

INTRODUCTION

- [1] The Landlord applied for approval of a 23% rent increase, which includes an additional 3% increase above the 2025 annual allowable guideline of 2.3%.

DISPOSITION

- [2] I find that the Landlord is not entitled to additional rent increases above the allowable annual guideline of 2.3%.

BACKGROUND

- [3] The Units are two-units in a building (the "Residential Property"), purchased by the Landlord in 2021.
- [4] On September 13, 2024 the Landlord filed two *Form 9 Landlord Applications to Request Additional Rent Increases* (the "Applications") with the Residential Tenancy Office (the "Rental Office").
- [5] Included with the Applications were two *Form 8 Tenant Notices of Annual Allowable Rent Increases* (the "Notices").
- [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 76	Unit 78
Current Rent	\$1,585.00	\$1,664.00
Proposed Rent (23%)	\$1,950.00	\$2,045.00
Date of Last Increase	April 1, 2024	April 1, 2024
Effective Date of Increase	April 1, 2025	April 1, 2025

- [7] On October 22, 2024 the Rental Office mailed and emailed the parties notice of a teleconference hearing, scheduled for December 5, 2024.
- [8] On December 2, 2024 the Rental Office emailed the parties a 79-page PDF document (the "Evidence Package" or "EP"). Included in the Evidence Package was a *Form 10 Statement of Income and Expenses* (the "Statement"). The Statement includes the combined income and expenses for the Residential Property.
- [9] On December 5, 2024 the Landlord and the Tenants participated in the teleconference hearing. The parties confirmed receipt of the Evidence Package and that all documents and submissions were included in the Evidence Package.

ISSUE

- i. Does the evidence support 23% rent increases for the Residential Property?

ANALYSIS**Adjustments to the Statement**

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

Insurance

- [11] The Statement disclosed \$2,514.00 for insurance expenses. The Landlord stated that the actual year-end expense is \$3,022.32. The Landlord submitted confirmation of the insurance policy expensed for the 2024 (EP61).

Management Fees

- [12] The Landlord stated that management fees expensed are \$2,400.00 annually.
- [13] 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;

- [14] 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.

Capital Expenditures and Other expenses

- [15] The Statement disclosed \$531.15 for capital expenditures. The Landlord stated that these expenses were servicing the Units’ heat pumps and purchasing water softener salt for the Units.

- [16] Subsection 5(a) of the Regulations defines “capital expenditures” as follows:

“capital expenditures” includes expenditures for replacement of plumbing, electrical or heating systems or appliances, and major structural repairs.

- [17] I find that the disclosed expenses do not fall under “capital expenditures” as defined by the Regulations. I move the expenses to the other expenses, along with the waste management fee.

Value of Investment

- [18] The Statement shows the value of the investment to be \$610,441.76. This is the purchase price of the Residential Property and the capital expenditures disclosed in the Statement.

- [19] I note that the \$610,441.76 in the Statement was a calculation error as the disclosed capital expenditures were \$531.15.

- [20] However, I have already found that these expenses are not categorized as “capital expenditures” as defined by the Regulations. Therefore, I remove the capital expenditures from the valuation of the Residential Property and rely solely on the purchase price of \$610,000.00.

- [21] The Landlord stated that the outstanding mortgage on the Residential Property is \$427,569.35. After deducting the outstanding mortgage from the purchase price, the value of the investment in the Residential Property is \$182,430.65 (\$610,000.00 - \$427,569.35).

- [22] Deducting the outstanding mortgage is necessary in order to normalize the treatment of landlords with varying amounts of loaned funds for residential properties.

Factors

- [23] 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.
- [24] 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.
- [25] I find that this factor is not relevant because the Landlord has owned the Residential Property since 2021.

Review and Weighing the Factors

- [26] The documentary evidence shows the rent history for the last three years for the Residential Property. The last rent increase happened on April 1, 2024 and it was the 2024 annual allowable increase of 3.0%.
- [27] The evidence establishes that the Landlord's operating expenses have increased over the past three years. Particularly, insurance, property tax and maintenance expenses have increased for the Residential Property.
- [28] The Landlord is currently obtaining a 7.2% return on investment ("ROI"). After the adjustments to the Statement and including the maximum or limited annual increase of 5.3%, the Landlord's ROI would increase to 8.6%.
- [29] In the Applications the Landlord is seeking a 23% rent increase. Clauses 50(6) and (7) of the Act state:

Director's powers

- (6) *Subject to subsection (7), in considering an application under this section, the Director may*
- (a) *grant the application, in full or in part;*
 - (b) *refuse the application;*
 - (c) *order that the increase granted be phased in over a period of time; or*
 - (d) *order that the effective date of the increase granted is conditional upon the landlord's compliance with an order of the Director respecting the residential property.*

Limitation on increase

- (7) *Where the Director grants an application under subsection (6) or orders that the increase granted be phased in over a period of time, the amount of the increase in rent in a calendar year shall not exceed 3 per cent in addition to the maximum percentage increased permitted under section 49.*

- [30] Subsection 50(7) of the Act limits an approved additional rent increase to 3% plus the annual allowable guideline in a calendar year. Subsection 50(6) of the Act allows for such rent increases to be phased in over a period of time.
- [31] 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...”*
- [32] The Tenants submitted written submissions into evidence summarizing their financial hardship if the rent was to increase 23%.
- [33] At the hearing, neither of the parties were aware of the limit on additional rent increases of 3% per year and that if the Applications were approved then the 23% additional rent increase would be phased in over a period of time.
- [34] After weighing the factors, I find that the Landlord is not entitled to an additional rent increase for the Residential Property. Despite the operating expenses increasing over the past three years, the Landlord is obtaining a reasonable return on investment and to grant any additional rent increase would provide the Landlord with a return above what is determined to be a reasonable return on investment.
- [35] The Application is denied.
- [36] **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 April 1, 2025, the maximum allowable rent for the Residential Property is set at the 2.3% 2025 annual allowable guideline:
 - Unit 76: \$1,621.00
 - Unit 78: \$1,702.00

DATED at Charlottetown, Prince Edward Island, this 31st day of December, 2024.

(sgd.) Cody Burke

Cody Burke
Residential Tenancy Officer

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

	Current	Limited Annual Increase 5.3%	Requested Increase (23%)
Rental Income			
Income (Line 1)	\$38,409.75	\$41,052.00	\$47,940.00
Arrears (Line 2)	(\$1,285.00)	(\$1,285.00)	(\$1,285.00)
Net Income (Line 3)	\$37,124.75	\$39,767.00	\$46,655.00
Expenses			
1st Mortgage Interest (Line 4)	\$7,529.40	\$7,529.40	\$7,529.40
2nd Mortgage Interest (Line 5)	\$0.00	\$0.00	\$0.00
Fuel (Line 6)	\$0.00	\$0.00	\$0.00
Water & Sewer (Line 7)	\$0.00	\$0.00	\$0.00
Electricity (Line 8)	\$0.00	\$0.00	\$0.00
Insurance (Line 9)	\$3,022.32	\$3,022.32	\$3,022.32
Property Tax (Provincial) (Line 10)	\$4,866.78	\$4,866.78	\$4,866.78
Property Tax (Municipal) (Line 11)	\$3,738.48	\$3,738.48	\$3,738.48
Management Fee (Line 12)	\$1,920.48	\$2,052.60	\$2,397.00
Maintenance Fee (Line 13)	\$1,955.75	\$1,955.75	\$1,955.75
Capital Expenditures (Line 14)	\$0.00	\$0.00	\$0.00
Other (Line 15)	\$957.15	\$957.15	\$957.15
Total Expenses	<u>\$23,990.36</u>	<u>\$24,122.48</u>	<u>\$24,446.88</u>
Annual Net Profit	\$13,134.39	\$15,644.52	\$22,208.12
Value of Investment	\$182,430.65	\$182,430.65	\$182,430.65
Net Profit	\$13,134.39	\$15,644.52	\$22,188.12
Return on Capital Investment	7.2%	8.6%	12.2%

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.