

**INTRODUCTION**

- [1] The Landlord seeks a 5.3% rent increase for the Unit in 2025, being an additional 3.0% above the annual allowable guideline of 2.3%. The Landlord also seeks additional phased in rent increases. The Landlord requests that furnace oil be removed as a service included in the rent.

**DISPOSITION**

- [2] I find that the evidence supports a 5.3% rent increase plus part of the additional phased in increases sought. The authorized rents are based upon furnace oil being an included or excluded service.

**BACKGROUND**

- [3] The Unit is a three-bedroom, one-bathroom rental unit that the Landlord has owned since May 3, 2010. The Unit has been vacant since October 1, 2024.
- [4] On January 14, 2025 the Landlord filed with the Residential Tenancy Office (the "Rental Office") a *Form 9 Landlord Application to Request Additional Rent Increase* (the "Application").
- [5] On March 7, 2025 the Rental Office emailed the parties notice of a teleconference hearing, scheduled for April 8, 2025.
- [6] On March 7, 2025 the Landlord provided the Rental Office with a *Form 10 Landlord Statement of Income and Expenses* (the "Statement") completed on March 7, 2025.
- [7] On April 2, 2025 the Rental Office emailed the Landlord an evidence package.
- [8] On April 8, 2025 the Landlord participated in a teleconference hearing. The Landlord confirmed that all documents submitted to the Rental Office were included in the Evidence Package. At the hearing the Landlord stated that he was not seeking to submit additional evidence after the hearing.

**ISSUE**

- A. Does the evidence support a 5.3% rent increase for the Unit in 2025 plus additional phased in increases?

**ANALYSIS**

- [9] The Landlord provided documentary evidence and testimony regarding the income, expenses and value of the Unit. The Statement is adjusted in the Appendices of this decision.

**Adjustments to the Statement****Expenses**

- [10] The Landlord provided the Unit's rent history for the past three years. In 2022 the Unit's rent was \$1,332.00. On October 1, 2023 the Landlord increased the rent by 3.0% to \$1,372.00.
- [11] I note that the legislated annual guideline for 2023 was 0.0% (subsection 49(4) of the *Residential Tenancy Act* (or the "Act")). On September 18, 2023 the Director of Residential Tenancy announced that the maximum guideline rent increase for 2024 was 3.0%. The earliest that this increase could be effective was January 1, 2024. Therefore, I find that the Unit's rent was \$1,372.00 effective January 1, 2024.
- [12] The Landlord stated that on October 1, 2024 he increased the rent by 3.0% to \$1,413.00 but this new rent was never charged because the former tenant had already moved out of the Unit.

- [13] In this decision I will consider the rent increase effective date of January 1, 2025 because the last purported rent increase was never charged. This date also complies with the minimum timeline between rent increases (subsection 48(1)).
- [14] The Landlord had three months of rental income losses over the three-year period in the Statement. The vacancy/arrears losses in the Appendices are based upon the average losses during this period (3 months divided by 36 months).
- [15] The Landlord does not know the principal loan balance regarding the purchase price and improvements made to the Unit. The Landlord has arranged his personal finances to make payments to reduce interest payments. The Landlord provided a target interest cost of \$10,803.00 based upon the first year interest cost of a \$240,000.00 mortgage with a 4.59% interest rate.
- [16] I am unable to consider an interest deduction in this decision because I do not know the current principal balance attributed to the purchase and improvements for the Unit. However, this also means that there is no mortgage principal deduction for calculating the Unit's value and return on investment.
- [17] I estimate that the Unit's furnace oil cost is \$4,969.67 based upon the average of this cost over the past three years in the Statement. The monthly cost is \$414.14.
- [18] The Appendices contain calculations with the cost of furnace oil included in the rent (Appendix "A") and excluded from the rent (Appendix "C"). During a tenancy a landlord is restricted from changing services under section 21 of the *Act*. In this case the Unit is vacant.
- [19] The removal of furnace oil as an included service without a rent reduction would be an unauthorized, above guideline rent increase. In order to comply with the rent control rules in Part 3 of the *Act*, the monthly rent excluding furnace oil is reduced by the average monthly furnace oil cost. Therefore, the current rent in Appendix "C" with furnace oil excluded is \$957.86 (\$1,372.00 minus \$414.14).
- [20] The Landlord's water and sewer charges for the most recent four statements provided to the Rental Office totals \$571.72.
- [21] The Landlord's management fee is based upon the 5.0% of rental income limit in subsection 1(c) of the *Residential Tenancy Regulations* (the "*Regulations*").
- [22] I estimate that the Unit's maintenance cost is \$4,391.00 based upon the average of this cost over the three-year period in the Statement.

**Value of the Unit**

- [23] Prior to the hearing the Rental Office asked the Landlord to provide an appraisal or other documentation regarding the Unit's value.
- [24] The Landlord provided a one-page document the Landlord received from a realtor (the "MLS Report"). This document provides the prices of six Charlottetown properties that were listed and sold in 2024 and 2025.
- [25] The Island Regulatory and Appeals Commission (the "Commission") has used the average of an appraisal and the tax assessed value with a mortgage deduction for calculating the value of a rental unit (LR25-13). The Commission has also determined value based upon a realtor's fair market value assessment accepted by the Canada Revenue Agency (the "CRA") for capital gains tax purposes (LR24-27).

- [26] I find that the MLS Report does not provide sufficient evidence for determining the value of the Unit. It is unclear whether the properties are rental properties. At the hearing the Landlord did not know whether the properties were rental properties or owner-occupied properties. The listings appear to provide the advertised prices of the properties but only one property has a selling price, which typically means the actual sale price. Further, this document does not appear to have been relied upon by the CRA regarding the Unit's value for tax purposes.
- [27] The Landlord's evidence is that he purchased the Unit in 2010 for \$125,000.00 and completed \$60,000.00 of improvements and capital expenditures, for a total amount of \$185,000.00.
- [28] A mortgage interest deduction was not permitted as an expense, above. Therefore, there is no mortgage principal deduction for calculating the Unit's value.
- [29] I acknowledge that \$185,000.00 is a conservative value for the Unit. However, I have insufficient, reliable evidence regarding a higher value.

### Factors

#### Does the evidence support a 5.3% rent increase plus phased in increases?

- [30] In order to determine the Application, I must consider the following factors in subsection 50(3) of the *Act*, which are as follows:
1. The rent history for the Unit 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 their capital investment; and
  4. The expectation of the tenant that rent increases will remain within the annual guideline.
- [31] Subsection 50(4) of the *Act* 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 the Unit should not require an increase of rent within the first year in order to achieve a reasonable return on the landlord's capital investment.
- [32] In this case the Landlord has owned the Unit for 15 years and the factor in the *Regulations* is not relevant.

#### Review and Weighing the Four Factors

- [33] The Landlord has only collected one rent increase since 2022. Some of the Landlord's operating costs have increased. The Unit is vacant so there is no expectation from a tenant in occupation that the rent will remain within the guideline.
- [34] In Order LR24-27 the Commission made the following comment regarding return on investment:
- "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."*
- [35] The Landlord is not obtaining a reasonable return on investment based upon the current rents. The proposed rents would lead to a return on investment higher than the upper end of the 7.0% range that the Commission has determined to be a reasonable return on investment.

- [36] I find that the factors when weighed together support rent increases for the Unit that bring the Landlord to a 7.0% return on investment. The Landlord has established an above guideline rent increase of 5.3% effective January 1, 2025 plus phased-in additional 3.0% above guideline rent increases until the rent for the Unit reaches the amounts ordered below.
- [37] The Landlord has the choice of renting the Unit with furnace oil included or excluded from the rent on the terms stated below. I note that during a tenancy agreement the Landlord cannot remove furnace oil as an included service because this would conflict with section 21 of the *Act*.
- [38] The Landlord must provide every new tenant of the Unit with a copy of this Order until the last above guideline rent increase occurs.
- [39] The Application is allowed in part.
- [40] **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 Unit's monthly rent, with the cost of furnace oil included in the rent, is increased by 5.3% to the amount of \$1,444.71.
2. Effective January 1, 2026 and every following January 1st the Unit's monthly rent, with the cost of furnace oil included in the rent, will increase by the annual guideline percentage for the year plus an additional 3.0% until the monthly rent reaches \$2,439.16.
3. The Landlord cannot remove furnace oil as an included service during a tenancy.
4. Effective January 1, 2025, the Unit's monthly rent, with the cost of furnace oil excluded from the rent, is increased by 5.3% to the amount of \$1,008.62.
5. Effective January 1, 2026 and every following January 1st the Unit's monthly rent, with the cost of furnace oil excluded from the rent, will increase by the annual guideline percentage for the year plus an additional 3.0% until the monthly rent reaches \$1,963.59.
6. The Landlord must provide every new tenant of the Unit with a copy of this Order until the last above guideline rent increase occurs.

**DATED** at Charlottetown, Prince Edward Island, this 16th day of April, 2025.

(sgd.) Andrew Cudmore

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**Andrew Cudmore**  
**Residential Tenancy Officer**

<b>APPENDIX "A"</b>				
<b>Revised Statement of Income &amp; Expenses (Form 10)</b>				
<b>Furnace Oil Included</b>				
	Current Rent	5.3% Increase	Allowed Increase	Requested Increase
Rental Income				
Income (Line 1)	\$16,464.00	\$17,336.52	\$29,269.92	\$30,000.00
Vacancy/Arrears (Line 2)	(\$1,371.99)	(\$1,444.70)	(\$2,439.15)	(\$2,499.99)
Net Income (Line 3)	\$15,092.01	\$15,891.82	\$26,830.77	\$27,500.01
Expenses				
1st Mortgage Interest (Line 4)	\$0.00	\$0.00	\$0.00	\$0.00
2nd Mortgage Interest (Line 5)	\$0.00	\$0.00	\$0.00	\$0.00
Fuel (Line 6)	\$4,969.67	\$4,969.67	\$4,969.67	\$4,969.67
Water & Sewer (Line 7)	\$571.72	\$571.72	\$571.72	\$571.72
Electricity (Line 8)	\$0.00	\$0.00	\$0.00	\$0.00
Insurance (Line 9)	\$539.00	\$539.00	\$539.00	\$539.00
Property Tax (Provincial) + IWMC (Line 10)	\$1,279.94	\$1,279.94	\$1,279.94	\$1,279.94
Property Tax (Municipal) (Line 11)	\$787.92	\$787.92	\$787.92	\$787.92
Management Fee (Line 12)	\$754.60	\$794.59	\$1,341.54	\$1,375.00
Maintenance Fee (Line 13)	\$4,391.00	\$4,391.00	\$4,391.00	\$4,391.00
Capital Expenditures (Line 14)	\$0.00	\$0.00	\$0.00	\$0.00
Other (Line 15)	\$0.00	\$0.00	\$0.00	\$0.00
Total Expenses	\$13,293.85	\$13,333.84	\$13,880.79	\$13,914.25
Annual Net Profit	\$1,798.16	\$2,557.97	\$12,949.98	\$13,585.76
<b>Return on Investment</b>				
Value of Investment	\$185,000.00	\$185,000.00	\$185,000.00	\$185,000.00
Net Profit	\$1,798.16	\$2,557.97	\$12,949.98	\$13,585.76
Return on Capital Investment	1.0%	1.4%	7.0%	7.3%

<b>APPENDIX "B"</b>				
<b>Rent</b>				
<b>Furnace Oil Included</b>				
Unit	Current Rent	5.3% Increase	Allowed Increase	Requested Increase
Monthly Rent	\$1,372.00	\$1,444.71	\$2,439.16	\$2,500.00
Annual Rent	\$16,464.00	\$17,336.52	\$29,269.92	\$30,000.00

<b>APPENDIX "C"</b>				
<b>Revised Statement of Income &amp; Expenses (Form 10)</b>				
<b>Furnace Oil Excluded</b>				
	Current Rent	5.3% Increase	Allowed increase	Requested Increase
Rental Income				
Income (Line 1)	\$11,494.32	\$12,103.44	\$23,563.08	\$30,000.00
Vacancy/Arrears (Line 2)	(\$957.86)	(\$1,008.62)	(\$1,963.58)	(\$2,499.99)
Net Income (Line 3)	\$10,536.46	\$11,094.82	\$21,599.50	\$27,500.01
Expenses				
1st Mortgage Interest (Line 4)	\$0.00	\$0.00	\$0.00	\$0.00
2nd Mortgage Interest (Line 5)	\$0.00	\$0.00	\$0.00	\$0.00
Fuel (Line 6)	\$0.00	\$0.00	\$0.00	\$0.00
Water & Sewer (Line 7)	\$571.72	\$571.72	\$571.72	\$571.72
Electricity (Line 8)	\$0.00	\$0.00	\$0.00	\$0.00
Insurance (Line 9)	\$539.00	\$539.00	\$539.00	\$539.00
Property Tax (Provincial) + IWMC (Line 10)	\$1,279.94	\$1,279.94	\$1,279.94	\$1,279.94
Property Tax (Municipal) (Line 11)	\$787.92	\$787.92	\$787.92	\$787.92
Management Fee (Line 12)	\$526.82	\$554.74	\$1,079.97	\$1,375.00
Maintenance Fee (Line 13)	\$4,391.00	\$4,391.00	\$4,391.00	\$4,391.00
Capital Expenditures (Line 14)	\$0.00	\$0.00	\$0.00	\$0.00
Other (Line 15)	\$0.00	\$0.00	\$0.00	\$0.00
Total Expenses	\$8,096.40	\$8,124.32	\$8,649.55	\$8,944.58
Annual Net Profit	\$2,440.06	\$2,970.50	\$12,949.94	\$18,555.43
<b>Return on Investment</b>				
Value of Investment	\$185,000.00	\$185,000.00	\$185,000.00	\$185,000.00
Net Profit	\$2,440.06	\$2,970.50	\$12,949.94	\$18,555.43
Return on Capital Investment	1.3%	1.6%	7.0%	10.0%

<b>APPENDIX "D"</b>				
<b>Rent</b>				
<b>Furnace Oil Excluded</b>				
Unit	Current Rent	5.3% Increase	Allowed Increase	Requested Increase
Monthly Rent	\$957.86	\$1,008.62	\$1,963.59	\$2,500.00
Annual Rent	\$11,494.32	\$12,103.44	\$23,563.08	\$30,000.00

**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.