

INTRODUCTION

- [1] This decision determines an application filed with the Residential Tenancy Office (the “Rental Office”) under the *Residential Tenancy Act* (the “Act”).
- [2] The Landlord seeks a 5.3% rent increase for the Unit, which is an additional 3.0% above the 2025 annual allowable guideline of 2.3%.

DISPOSITION

- [3] I find that the evidence supports a 5.3% rent increase for the Unit. Effective December 1, 2025, the maximum allowable rent for the Unit is \$2,177.00.

BACKGROUND

- [4] The Unit is one half of a side-by-side duplex (the “Residential Property”) that the Landlord owns.
- [5] On April 28, 2025, the Landlord filed a *Form 9 Landlord Application to Request Additional Rent Increase* (the “Application”) with the Rental Office. The Application and a *Form 8 Notice of Annual Allowable Rent Increase* were previously served to the Tenant on April 22, 2025.
- [6] On April 28, 2025, the Landlord provided the Rental Office with a *Form 10 Landlord Statement of Income and Expenses* (the “Statement”).
- [7] On July 23, 2025, the Rental Office sent the parties notice of a teleconference hearing scheduled for August 21, 2025.
- [8] On August 14, 2025, the Rental Office emailed the parties a 50-page PDF evidence package.
- [9] On August 21, 2025, the Landlord’s representative (the “Representative”) participated in a teleconference hearing. The Representative stated that she received a copy of the evidence package and that all submitted evidence was included. The Tenant did not participate in the hearing and provided no submissions.
- [10] After the hearing, the Landlord provided 14 pages of additional supporting documents, which were provided to the Tenant.

ISSUE

- A. Does the evidence support a 5.3% rent increase for the Unit, from \$2,067.00 to \$2,177.00 monthly?

ANALYSIS**Additional Rent Increase – Factors to Consider**

- [11] 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 affected 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.

- [12] 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 Regulations state that the purchase of the Residential Property should not require an increase in rent within the first year in order to achieve a reasonable return on the landlord's capital investment. This factor is not relevant, as the Landlord has owned the Residential Property since 2011.

Clause 50(3)(a) – rent history for the affected rental unit

- [13] The Landlord disclosed the rent history for the past three years.
- [14] The Landlord was permitted to set the Unit's rent in 2022 at \$1,950.00 per month in accordance with Order LD22-284 (see Director's Evidence).
- [15] The Landlord was permitted to increase the Unit's rent on December 1, 2024, from \$1,950.00 to \$2,067.00 in accordance with Order LD24-325 (see Director's Evidence).
- [16] I find that this factor weighs against the Landlord's request for the proposed increase.

Clause 50(3)(b) – change in operating expenses and capital expenditures

- [17] Clause 50(3)(b) requires that I consider a change in operating expenses and capital expenditures in the three years preceding the date of the application that I consider to be relevant and reasonable.
- [18] The Landlord provided the operating expenses for the past three years in the Statement. Some of the Landlord's expenses, such as water/sewer, insurance, property taxes, management fees, and capital expenditures, have increased. The Landlord's remaining expenses, such as interest payments, electricity, maintenance, and other expenses (accounting and banking fees), had increased in 2023 but decreased in 2024.
- [19] Each of the claimed expenses for 2024 was supported by testimony and documentary evidence, such as statements, invoices, and spreadsheets, to corroborate the claimed amounts.
- [20] The Statement discloses that the Landlord has been operating at a loss for the past three years.
- [21] The Representative stated that there is still an outstanding mortgage from the purchase of the Unit and a line of credit, which was used for capital expenditures.
- [22] Other than the adjustments noted below, I accept the evidence submitted by the Landlord in respect to the Statement.

Adjustments to the Statement

- [23] The adjusted Statement is detailed in Appendix "A" of this decision.
- [24] The Landlord combined the Provincial and Municipal Property Taxes and Island Waste Management fees in Line 10 and did not enter a value in Line 11. I accept these submissions.
- [25] The documentary evidence establishes that the Landlord paid a third-party company \$1,960.23 for building management. I have adjusted the Management Fee in Line 12 to \$1,170.00 in the current column, and to \$1,193.40 in the proposed column.

Subsection 1(c) of the *Residential Tenancy Regulations* (the "Regulations") states that 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.*"

- [26] The Landlord claimed \$188,338.00 in capital expenditures on the Statement, which estimated some of the expenses that were still pending. After the hearing, the Landlord provided an updated list of the completed capital expenditures, totalling \$181,871.97. The 2024 annual write-off has been adjusted from \$12,156.00 to \$11,985.15 on Line 14, as well as the capital expenditures cost on the Statement.
- [27] The capital expenditures involved extensive renovations to the Unit, which were completed between 2022 and 2024. The Landlord submitted documentary evidence establishing the cost of each capital expenditure and the life expectancy of each expense.
- [28] Each of the claimed expenses for 2024 and capital expenditures was supported by testimony and documentary evidence, such as statements, invoices, and spreadsheets, to corroborate the claimed amounts. The capital expenditures incurred were a significant expense in the three preceding years.
- [29] I find that this factor weighs in favour of the Landlord's request for the proposed increase.

Clause 50(3)(c) – reasonable return on the landlord's capital investment

- [30] Clause 50(3)(c) requires consideration of the expectation of the landlord to have a reasonable return on the landlord's capital investment.
- [31] To determine the Landlord's return on investment ("ROI"), I must first determine the value of the Landlord's capital investment.

Value of Capital Investment

- [32] In Order LR25-31, the Island Regulatory and Appeals Commission (the "Commission") commented on the method and evidence required to determine the value of a landlord's capital investment as follows:

[37] In our opinion, the goal when determining the value of the landlord's investment is to arrive at a valuation that is both accurate and reasonable in the circumstances. A key factor in that determination is for the Commission to interpret what is meant by the term "capital investment", as used in clause 50(3)(c). In our opinion, a capital investment is just that – the landlord's investment in capital, which includes both the land and building (i.e. real property).

[38] ... valuing a landlord's capital investment will be on a case by case basis, with the goal being to ascertain the actual fair market value of the capital asset as accurately as reasonably possible based upon the evidence brought forward to the hearing officer or panel.

[50] In summary, the Commission finds that the value of capital investment used to calculate a landlord's return on investment should be the full value of the landlord's capital investment (being the real property) and should not be subject to a deduction of the outstanding mortgage principal.

- [33] In November 2021, the Landlord purchased the Unit for \$216,500.00. The documentary evidence shows that \$181,871.97 in capital expenditures were added to the Unit. I find that after the adjustments to the Statement, the purchase price plus capital expenditures equals \$398,371.97.
- [34] Further, in July 2022, after the majority of the capital expenditures were completed, the Residential Property was appraised at \$570,000.00, based on the estimated market value of the Unit. The Appraisal was submitted in evidence. I find that this would make the appraised value of the Unit \$285,000.00 ($\$570,000.00 / 2$), which is half the value of the Residential Property.

- [35] As stated in Order LR25-31, valuing a landlord's capital investment will be done on a case-by-case basis. In this case, the evidence supports that the value of the Unit should be based on the Landlord's submitted Appraisal, rather than the purchase price plus capital expenditures. Despite the Appraisal relying on the estimated market value at the time, I find that the Appraisal was completed with the added value of the majority of the capital expenditures having been completed.
- [36] I find that the best evidence indicates the value of the Unit is \$285,000.00, for the purpose of determining the Landlord's value of their capital investment.

Reasonable Return on Investment

- [37] In Order LR25-31, the Commission commented regarding a landlord's ROI:

[53] ... Where we have accepted that mortgage principal should not be deducted from the value of the landlord's investment, we recognize that there should be some kind of "normalizing" in respect of how landlords choose to fund their investments. Therefore, we find that when calculating a landlord's ROI, the financing costs of interest on mortgages registered against the property should not be included in the "annual operating expenses".

[60] ... based on previous Commission Orders, landlords are entitled to a ROI of at least 4% and, on a case by case basis, landlords may justify that a ROI of up to 7% is reasonable, based on the specific circumstances.

- [38] When using the Appraisal of \$285,000.00 as the value of the Unit, and not including the mortgage interest and line of credit interest, the Landlord's ROI is currently 1.3%.
- [39] After the adjustments to the Statement, including the proposed additional rent increase and the 2025 annual allowable guideline, the Landlord's ROI would increase to 2.1%. This is below the 4.0% to 7.0% range for a reasonable ROI.
- [40] I find that this factor weighs in favour of the Landlord's request for the proposed increase.

Clause 50(3)(d) – expectation of tenants regarding the annual guideline

- [41] The Act requires consideration of the Tenant's expectation that rent increases will remain within the annual guideline. In 2025, the annual guideline increase is 2.3%.
- [42] The Tenant did not participate in this matter, and therefore, no specific information has been presented as to the Tenant's expectation.
- [43] I find that this factor is neutral regarding the Landlord's request for the proposed increase.

CONCLUSION

- [44] Although the Unit had an above-allowable increase in 2024, the Landlord has incurred increases in key operating expenses and has been operating at a loss for the past three years.
- [45] The Landlord has an outstanding mortgage from the purchase of the Unit and an outstanding line of credit from substantial capital expenditures completed between 2022 and 2024.
- [46] The Landlord is currently operating below the 4.0% to 7.0% range for a reasonable ROI. Even with the current requested increase, the Landlord will still be operating at a loss and below a reasonable ROI.

- [47] After considering and weighing all the factors and evidence, I find that the evidence supports a 5.3% rent increase for the Unit and the Application is allowed.
- [48] In Order LD24-325, the rent for the Unit could not be increased until December 1, 2024. Section 48 of the Act states a landlord cannot increase the rent until at least 12 months after the last rent increase, and therefore, the earliest effective date for the next rent increase is December 1, 2025.
- [49] I note that, under the Act, landlords can seek rent increases phased in over multiple years.
- [50] 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.
- [51] **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. The maximum allowable monthly rent for the Unit is \$2,177.00, effective December 1, 2025.

DATED at Charlottetown, Prince Edward Island, this 26th day of September, 2025.

(sgd.) Mitch King

Mitch King
Residential Tenancy Officer

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

	Current ROI	Proposed ROI	Current Expenses
Income			
Rental Income at 100% (Line 1)	\$23,868.00	\$26,124.00	
Vacancy Arrears/Losses (Line 2)	\$0.00	\$0.00	
Net Income before expenses (Line 3)	\$23,868.00	\$26,124.00	
Expenses			
1st Mortgage Interest (Line 4)	\$0.00	\$0.00	\$1,179.67
2nd Mortgage Interest (Line 5)	\$0.00	\$0.00	\$8,563.82
Fuel (Line 6)	\$0.00	\$0.00	\$0.00
Water & Sewer (Line 7)	\$581.06	\$581.06	\$581.06
Electricity (Line 8)	\$0.00	\$0.00	\$0.00
Insurance (Line 9)	\$1,147.50	\$1,147.50	\$1,147.50
Property Tax (Provincial) (Line 10)	\$3,521.52	\$3,521.52	\$3,521.52
Property Tax (Municipal) (Line 11)	\$0.00	\$0.00	\$0.00
Management Fee (Line 12)	\$1,170.00	\$1,193.40	\$1,170.00
Maintenance Fee (Line 13)	\$1,153.34	\$1,153.34	\$1,153.34
Capital Expenditures (Line 14)	\$11,985.15	\$11,985.15	\$11,985.15
Other (Line 15)	\$543.01	\$543.01	\$543.01
Total Operating Expenses (Line 16)	\$20,101.58	\$20,124.98	\$29,845.07
Net Profit or (Loss) (Line 17)	\$3,766.42	\$5,999.02	(\$5,977.07)
Value of Investment in Property	\$285,000.00	\$285,000.00	
Operating Income (Line 17)	\$3,766.42	\$5,999.02	
Return on Investment (ROI)	1.3%	2.1%	

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.