

INTRODUCTION

- [1] The Landlord seeks 5.3% rent increases for the Units, being an additional 3.0% above the 2025 annual guideline of 2.3%.

DISPOSITION

- [2] I find that the evidence supports 5.3% rent increases.

BACKGROUND

- [3] The two Units are a duplex (the “Residential Property”) that the Landlord purchased in 2004.
- [4] On May 31, 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”) on October 1, 2024.
- [5] On October 1, 2024, the Landlord provided the Rental Office with a *Form 10 Landlord Statement of Income and Expenses* for each Unit (the “Statements”).
- [6] At the beginning of the hearing, the Landlord representative (the “Representative”) amended the Applications, requesting a 5.3% rent increase instead of a 6.0% rent increase. The Representative stated she was only seeking the allowable rent increase for 2025 (2.3%) instead of the allowable rent increase for 2024 (3.0%), as well as the additional above-guideline rent increase (3.0%), beginning January 1, 2025.
- [7] The amended 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 |
|-------------|---------------------|-----------------------------|-----------------------------------|--------------------------------|
| 208 | \$1,215.00 | \$1,279.40 | October 1, 2022 | January 1, 2025 |
| 210 | \$1,350.00 | \$1,421.55 | November 1, 2022 | January 1, 2025 |

- [8] On October 31, 2024, the Rental Office mailed and emailed the parties notice of a teleconference hearing scheduled for December 5, 2024.
- [9] On November 26, 2024, the Rental Office emailed an evidence package to the parties.
- [10] A teleconference hearing was held on December 5, 2024, and the Representative who participated confirmed receiving the evidence package and that all submitted documents were included. No Tenants participated in the hearing.
- [11] After the hearing, the Representative submitted additional documentary evidence, which was shared with the Tenants. The Tenants were allowed extra time to make further submissions. The Rental Office received no additional submissions from the Tenants.
- [12] The income and expenses reflected in Appendix “A” represent the income and expenses of the combined two Units.

ISSUE

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

ANALYSIS

Adjustments to the Statement

[Line 4 – Interest]

- [13] The Landlord has two outstanding loans that were used to add \$140,591.00 in capital expenditures to the Units. The loans total \$88,854.95 (\$69,923.27 + \$18,931.68), and the combined interest is \$12,147.58.

[Line 14 – Capital Expenditures]

- [14] The combined capital expenditures are \$8,429.95. These include renovations to the kitchens, bathrooms, floors, roof, electrical, plumbing, and replacement of appliances.

[Line 15 – Other]

- [15] The Landlord did not add the waste watch fees. Line 15 is adjusted to \$426.00.

[Value of the Investment in the Property]

- [16] The Landlord purchased the Residential Property in 2004 for \$152,200.00. The 2024 tax-assessed value of the Residential Property is \$270,300.00. The Landlord submitted a 2022 appraisal into evidence, which valued the property at \$540,000.00.

- [17] I will average the appraisal and tax-assessed value to assist in calculating the property's current value. This is calculated as \$405,150.00 ($\$270,300.00 + \$540,000.00$) / 2.

- [18] I have deducted the outstanding loans of \$88,854.95 from the average of \$405,150.00 to calculate the property's value based on the Landlord's equity. This loan deduction is necessary to normalize the treatment of landlords with varying amounts of loaned funds for residential properties.

- [19] I find the Landlord's investment in the property to be **\$316,295.05** ($\$405,150.00 - \$88,854.95$).

Reviewing the Factors

- [20] 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 rents for the Units were last increased in 2022.
 - 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, some operating expenses for the Units, such as insurance and property taxes, have increased.
 - ii. In 2022, \$140,591.00 in capital expenditures were added to the Units.

- c. The expectation of the Landlord to have a reasonable return on the Landlord’s capital investment.
 - i. After adjusting the Statements’ income and expenses, as shown in Appendix “A,” the Landlord is currently making a return on investment of 0.3%. With the inclusion of the requested additional rent increase, the Landlord would be making a return on investment of 0.8%.
- d. The expectation of the Tenants that rent increases will remain within the annual guidelines.
 - i. No Tenants disputed the proposed rent increases.

[21] 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 2004.

Weighing the Factors

[22] I find the totality of the factors weighs in favour of additional rent 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 4.0% is appropriate when a landlord relies on the average of an appraisal and the tax-assessed value of a property. With the requested additional rent increase, the Landlord’s return on investment would be 0.8%.
- b. Some expenses, such as insurance and property taxes, have increased.
- c. The Landlord has added significant capital expenditures to the property.

[23] After considering and weighing all the factors and evidence, I find that the factors support 5.3% rent increases for the Units, effective January 1, 2025. The Applications are allowed.

[24] **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 rents for the Units are as follows:

| Unit | Rent |
|------|------------|
| 208 | \$1,279.40 |
| 210 | \$1,421.55 |

DATED at Charlottetown, Prince Edward Island, this 23rd 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</u> |
|--|--------------------|--------------------|
| <u>Income</u> | | |
| Rental Income at 100% (Line 1) | \$30,780.00 | \$32,411.40 |
| Vacancy Arrears/Losses (Line 2) | \$0.00 | \$0.00 |
| <u>Net Income before expenses (Line 3)</u> | <u>\$30,780.00</u> | <u>\$32,411.40</u> |
| <u>Expenses</u> | | |
| 1st Mortgage Interest (Line 4) | \$12,147.58 | \$12,147.58 |
| 2nd Mortgage Interest (Line 5) | \$0.00 | \$0.00 |
| Fuel (Line 6) | \$0.00 | \$0.00 |
| Water & Sewer (Line 7) | \$871.06 | \$871.06 |
| Electricity (Line 8) | \$0.00 | \$0.00 |
| Insurance (Line 9) | \$805.00 | \$805.00 |
| Property Tax (Provincial) (Line 10) | \$2,703.00 | \$2,703.00 |
| Property Tax (Municipal) (Line 11) | \$1,811.01 | \$1,811.01 |
| Management Fee (Line 12) | \$1,539.00 | \$1,539.00 |
| Maintenance Fee (Line 13) | \$1,237.16 | \$1,237.16 |
| Capital Expenditures (Line 14) | \$8,429.95 | \$8,429.95 |
| Other (Line 15) | \$426.00 | \$426.00 |
| Total Operating Expenses (Line 16) | <u>\$29,969.76</u> | <u>\$29,969.76</u> |
| Net Profit or (Loss) (Line 17) | \$810.24 | \$2,441.64 |
| Value of Investment in Property | \$316,295.05 | \$316,295.05 |
| Operating Income (Line 17) | \$810.24 | \$2,441.64 |
| Return on Investment (ROI) | 0.3% | 0.8% |

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.