expenses* (the "Statement").
- [12] On November 26, 2024, the Representative and the Tenant participated in the teleconference hearing.

ISSUE

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

ANALYSIS

Adjustments to the Statement

- [13] The adjustments to the Statement are provided below and are reflected in Appendix "A".
- [14] It is noted that the income and the expenses on the Statement reflect the income and the expenses of the Unit, which are one quarter the income and the expenses of the Residential Property.
- [15] For the previous three years, the Landlord has expensed \$1,500.00 for management fees. Subsection 1(c) of the *Residential Tenancy Regulations* (the "Regulations") defines "management fees" as follows:
- "management fee" means the actual cost of the management fee or 5 per cent of the gross rental income for the previous year, whichever is the lesser;*
- [16] I adjust Line 12 – Management fees to reflect 5.0% of the gross rental income as it is the lesser amount to the actual cost.
- [17] The Statement shows the value of the investment in the Unit as \$117,050.58, which is one quarter of the purchase price and the capital expenditures. The Representative stated that there is no mortgage on the Residential Property. The value of the investment is shown in Appendix "A".
- [18] The Landlord's return on investment is shown in Appendix "A".

Factors

- [19] In order to determine the Application, 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 Landlords to have a reasonable return on the Landlords' capital investment; and
 4. The expectation of the Tenant that rent increases will remain with the annual guidelines.
- [20] Subsection 50(4) provides that I have the discretion to consider any other relevant factor and any factor prescribed in the Regulations. The only other factor stated in the Regulations is that the purchase of the 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 Landlords have owned the Unit and the Residential Property since 2014.

Review and Weighing the Factors

- [21] The documentary evidence, particularly the rent ledger, shows the rent history for the last three years of the Unit. The last rent increase occurred on January 1, 2024 and it was an approved 6% additional rent increase by the Rental Office.

- [22] The evidence establishes that the Landlords' operating costs and capital expenditures have increased over the past three years. The Representative stated that property taxes and maintenance costs have increased.
- [23] The Landlords are currently obtaining a 5.3% return on their capital investment. After the adjustments to the Statement and including the proposed additional rent increase and 2025 annual allowable guideline, the Landlords return on investment would increase to 5.9%.
- [24] In Order LR24-27, the Island Regulatory and Appeals Commission (the "Commission") commented on a reasonable return on investment as follows:
- "In previous Orders, the Commission has considered reasonable return on investment rates and has found them to be, in recent years, in the range of 4% to 7%. The Commission has used 7% as an appropriate ROI where the Landlord is relying on a recent actual purchase price or on the tax assessed value. A lower rate of 4% has been used when the Landlord is using a blend of the tax assessed value and an appraisal done for the Landlord's benefit..."*
- [25] The Landlords have provided the purchase price and the capital expenditures for the value of the Residential Property (one quarter of the value for the Unit).
- [26] The additional rent increase would provide the Landlords with a 5.9% return on investment, which is below the 7% reasonable return on investment.
- [27] The Tenant stated that, despite receiving an additional rent increase in 2024, he does not dispute the Landlords' request for an additional rent increase in 2025. The Tenant stated that he understands the Landlords' operating costs have increased and agrees with the additional rent increase.
- [28] For these reasons, I find that a 5.3% rent increase is supported for the Unit.

The Effective Date

- [29] On Thursday, October 3, 2024, the Representative filed the Notice and the Application with the Rental Office. On the same day the Representative emailed the Tenant, but in error, did not attach the Notice and the Application.
- [30] It was unnecessary for the Representative to serve the Notice to the Tenant under subsection 48(3) of the Act.
- [31] However, the rent increase effective date must be a minimum of three clear months from the date the Application was filed with the Rental Office. Otherwise, a landlord could be able to implement an above guideline rent increase faster than a guideline rent increase (which requires three full months' notice).
- [32] Rent is due on the 1st day of the month. This means the Representative needed to file the Application by Tuesday, October 1, 2024 (as Monday, September 30, 2024 was a holiday) (see subsection 33(6) of the *Interpretation Act*) to have the January 1, 2025 effective date.
- [33] Therefore, I find that the appropriate effective date for the rent increase is February 1, 2025.
- [34] I find the Application for an above annual guideline rent increase is allowed. The rent for the Unit is increased by 5.3% as provided below.
- [35] **This decision contains sensitive information and the parties are required to preserve its confidentiality under subsection 75(3) of the Act.**

IT IS THEREFORE ORDERED THAT

1. Effective February 1, 2025, the maximum allowable rent for the Unit is increased to \$1,224.00.

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

(sgd.) Cody Burke

Cody Burke
Residential Tenancy Officer

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

	Current	Allowable (2.3%)	Requested Increase (5.3%)
Rental Income			
Income (Line 1)	\$13,948.80	\$14,269.62	\$14,688.00
Arrears (Line 2)	\$0.00	\$0.00	\$0.00
Net Income (Line 3)	\$13,948.80	\$14,269.62	\$14,688.00
Expenses			
1st Mortgage Interest (Line 4)	\$0.00	\$0.00	\$0.00
2nd Mortgage Interest (Line 5)	\$0.00	\$0.00	\$0.00
Fuel (Line 6)	\$2,527.13	\$2,527.13	\$2,527.13
Water & Sewer (Line 7)	\$258.46	\$258.46	\$258.46
Electricity (Line 8)	\$0.00	\$0.00	\$0.00
Insurance (Line 9)	\$460.50	\$460.50	\$460.50
Property Tax (Provincial) (Line 10)	\$1,152.50	\$1,152.50	\$1,152.50
Property Tax (Municipal) (Line 11)	\$1,048.78	\$1,048.78	\$1,048.78
Management Fee (Line 12)	\$697.44	\$713.48	\$734.40
Maintenance Fee (Line 13)	\$602.32	\$602.32	\$602.32
Capital Expenditures (Line 14)	\$287.50	\$287.50	\$287.50
Other (Line 15)	\$716.13	\$716.13	\$716.13
Total Expenses	<u>\$7,750.76</u>	<u>\$7,766.80</u>	<u>\$7,787.72</u>
Annual Net Profit	\$6,198.04	\$6,502.82	\$6,900.28
Value of Investment	\$117,050.58	\$117,050.58	\$117,050.58
Net Profit	\$6,198.04	\$6,502.82	\$6,900.28
Return on Capital Investment	5.3%	5.6%	5.9%

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 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.