

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.

BACKGROUND

- [4] The Unit is a single rental unit located in a four-unit building (the "Residential Property") that the Landlord owns.
- [5] On May 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 May 28, 2025.
- [6] The Application requests an additional rent increase as follows:

Current Rent	Proposed Rent
\$1,124.76	\$1,184.37

- [7] On July 31, 2025, the Rental Office sent the notice of a teleconference hearing scheduled for September 9, 2025.
- [8] On August 18, 2025, the Landlord provided the Rental Office with a *Form 10 Landlord Statement of Income and Expenses* (the "Statement").
- [9] On August 21, 2025, the Rental Office emailed the Landlord a 54-page PDF evidence package. The Tenant stated they were not participating in the hearing and did not require a copy of the evidence package.
- [10] On September 9, 2025, the Landlord's representative (the "Representative") participated in a teleconference hearing. The Representative stated that he received a copy of the evidence package and that all submitted evidence was included. The Tenant did not participate in the teleconference hearing.

ISSUE

- A. Does the evidence support a 5.3% rent increase for the Unit?

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 *Residential Tenancy Regulations* (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 because the Landlord has owned the Residential Property since 2016.

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

- [13] Clause 50(3)(a) requires that I consider the rent history for the affected Unit in the three years preceding the date of the Application.
- [14] The Landlord was permitted to increase the Unit's rent by 7.7% on January 1, 2023, in accordance with a previous Rental Office Order. The Landlord also increased the Unit's rent by the 2024 allowable of 3.0% on January 1, 2024. Currently, the Landlord is requesting a 5.3% rent increase, which would be the third rent increase in three years.
- [15] I find that this factor alone weighs against the Landlord's request for the proposed increase.

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

- [16] 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.
- [17] The Landlord provided the operating expenses for the past three years in the Statement. Some of the Landlord's expenses have increased each year, such as water/sewer, electricity, property taxes, and capital expenditures. Some of the Landlord's expenses decreased in 2023/2024, but increased in 2024/2025, such as maintenance, and other expenses (bank charges, waste watch, and bookkeeping).
- [18] The Landlord's insurance expense increased in 2023/2024, but decreased in 2024/2025. The Landlord's management fees increased in 2023/2024 and have remained unchanged in 2024/2025.
- [19] The Landlord's mortgage interest payments have decreased over the past three years, and the Landlord paid off the mortgage in April 2025.
- [20] The Landlord claimed \$410.00 in capital expenditures on the Statement, which is the Unit's portion of a 2024-2025 paving project that the Landlord completed for several of the Landlord's units in the neighbourhood. This expense remained constant between 2022 and 2024 (\$0.00) but increased in 2024/2025 (\$41.00) for the annual write-off. The Landlord submitted documentary evidence establishing the cost of the capital expenditures and their life expectancy.
- [21] Overall, the Landlord's total operating expenses have decreased over the past three years. However, the Landlord still operated at a loss between 2022 and 2024, and only made a net profit of \$827.00 in the 2024/2025 fiscal year.
- [22] Each of the claimed expenses and capital expenditures was supported by testimony and documentary evidence, such as statements, invoices, and spreadsheets, to corroborate the claimed amounts.

- [23] I accept the evidence submitted by the Landlord in respect to the Statement, and there are no adjustments to the Statement. The Statement is detailed in Appendix "A" of this decision.
- [24] I find that this factor alone weighs in favour of the Landlord's request for the proposed increase.

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

- [25] Clause 50(3)(c) requires that I consider the Landlord's expectation to have a reasonable return on the Landlord's capital investment.
- [26] 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

- [27] 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.

- [28] In 2016, the Landlord purchased the Residential Property for \$570,570.00. As the Unit is one-fourth of the Residential Property, the Unit's purchase price is calculated to be \$142,642.50. The documentary evidence establishes that \$410.00 in capital expenditures were added to the Unit. Therefore, the purchase price plus capital expenditures for the Unit equals \$143,052.50.
- [29] In June 2021, the Residential Property was appraised at \$915,000.00, based on the estimated market value of the Residential Property. Therefore, the Appraisal for the Unit is calculated to be \$228,750.00 (one-fourth). The Appraisal was submitted as evidence.
- [30] The Representative stated that two similar units in the same neighbourhood owned by the Landlord had recently sold for \$275,000.00 and \$277,000.00. Based on these sales, the Representative stated that the Unit should be valued at \$276,000.00. Documentation establishing the description of the units and the sales was submitted as evidence.
- [31] As stated in Order LR25-31, valuing a landlord's capital investment will be done on a case-by-case basis. In this case, I find that the evidence supports that the value of the Unit should be based on the average of the sale prices of the two units that the Landlord recently sold.

- [32] Therefore, I find that the best evidence indicates that the value of the Unit is \$276,000.00 $(\$275,000.00 + \$277,000.00) / 2$, for the purpose of determining the Landlord's value of their capital investment.

Reasonable Return on Investment

- [33] 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.

- [34] Based upon a value of \$276,000.00 for the Unit, and excluding mortgage interest, the Landlord's ROI is currently 2.7%.
- [35] After including the proposed additional rent increase and the 2025 annual allowable rent increase, the Landlord's ROI would increase to 3.0%. This is lower than the 4.0% to 7.0% range for a reasonable ROI.
- [36] I find that this factor alone weighs in favour of the Landlord's request for the proposed increase.

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

- [37] Clause 50(3)(d) requires that I consider the Tenant's expectation that rent increases will remain within the annual guideline. In 2025, the annual guideline increase is 2.3%.
- [38] The Tenant submitted that they were not disputing the rent increase.
- [39] I find that this factor alone weighs in favour of the Landlord's request for the proposed increase.

CONCLUSION

- [40] The Unit experienced rent increases in 2023 and 2024. The Landlord's operating expenses have decreased over the past three years, and the Landlord has recently paid off the Unit's mortgage, which will result in lower operating expenses in the future.
- [41] However, the Landlord operated at a loss between 2022 and 2024, and only made a net profit of \$827.00 in the 2024/2025 fiscal year. With the proposed increase, the Landlord's annual rental income would only increase by approximately \$715.00. The Landlord also recently added \$410.00 in capital expenses to the Unit as part of a larger paving project.
- [42] Currently, the Landlord is operating below the 4.0% to 7.0% range for a reasonable ROI. Furthermore, even after the requested increase and paying off the Unit's mortgage, the Landlord would still be operating below a reasonable ROI.
- [43] Additionally, the Tenant stated that they were not disputing the proposed rent increase.
- [44] 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.

- [45] I note that, under the Act, landlords can seek rent increases phased in over multiple years.
- [46] 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.
- [47] **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 November 1, 2025, the maximum allowable rent for the Unit is **\$1,184.00**.

DATED at Charlottetown, Prince Edward Island, this 8th day of October, 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)	\$13,497.00	\$14,212.44	
Vacancy Arrears/Losses (Line 2)	\$0.00	\$0.00	
Net Income before expenses (Line 3)	\$13,497.00	\$14,212.44	
Expenses			
1st Mortgage Interest (Line 4)	\$0.00	\$0.00	\$6,679.00
2nd Mortgage Interest (Line 5)	\$0.00	\$0.00	\$0.00
Fuel (Line 6)	\$0.00	\$0.00	\$0.00
Water & Sewer (Line 7)	\$734.00	\$734.00	\$734.00
Electricity (Line 8)	\$25.00	\$25.00	\$25.00
Insurance (Line 9)	\$672.00	\$672.00	\$672.00
Property Tax (Provincial) (Line 10)	\$1,646.00	\$1,646.00	\$1,646.00
Property Tax (Municipal) (Line 11)	\$930.00	\$930.00	\$930.00
Management Fee (Line 12)	\$649.00	\$649.00	\$649.00
Maintenance Fee (Line 13)	\$934.00	\$934.00	\$934.00
Capital Expenditures (Line 14)	\$41.00	\$41.00	\$41.00
Other (Line 15)	\$360.00	\$360.00	\$360.00
Total Operating Expenses (Line 16)	\$5,991.00	\$5,991.00	\$12,670.00
Net Profit or (Loss) (Line 17)	\$7,506.00	\$8,221.44	
Value of Investment in Property	\$276,000.00	\$276,000.00	
Operating Income (Line 17)	\$7,506.00	\$8,221.44	
Return on Investment (ROI)	2.7%	3.0%	

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.