

INTRODUCTION

- [1] The Landlord applied for approval of 5.3% rent increases for the Units, which are additional 3.0% increases above the 2025 annual allowable guideline of 2.3%.

DISPOSITION

- [2] I find that 5.3% rent increases are supported.

BACKGROUND

- [3] The Units are two townhouses (the “Residential Property”) owned by the Landlord since 2021.
- [4] On October 31, 2024 the Landlord’s representatives (the “Representatives”) filed two *Form 9 Landlord Applications to Request Additional Rent Increases* (the “Applications”) with the Residential Tenancy Office (the “Rental Office”). Included with the Applications were two *Form 8 Tenant Notices of Annual Allowable Rent Increases* (the “Notices”).
- [5] 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.
- [6] On November 25, 2024 the Rental Office emailed the parties notice of a teleconference hearing, scheduled for January 2, 2025.
- [7] On December 19, 2024 the Rental Office emailed the parties a 52-page PDF document (the “Evidence Package” or “EP”). Included in the Evidence Package was two *Form 10 Statements of Income and Expenses* (the “Statements”).
- [8] On January 2, 2025 the Representatives and one of the Tenants called into the teleconference hearing for determination of the Applications. The parties confirmed receipt of the Evidence Package and all documents submitted to the Rental Office were included in the Evidence Package.

ISSUE

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

ANALYSIS

Adjustments to the Statements

- [9] The adjustments to the Statements are provided below and are reflected in Appendix “A” and “B” of this decision.
- [10] Appendix “A” represents the income and expenses for unit 97 and Appendix “B” represents the income and the expenses for unit 99.
- [11] The Residential Property was purchased in a bundle which included 27 rental units. The Statements’ expenses are divided by 27 to represent the rental units’ individual expenses.

Value of Investment

- [12] The Representatives stated that the purchase price for all 27 residential rental properties was \$4,860,000.00. The Representatives stated that the outstanding mortgage is \$2,700,000.00. The Units’ value is \$180,000.00 each. The mortgage for the Units is \$100,000.00 each.

- [13] When determining the Landlord's return on capital investment, the Island Regulatory and Appeals Commission (the "Commission") in Order LR24-27 stated:

"In previous orders of the Commission respecting additional rent increases under the former Rental of Residential Property Act, we used a guideline for a reasonable return on investment of between 4% and 7%, depending on the circumstances."

- [14] The circumstances were generally that the Commission would consider a recent purchase price, the tax assessed value or an averaging of the tax assessed with a third-party appraisal.
- [15] Deducting the mortgage is necessary in order to normalize the treatment of landlords with varying amounts of loaned funds for residential properties.
- [16] I have reviewed the evidence and I find that using the 2021 purchase price for the Units is the most accurate value for the Units. The Representatives stated that no appraisal was completed for the Residential Property. I will deduct the outstanding mortgage to determine the value of the Units, calculated as follows:

For Appendix "A" and "B" the value of the investment in each property is:

\$180,000.00 minus \$100,000.00 = **\$80,000.00.**

Factors

- [17] 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 Applications;
 2. 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;
 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.
- [18] 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.
- [19] I find that this factor is not relevant because the Landlord has owned the Residential Property since 2021.

Reviewing and Weighing the Factors

- [20] The Units' rent history over the past three years includes a reduction in rent due to an unlawful rent increase for one of the Units. The reduction in rent and return of the rent was ordered in Rental Office Order LD23-457 (EP48). On January 1, 2024 the Units' rent was increased by the annual allowable guidelines set for 2024 at 3.0%.
- [21] The Statements disclosed a decrease in operating expenses for the Residential Property. Only the property tax has increased for the Residential Property.

- [22] The Landlord is currently obtaining a 2.3% and 5.5% return on investment for the Residential Property. With the proposed additional rent increases the Landlord's return on investment for the Residential Property would increase to 3.1% and 6.4%.
- [23] The Tenant stated that it does not seem fair to divide the expenses across the Landlord's 27 units. The Tenant stated that each rental unit has its own expenses. The Tenant stated that at a previous hearing before the Rental Office, it was referenced that five rental units (which includes the Residential Property) were purchased for \$500,000.00.
- [24] The Representatives stated that the division is accurate and that the expenses are reflective and apportioned to the Units. The Representatives stated that the Tenant's submission regarding the purchase price is inaccurate.
- [25] I have reviewed and weighed the factors with the evidence provided by the parties. Despite the Landlord's operating expenses decreasing, I find that 5.3% rent increases are supported for the Units. Particularly, I find that with the additional rent increases the Landlord will be making below a reasonable return on investment, which is 7.0% when relying solely on a purchase price for the Residential Property. Further, I find that the Landlord has not received an additional rent increase in the previous three years.
- [26] 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 February 1, 2025, the maximum allowable rents for the Units are as follows:

97: \$1,101.94

99: \$1,109.26

DATED at Charlottetown, Prince Edward Island, this 31st day of January, 2025.

(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)	\$12,557.76	\$12,846.60	\$13,223.28
Arrears (Line 2)	\$0.00	\$0.00	\$0.00
Net Income (Line 3)	\$12,557.76	\$12,846.60	\$13,223.28
Expenses			
1st Mortgage Interest (Line 4)	\$5,340.00	\$5,340.00	\$5,340.00
2nd Mortgage Interest (Line 5)	\$0.00	\$0.00	\$0.00
Fuel (Line 6)	\$2,552.49	\$2,552.49	\$2,552.49
Water & Sewer (Line 7)	\$420.02	\$420.02	\$420.02
Electricity (Line 8)	\$0.00	\$0.00	\$0.00
Insurance (Line 9)	\$649.52	\$649.52	\$649.52
Property Tax (Provincial) (Line 10)	\$669.58	\$669.58	\$669.58
Property Tax (Municipal) (Line 11)	\$670.48	\$670.48	\$670.48
Management Fee (Line 12)	\$222.22	\$222.22	\$222.22
Maintenance Fee (Line 13)	\$0.00	\$0.00	\$0.00
Capital Expenditures (Line 14)	\$0.00	\$0.00	\$0.00
Other (Line 15)	\$213.00	\$213.00	\$213.00
Total Expenses	<u>\$10,737.31</u>	<u>\$10,737.31</u>	<u>\$10,737.31</u>
Annual Net Profit	\$1,820.45	\$2,109.29	\$2,485.97
Value of Investment	\$80,000.00	\$80,000.00	\$80,000.00
Net Profit	\$1,820.45	\$2,109.29	\$2,485.97
Return on Capital Investment	2.3%	2.6%	3.1%

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

	Current	Allowable (2.3%)	Requested Increase (5.3%)
Rental Income			
Income (Line 1)	\$12,641.16	\$12,931.92	\$13,311.12
Arrears (Line 2)	\$0.00	\$0.00	\$0.00
Net Income (Line 3)	\$12,641.16	\$12,931.92	\$13,311.12
Expenses			
1st Mortgage Interest (Line 4)	\$5,340.00	\$5,340.00	\$5,340.00
2nd Mortgage Interest (Line 5)	\$0.00	\$0.00	\$0.00
Fuel (Line 6)	\$0.00	\$0.00	\$0.00
Water & Sewer (Line 7)	\$450.19	\$450.19	\$450.19
Electricity (Line 8)	\$0.00	\$0.00	\$0.00
Insurance (Line 9)	\$649.52	\$649.52	\$649.52
Property Tax (Provincial) (Line 10)	\$669.58	\$669.58	\$669.58
Property Tax (Municipal) (Line 11)	\$670.48	\$670.48	\$670.48
Management Fee (Line 12)	\$222.22	\$222.22	\$222.22
Maintenance Fee (Line 13)	\$0.00	\$0.00	\$0.00
Capital Expenditures (Line 14)	\$0.00	\$0.00	\$0.00
Other (Line 15)	\$213.00	\$213.00	\$213.00
Total Expenses	<u>\$8,214.99</u>	<u>\$8,214.99</u>	<u>\$8,214.99</u>
Annual Net Profit	\$4,426.17	\$4,716.93	\$5,096.13
Value of Investment	\$80,000.00	\$80,000.00	\$80,000.00
Net Profit	\$4,426.17	\$4,716.93	\$5,096.13
Return on Capital Investment	5.5%	5.9%	6.4%

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.