

INTRODUCTION

- [1] The Landlord seeks to increase the Unit's rent by 5.3%, from \$1,272.00 to \$1,340.00, effective June 1, 2025.

DISPOSITION

- [2] I find that the evidence supports a 5.3% rent increase effective June 1, 2025.

BACKGROUND

- [3] The Unit is a three-bedroom, one-bathroom rental unit that is part of a side-by-side duplex (the "Residential Property") that the Landlord has owned since November 12, 2021.
- [4] On February 28, 2025 the Landlord emailed the Tenant a *Form 8 Tenant Notice of Annual Allowable Rent Increase* and a *Form 9 Landlord Application to Request Additional Rent Increase* (the "Application").
- [5] On March 18, 2025 the Landlord filed the Application with the Residential Tenancy Office (the "Rental Office") along with a *Form 10 Landlord Statement of Income and Expenses* (the "Statement").
- [6] On April 4, 2025 the Rental Office emailed the parties notice of a teleconference hearing, scheduled for April 29, 2025.
- [7] On April 25, 2025 the Rental Office emailed the parties an evidence package.
- [8] On April 29, 2025 the Landlord's representative and the Tenant participated in a teleconference hearing. The parties confirmed that all documents submitted to the Rental Office were included in the Evidence Package, except for two tabs of an Excel spreadsheet. These two tabs were added to the evidentiary record during the hearing.

ISSUE

- A. Does the evidence support a 5.3% rent increase for the Unit effective June 1, 2025?

ANALYSIS

- [9] The Landlord provided documentary evidence and testimony regarding the income, expenses and value of the Unit. The Statement is adjusted in Appendix "A" of this decision.
- [10] The Tenant's evidence is summarized as follows. The Tenant moved into the Unit in 2016 or 2017. The Tenant opposes the proposed above guideline increase.
- [11] The Tenant stated that the Landlord's mortgage interest cost has been decreasing. There have been two above guideline rent increases in the past three years. The hot water tank is too large for the Unit which causes the Tenant's electricity bill to be high, even in the summer.

Adjustments to the Statement

- [12] In 2021 the Landlord purchased the Residential Property for \$433,000.00. As of July 17, 2022 the Residential Property's appraised value was \$570,000.00. The 2024 taxed assessed value was \$420,000.00. As of December 31, 2024 the mortgage principal balance was \$69,356.64.
- [13] The Landlord has completed \$25,780.00 of capital expenditures for the Unit.

- [14] In the recent Island Regulatory and Appeals Commission Decision (the “Commission”) Order LR25-13 (2025 PEIRAC 14), the formula was determined for calculating the value of a rental unit based upon an appraisal. The Commission averaged the appraised and tax assessed values and subtracted the principal value of the outstanding mortgage.
- [15] By following this approach, the value of the Unit in this case would be \$212,821.68 (\$285,000.00 plus \$210,000.00 then divided by 2 then minus \$34,678.32).
- [16] The value of the Unit can also be calculated based upon the purchase price plus capital expenditures minus the principal value of the outstanding mortgage, in the amount of \$207,601.68 (\$216,500.00 plus \$25,780.00 minus \$34,678.32).

Factors

Does the evidence support a 5.3% rent increase?

- [17] In order to determine the Application, I must consider the following factors in subsection 50(3) of the *Residential Tenancy Act* (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.
- [18] Subsection 50(4) of the *Act* provides that I have the discretion to consider any other relevant factor and any factor prescribed in the *Residential Tenancy Regulations* (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.
- [19] In this case the Landlord has owned the Unit more than three years and the factor in the *Regulations* is not relevant.

Review and Weighing the Four Factors

- [20] The rent history for the Unit, on first glance, weighs against an above guideline rent increase because of two earlier orders which permitted rent increases above the annual allowable percentage.
- [21] Order LD22-099 permitted a greater than allowable rent increase under the former legislation, the *Rental of Residential Property Act*. The Order approved a rent increase for the Unit from \$1,000.00 to \$1,200.00 effective May 1, 2022.
- [22] Order LD24-133 permitted an above guideline rent increase under the current legislation, the *Act*. The Order approved a rent increase for the Unit from \$1,200.00 to \$1,272.00 effective May 1, 2024.
- [23] I have considered these earlier rent increases, below, in the context of the return on investment calculations contained in these decisions.
- [24] The factor regarding the Landlord’s operating expenses and capital expenditures (Appendix “A” Total Expenses) is mixed. The Landlord’s interest cost has been decreasing. However, many of

the Landlord's other costs have been increasing. In particular, the Landlord's capital expenditures have increased due to the Landlord improving the Unit.

[25] The Landlord's return on investment weighs in favour of an above guideline rent increase.

[26] 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."

[27] Based upon the appraisal, tax assessed value and mortgage balance calculation of value, the Landlord is not obtaining a reasonable return on investment. The Landlord would be earning a 1.9% return on investment based upon the current rent and a 2.3% return based upon the proposed rent.

[28] Based upon the purchase price, capital expenditures and mortgage balance calculation of value, the Landlord is also not obtaining a reasonable return on investment. The Landlord would be earning a 2.0% return on investment based upon the current rent and a 2.4% return based upon the proposed rent.

[29] These returns on investment are well below the 4.0% to 7.0% range noted by the Commission, quoted above, even with the proposed 5.3% rent increase.

[30] The Tenant's expectation that the rent increase will remain within the guideline weighs against an above guideline rent increase. The Tenant had two rent increases above the annual percentage that were effective on May 1, 2022 and May 1, 2024.

[31] Upon review of the factors, I find that the Application is allowed.

[32] I note that, although rent increases were permitted in Orders LD22-099 and LD24-133, the Appendix "A" of each decision indicates that the Landlord was also not obtaining reasonable returns on investment after accounting for these approved increases.

[33] Order LD22-099 shows the Landlord operating at a significant loss. Order LD24-133 shows a return on investment of 1.1% with the requested rent increase included in this calculation.

[34] While the rent history shows sizeable rent increases, it is in the context of the Landlord not obtaining a reasonable return on investment. In these circumstances it would not be unexpected for the Landlord to seek additional rent increases.

[35] I also note that the returns on investment of 2.3% and 2.4% are calculated with the proposed rent increase included and using two different methods for calculating return on investment (see Appendix "A" of this decision). These returns on investment are well below the 4.0% to 7.0% range.

[36] I find that when the factors are weighed together a 5.3% rent increase is supported.

CONCLUSION

[37] The Application is allowed.

[38] The Unit's rent will increase to \$1,340.00 effective June 1, 2025.

[39] I note that, under the *Act*, landlords can seek rent increases phased in over multiple years.

[40] Following this process can help landlords and tenants reduce the number of times that they are required to file applications, submit documentary evidence, and participate in Rental Office hearings.

[41] **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 June 1, 2025, the Unit's monthly rent is increased to \$1,340.00.

DATED at Charlottetown, Prince Edward Island, this 30th day of May, 2025.

(sgd.) Andrew Cudmore

Andrew Cudmore
Residential Tenancy Officer

APPENDIX "A"		
Revised Statement of Income & Expenses (Form 10)		
Rental Income	Current Rent	5.3% Increase
Income (Line 1)	\$15,264.00	\$16,080.00
Vacancy/Arrears (Line 2)	\$0.00	\$0.00
Net Income (Line 3)	\$15,264.00	\$16,080.00
Expenses		
1st Mortgage Interest (Line 4)	\$1,179.67	\$1,179.67
2nd Mortgage Interest (Line 5)	\$0.00	\$0.00
Fuel (Line 6)	\$0.00	\$0.00
Water & Sewer (Line 7)	\$581.05	\$581.05
Electricity (Line 8)	\$0.00	\$0.00
Insurance (Line 9)	\$1,147.50	\$1,147.50
Property Tax (Provincial) + IWMC (Line 10)	\$2,124.97	\$2,124.97
Property Tax (Municipal) (Line 11)	\$1,409.01	\$1,409.01
Management Fee (Line 12)	\$763.20	\$804.00
Maintenance Fee (Line 13)	\$1,302.38	\$1,302.38
Capital Expenditures (Line 14)	\$2,059.50	\$2,059.50
Other (Line 15)	\$556.63	\$556.63
Total Expenses	\$11,123.91	\$11,164.71
Annual Net Profit	\$4,140.09	\$4,915.29
Return on Investment		
Based Upon Appraisal, Tax Assessed Value and Mortgage Balance		
Value of Investment	\$212,821.68	\$212,821.68
Net Profit	\$4,140.09	\$4,915.29
Return on Capital Investment	1.9%	2.3%
Based Upon Purchase Price, Capital Expenditures and Mortgage Balance		
Value of Investment	\$207,601.68	\$207,601.68
Net Profit	\$4,140.09	\$4,915.29
Return on Capital Investment	2.0%	2.4%

APPENDIX "B"		
Rent		
Unit	Current Rent	5.3% Increase
Monthly Rent	\$1,272.00	\$1,340.00
Annual Rent	\$15,264.00	\$16,080.00

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.