

INTRODUCTION

- [1] The Landlord applied for approval of a 5.3% rent increase for the Unit, which is an additional 3.0% increase above the 2025 annual allowable guidelines of 2.3%.

DISPOSITION

- [2] I find that a 5.3% rent increase is supported.

BACKGROUND

- [3] The Unit is one-half of a side-by-side duplex (the "Residential Property"), purchased by the Landlord in 2021.
- [4] On October 31, 2024 the Landlord's representatives (the "Representatives") filed a *Form 9 Landlord Application to Request Additional Rent Increase* (the "Application") with the Residential Tenancy Office (the "Rental Office"). Included with the Application was a *Form 8 Tenant Notice of Annual Allowable Rent Increase* (the "Notice").
- [5] The Application shows the current rent, the proposed rent, the date of the last rent increase and the proposed effective date for the additional rent increase.
- [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 28-page PDF document (the "Evidence Package" or "EP"). Included in the Evidence Package was a *Form 10 Statement of Income and Expenses* (the "Statement").
- [8] On January 2, 2025 the Representatives and the subtenant (the "Subtenant") called into the teleconference hearing for determination of the Application. 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 a 5.3% rent increase for the Unit?

ANALYSIS

Adjustments to the Statements

- [9] The adjustments to the Statement are provided below and are reflected in Appendix "A" of this decision.
- [10] The Unit was purchased in a bundle which included 27 rental units. The Statement's expenses are divided by 27 to represent the rental units' individual expenses.

Value of Investment

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

- [13] 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.
- [14] Deducting the mortgage is necessary in order to normalize the treatment of landlords with varying amounts of loaned funds for residential properties
- [15] I have reviewed the evidence and I find that using the 2021 purchase price for the Unit is the most accurate value for the Unit. The Representatives stated that no appraisal was completed for the Unit. I will deduct the outstanding mortgage to determine the value of the Unit, calculated as follows:

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

Factors

- [16] In order to determine the Application, 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 2021.

Reviewing and Weighing the Factors

- [19] The Unit's rent history over the past three years was included. The last rent increase was January 1, 2024 and was the 3% annual allowable guideline.
- [20] The Statement disclosed the operating expenses as increasing in property tax but decreasing in fuel expenses. The overall operating expenses are consistent over the past three years.
- [21] The Landlord is currently operating at a loss and obtaining no return on investment. With the proposed additional rent increase, the Landlord's return on investment for the Unit would be 0.3%.
- [22] The Subtenant stated that the furnace is old and was never cleaned. The Subtenant stated that this could contribute to the Landlord's increased costs.

[23] I have reviewed and weighed the factors with the evidence provided by the parties. I find that a 5.3% rent increase is supported for the Unit. Particularly, I find that the Landlord is currently operating at a loss. After adjustments to the Statement and factoring in the additional rent increase, the Landlord would only have a 0.3% return on investment, which is below the 7.0% benchmark for a reasonable return on investment when relying solely on the purchase price. I also note that the Landlord has not received an additional rent increase in the previous three years.

[24] The Application is allowed.

[25] **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 rent for the Unit is \$1,000.12.

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)	\$11,397.48	\$11,659.68	\$12,001.44
Arrears (Line 2)	\$0.00	\$0.00	\$0.00
Net Income (Line 3)	\$11,397.48	\$11,659.68	\$12,001.44
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)	\$2,875.62	\$2,875.62	\$2,875.62
Water & Sewer (Line 7)	\$394.15	\$394.15	\$394.15
Electricity (Line 8)	\$0.00	\$0.00	\$0.00
Insurance (Line 9)	\$649.52	\$649.52	\$649.52
Property Tax (Provincial) (Line 10)	\$1,215.00	\$1,215.00	\$1,215.00
Property Tax (Municipal) (Line 11)	\$814.05	\$814.05	\$814.05
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>\$11,723.56</u>	<u>\$11,723.56</u>	<u>\$11,723.56</u>
Annual Net Profit	(\$326.08)	(\$63.88)	\$277.88
Value of Investment	\$80,000.00	\$80,000.00	\$80,000.00
Net Profit	(\$326.08)	(\$63.88)	\$277.88
Return on Capital Investment	-0.4%	-0.1%	0.3%

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.