

INTRODUCTION

[1] The Landlords request approval for a 5.3% rent increase for the Unit.

DISPOSITION

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

BACKGROUND

[3] The Unit is a house purchased by the Landlords in 2021.

[4] On September 24, 2024, the Landlords served the Tenant 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] On September 24, 2024, the Landlords filed the Application with the Residential Tenancy Office (the "Rental Office").

[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
\$2,221.00	\$2,339.00	January 1, 2024	January 1, 2025

[7] On October 15, 2024, the Rental Office mailed and emailed the parties notice of a teleconference hearing scheduled for November 19, 2024.

[8] On November 15, 2024, the Rental Office emailed an evidence package to the parties.

[9] A teleconference hearing was held on November 19, 2024, and a Landlord participated, representing both Landlords. The Landlord confirmed he had received the evidence package and that all submitted documents were included.

ISSUE

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

ANALYSIS**Adjustments to the Statement**

[10] The adjustments to the Statement are provided below and are reflected in Appendix "A."

[Line 5 – Interest Payment on Second Mortgage]

[11] The Landlord stated that another property the Landlords own was refinanced to assist in purchasing the Unit. He noted the other property was refinanced for \$190,000.00, but only \$78,294.55 was put towards the purchase of the Unit. The Landlord calculated the interest on the second mortgage based on the percentage of the re-financed funds that were put towards the Unit's purchase (41.5%). I find that the documentary evidence supports this calculation.

[Value of the Investment in the Property]

- [12] The Landlords purchased the Unit in 2021 for \$391,468.00. They have two mortgages attributed to the purchase totalling \$385,494.55 (\$307,200.00 + \$78,294.55).
- [13] I have deducted the mortgage from the purchase price to calculate the Unit's value based on the Landlords' equity. This mortgage deduction is necessary to normalize the treatment of landlords with varying amounts of loaned funds for residential properties.
- [14] I find the Landlords' investment in the property to be **\$5,973.45** (\$391,468.00 - \$385,494.55).

Reviewing the Factors

- [15] To determine the Application, 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 affected Unit in the three years preceding the date of the Application.
 - i. The Landlords provided the rent for the past three years. The rent for the Unit was last increased on January 1, 2024.
 - b. 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.
 - i. The Landlords submitted documents as evidence to assist in disclosing a change in the operating expenses over the past three years. In the three years that have been disclosed, the operating expenses for the Unit have changed. Some of the expenses have increased, such as the interest on the mortgage and insurance. No capital expenditures were incurred for the Units.
 - c. The expectation of the Landlords to have a reasonable return on the Landlords' capital investment.
 - i. After adjusting the Statement's income and expenses, as shown in Appendix "A," the Landlords are currently not making a return on investment. With the inclusion of the requested additional increase, the Landlords would be making a return on investment of 6.5%.
 - d. The expectation of the Tenant that rent increases will remain within the annual guidelines.
 - i. The Tenant did not provide any submissions regarding the Application.
- [16] 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 the purchase of a residential property should not require an increase in rent within the first year to achieve a reasonable return on the landlord's capital investment. This factor is irrelevant because the Landlords have owned the Unit since 2021.

Weighing the Factors

[17] I find the totality of the factors weigh in favour of an additional rent increase for the Unit. In coming to this conclusion, I note in particular:

- a. In Order LR24-27, the Commission commented that a reasonable return on investment of 7.0% is appropriate when the landlord relies on a recent purchase price.
- b. I find that the Landlords are currently not making a return on their investment. With the requested additional rent increase, the Landlords’ return on investment would be 6.5%. This factor weighs in favour of the rent increase.
- c. Some of the expenses have increased, such as the interest on the mortgage and insurance. This factor weighs in favour of the rent increase.

[18] After considering and weighing all the factors and evidence, I find that the factors support an above-allowable rent increase for the Unit of 5.3%, effective January 1, 2025. The Application is allowed.

[19] **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. The maximum allowable rent for the Unit is as follows:

Rent	Effective Date
\$2,339.00	January 1, 2025

DATED at Charlottetown, Prince Edward Island, this 13th day of December, 2024.

(sgd.) Mitchell King
Mitchell King
Residential Tenancy Officer

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

	<u>Current</u>	<u>Allowed (5.3%)</u>
<u>Income</u>		
Rental Income at 100% (Line 1)	\$26,652.00	\$28,064.55
Vacancy Arrears/Losses (Line 2)	\$0.00	\$0.00
<u>Net Income before expenses (Line 3)</u>	<u>\$26,652.00</u>	<u>\$28,064.55</u>
<u>Expenses</u>		
1st Mortgage Interest (Line 4)	\$16,720.00	\$16,720.00
2nd Mortgage Interest (Line 5)	\$4,298.00	\$4,298.00
Fuel (Line 6)	\$0.00	\$0.00
Water & Sewer (Line 7)	\$0.00	\$0.00
Electricity (Line 8)	\$0.00	\$0.00
Insurance (Line 9)	\$1,109.00	\$1,109.00
Property Tax (Lines 10/11)	\$5,252.23	\$5,252.23
Management Fee (Line 12)	\$0.00	\$0.00
Maintenance Fee (Line 13)	\$295.08	\$295.08
Capital Expenditures (Line 14)	\$0.00	\$0.00
Other (Line 15)	\$0.00	\$0.00
<u>Total Operating Expenses (Line 16)</u>	<u>\$27,674.31</u>	<u>\$27,674.31</u>
Net Profit or (Loss) (Line 17)	(\$1,022.31)	\$390.24
Value of Investment in Property	\$5,973.45	\$5,973.45
Operating Income (Line 17)	(\$1,022.31)	\$390.24
Return on Investment (ROI)	-17.1%	6.5%

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.