

**INTRODUCTION**

[1] The Landlord requests approval for 5.3% rent increases for the Units.

**DISPOSITION**

[2] I find that the evidence does not support the Landlord's request for 5.3% rent increases for the Units.

**BACKGROUND**

[3] The Units consist of a seven-unit apartment building (the "Residential Property") that the Landlord purchased in 1978.

[4] On September 27, 2024, the Landlord served all the Tenants with *Form 9 Landlord Applications to Request Additional Rent Increases* (the "Applications") and filed the Applications with the Residential Tenancy Office (the "Rental Office").

[5] The Applications show the current rents, the proposed rents, the date of the last rent increases, and the proposed effective dates for the rent increases as follows:

Unit	Current Rent	Proposed Rent (5.3%)	Date of Last Rent Increase	Proposed Effective Date
51-1	\$800.00	\$842.00	January 1, 2024	January 1, 2025
51-2	\$692.00	\$729.00	January 1, 2024	January 1, 2025
51-3	\$581.00	\$612.00	January 1, 2024	January 1, 2025
51-4	\$608.00	\$640.00	January 1, 2024	January 1, 2025
53-1	\$810.00	\$853.00	January 1, 2024	January 1, 2025
53-2	\$754.00	\$794.00	January 1, 2024	January 1, 2025
53-3	\$608.00	\$640.00	January 1, 2024	January 1, 2025

[6] On October 15, 2024, the Rental Office mailed and emailed the parties notice of a teleconference hearing scheduled for November 28, 2024.

[7] On November 26, 2024, the Rental Office emailed an evidence package to the Landlord to serve to the Tenants.

[8] A teleconference hearing was held on November 28, 2024, and a Landlord representative (the "Representative") and a Tenant participated. The parties confirmed receiving the evidence package and that all submitted documents were included.

**ISSUE**

A. Does the evidence support 5.3% rent increases for the Units?

**ANALYSIS****Adjustments to the Statement**

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

**[Line 1 – Rental Income]**

- [10] The Landlord provided the 2024 rental income up to September 2024. The documentary evidence establishes the 2024 rental income will be \$58,236.00. Line 1 is adjusted.

**[Line 12 – Management Fee]**

- [11] The Statement discloses \$12,787.90 for management fees for 2024. Clause 1(c) of the *Residential Tenancy Regulations* (the “Regulations”) limits management fees to the “*actual cost of the management fee or 5 percent of the gross rental income for the previous year, whichever is the lesser.*” In this case, 5.0% of the 2023 gross rental income was \$2,826.60, and 5.0% of the 2024 rental income will be \$2,911.80. Line 12 is adjusted.

**[Line 15 – Other]**

- [12] The Landlord did not add the waste watch fee to the Statement. Line 15 is adjusted to \$1,491.00.

**[Value of the Investment in the Property]**

- [13] The Landlord purchased the Residential Property in 1978 for \$77,500.00, and there is no mortgage. The tax-assessed value of the Residential Property is \$218,000.00. I find the tax-assessed value more accurate than the purchase price when determining the property’s current value and will use this as the property’s value.
- [14] The Landlord has appraisals for the Units but does not want them to be a part of the evidence shared with other parties.

**Reviewing the Factors**

- [15] To determine the Applications, 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 Units in the three years preceding the date of the Applications.
    - i. The Landlord provided the rent history for the past three years. The rent for the Units 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 Applications that the Director considers relevant and reasonable.
    - i. The Landlord 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 Units, such as water/sewer, insurance, and municipal property taxes, have increased. No capital expenditures were incurred for the Units.
  - 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 12.2%. With the inclusion of the requested additional rent increase, the Landlord would be making a return on investment of 13.6%.
  - d. The expectation of the Tenants that rent increases will remain within the annual guidelines.

- i. The Tenant who participated in the hearing objected to the proposed rent increase due to financial concerns.

[16] 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 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 Landlord has owned the Units since 1978.

**Weighing the Factors**

[17] I find the totality of the factors does not weigh in favour of above guideline increases for the Units. In coming to this conclusion, I note in particular:

- a. In Order LR24-27, the Island Regulatory and Appeal Commission (the “Commission”) commented that a reasonable return on investment of 7.0% is appropriate when a landlord relies on the tax-assessed value of a property.
- b. The Landlord is currently making a return on their investment of 12.2%. With the requested additional rent increase, the Landlord’s return on investment would be 13.6%. This is higher than the 7.0% reasonable return on investment noted by the Commission.
- c. No capital expenditures have been added to the Units.

[18] After considering and weighing all the factors and evidence, I find the factors do not support 5.3% rent increases for the Units. The Applications are denied.

[19] The Landlord may increase the rents by the 2.3% annual guideline set by the Director for 2025, effective January 1, 2025.

[20] **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 January 1, 2025, the maximum allowable rents for the Units is increased by 2.3% as follows:

Unit	Rent
51-1	\$818.00
51-2	\$708.00
51-3	\$595.00
51-4	\$622.00
53-1	\$829.00
53-2	\$771.00
53-3	\$622.00

**DATED** at Charlottetown, Prince Edward Island, this 19th day of December, 2024.

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 (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 (2.3%)</u>
<u>Income</u>			
Rental Income at 100% (Line 1)	\$58,236.00	\$61,320.00	\$59,580.00
Vacancy Arrears/Losses (Line 2)	\$0.00	\$0.00	\$0.00
<u>Net Income before expenses (Line 3)</u>	<u>\$58,236.00</u>	<u>\$61,320.00</u>	<u>\$59,580.00</u>
<u>Expenses</u>			
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)	\$11,186.73	\$11,186.73	\$11,186.73
Water & Sewer (Line 7)	\$1,780.63	\$1,780.63	\$1,780.63
Electricity (Line 8)	\$2,398.32	\$2,398.32	\$2,398.32
Insurance (Line 9)	\$4,172.00	\$4,172.00	\$4,172.00
Property Tax (Provincial) (Line 10)	\$1,984.18	\$1,984.18	\$1,984.18
Property Tax (Municipal) (Line 11)	\$1,983.80	\$1,983.80	\$1,983.80
Management Fee (Line 12)	\$2,826.60	\$2,911.80	\$2,911.80
Maintenance Fee (Line 13)	\$3,828.98	\$3,828.98	\$3,828.98
Capital Expenditures (Line 14)	\$0.00	\$0.00	\$0.00
Other (Line 15)	\$1,491.00	\$1,491.00	\$1,491.00
Total Operating Expenses (Line 16)	<u>\$31,652.24</u>	<u>\$31,737.44</u>	<u>\$31,737.44</u>
Net Profit or (Loss) (Line 17)	\$26,583.76	\$29,582.56	\$27,842.56
Value of Investment in Property	\$218,000.00	\$218,000.00	\$218,000.00
Operating Income (Line 17)	\$26,583.76	\$29,582.56	\$27,842.56
Return on Investment (ROI)	12.2%	13.6%	12.8%

**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.