

INTRODUCTION

- [1] The Landlord applied for approval of a 5.3% rent increase, an additional 3% increase above the 2025 annual allowable guideline of 2.3%.

DISPOSITION

- [2] I find that a 5.3% rent increase is supported for the Residential Property.

BACKGROUND

- [3] The Units are two-units in a building (the "Residential Property"), purchased by the Landlord in 2009.
- [4] On October 1, 2024 the Landlord's representative (the "Representative") filed two *Form 9 Landlord Applications to Request Additional Rent Increases* (the "Applications") with the Residential Tenancy Office (the "Rental Office"). The Representative hand-delivered the Applications to the Tenants.
- [5] Included with the Applications were two *Form 8 Tenant Notices of Annual Allowable Rent Increases* (the "Notices"). The Representative hand-delivered the Notices to the Tenants.
- [6] The Applications show the current rents, the proposed rents, the date of the last rent increases and the proposed effective date for the rent increases as follows:

Details	Unit A	Unit B
Current Rent	\$565.00	\$1,230.00
Proposed Rent (5.3%)	\$595.00	\$1,295.00
Date of Last Increase	January 1, 2024	January 1, 2024
Effective Date of Increase	January 1, 2025	January 1, 2025

- [7] On November 5, 2024 the Rental Office emailed the Representative notice of a teleconference hearing, scheduled for December 5, 2024. The Representative delivered a copy of the notice of hearing to the Tenants.
- [8] On December 3, 2024 the Rental Office emailed the Representative an evidence package (the "Evidence Package" or "EP"). Included in the Evidence Package was a *Form 10 Statement of Income and Expenses* (the "Statement"). On December 5, 2024 the Representative delivered a copy of the Evidence Package to one of the Tenants. The other tenant picked up a copy of the EP from the Rental Office.
- [9] On December 5, 2024 the Representative and one of the Tenants participated in the teleconference hearing.

ISSUE

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

ANALYSIS**Adjustments to the Statement**

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

Management Fees

[11] The Representative stated that management is done by staff of the Landlord. In the Statement, for the previous three years, the management fees are a percentage of the total actual cost to represent the Residential Property. The Representative stated that she did not know the percentage amount, as the accountant completed the spreadsheet submitted into evidence (EP8).

[12] 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;

[13] 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.

Value of Investment

[14] The Statement shows the value of the investment to be \$215,436.00. This is the capital cost of the land and the building disclosed by the Landlord's accountant (EP7). The Representative stated that there is no outstanding mortgage on the Residential Property.

[15] The Landlord's return on investment is shown in Appendix "A".

Factors

[16] In order to determine the Applications, I must consider the following factors in subsection 50(3) of the *Residential Tenancy Act* (or the "Act"):

1. The rent history for the affected Units 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; and
4. The expectation of the Tenants that rent increases will remain within the annual guideline.

[17] Subsection 50(4) of the Act provides that I have the discretion to consider any other 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.

[18] I find that this factor is not relevant because the Landlord has owned the Residential Property since 2009.

Review and Weighing the Factors

[19] The documentary evidence, particularly the rent ledger, shows the rent history for the last three years for the Residential Property. The last rent increase occurred on January 1, 2024 and it was the 2024 annual allowable increases of 3.0%.

- [20] The evidence establishes that the Landlord's operating expenses and capital expenditures have increased over the past three years. Specifically, water, insurance and property taxes have increased.
- [21] The Landlord is currently obtaining a 1.8% return on investment ("ROI"). After the adjustments to the Statement and including the proposed additional rent increases and the 2025 annual allowable guideline, the Landlord's ROI would increase to 2.3%.
- [22] In Order LR24-27, the Island Regulatory and Appeals Commission (the "Commission") commented on a ROI 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..."*
- [23] The additional rent increase would provide the Landlord with a 2.3% ROI.
- [24] The Tenants did not submit any evidence as it relates to their expectation that the rent increase would remain within the annual guideline.
- [25] For these reasons, I find that a 5.3% rent increase is supported for the Residential Property.
- [26] I find that the Applications are allowed.
- [27] **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 January 1, 2025, the maximum allowable rent for the Residential Property is as follows:
 - Unit A: \$595.00; and
 - Unit B: \$1,295.00.

DATED at Charlottetown, Prince Edward Island, this 19th 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)	\$21,408.00	\$22,020.00	\$22,680.00
Arrears (Line 2)	\$0.00	\$0.00	\$0.00
Net Income (Line 3)	\$21,408.00	\$22,020.00	\$22,680.00
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)	\$4,876.60	\$4,876.60	\$4,876.60
Water & Sewer (Line 7)	\$1,546.25	\$1,546.25	\$1,546.25
Electricity (Line 8)	\$0.00	\$0.00	\$0.00
Insurance (Line 9)	\$3,360.00	\$3,360.00	\$3,360.00
Property Tax (Provincial) (Line 10)	\$3,302.72	\$3,302.72	\$3,302.72
Property Tax (Municipal) (Line 11)	\$0.00	\$0.00	\$0.00
Management Fee (Line 12)	\$1,070.40	\$1,101.00	\$1,134.00
Maintenance Fee (Line 13)	\$434.70	\$434.70	\$434.70
Capital Expenditures (Line 14)	\$0.00	\$0.00	\$0.00
Other (Line 15)	\$2,990.71	\$2,990.71	\$2,990.71
Total Expenses	<u>\$17,581.38</u>	<u>\$17,611.98</u>	<u>\$17,644.98</u>
Annual Net Profit	\$3,826.62	\$4,408.02	\$5,035.02
Value of Investment	\$215,436.00	\$215,436.00	\$215,436.00
Net Profit	\$3,826.62	\$4,408.02	\$5,035.02
Return on Capital Investment	1.8%	2.0%	2.3%

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.