

## INTRODUCTION

- [1] This decision determines two applications filed with the Residential Tenancy Office (the "Rental Office") under the *Residential Tenancy Act* (the "Act").
- [2] The Landlord seeks 29.3% phased-in rent increases for the Units.

## DISPOSITION

- [3] I find that the evidence supports phased-in rent increases of 29.3% for the Units.

## BACKGROUND

- [4] The Units are two rental units located in a duplex (the "Residential Property") owned by the Landlord.
- [5] On September 30, 2025, the Landlord served each Tenant a *Form 8 Notice of Annual Allowable Rent Increase* and a *Form 9 Landlord Application to Request Additional Rent Increase* (the "Applications").
- [6] On October 1, 2025, the Landlord filed the Applications with the Rental Office. The Landlord also provided the Rental Office with a *Form 10 Landlord Statement of Income and Expenses* (the "Statement").
- [7] The Applications request phased-in 29.3% rent increases as follows:

Unit	Current Rent	Proposed Rent
1	\$1,170.65	\$1,513.62
2	\$990.46	\$1,280.64

- [8] On October 15, 2025, the Rental Office sent the Landlord notice of a teleconference hearing scheduled for November 27, 2025. The Landlord served the Tenants with the notice of hearing.
- [9] On November 19, 2025, the Rental Office emailed the Landlord and the Tenant in Unit 1 an evidence package. The Tenant in Unit 2 stated they did not require a copy of the evidence package.
- [10] On November 20, 2025, the Rental Office emailed the Tenant in Unit 1 supplementary evidence that the Landlord provided the Rental Office.
- [11] On November 27, 2025, two Landlord representatives (the "Representatives") and the Tenant in Unit 1 participated in a teleconference hearing. The parties stated that they received a copy of the evidence package and supplementary evidence, and the Landlord stated that the evidence it submitted to the Rental Office was included. The Tenant in Unit 2 did not participate in the teleconference hearing.
- [12] After the hearing, the Landlord provided additional evidence to the Rental Office. The Tenant in Unit 1 stated that she did not require a copy of the additional evidence.

## ISSUE

- A. Does the evidence support 29.3% phased-in rent increases for the Units?

## ANALYSIS

### Additional Rent Increase – Factors to Consider

[13] To determine the Applications, I must consider the following factors in subsection 50(3) of the Act, which are as follows:

1. The rent history for the affected Units in the three years preceding the date of the Applications;
2. A change in operating expenses and capital expenditures in the three years preceding the date of the Applications 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 Tenants that rent increases will remain within the annual guideline.

[14] Subsection 50(4) states that I also have the discretion to consider any factor prescribed in the *Residential Tenancy Regulations* (the “Regulations”). The Regulations state that I may also consider that the purchase of a 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. This factor is not relevant because the Landlord purchased the Residential Property in 2020.

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

[15] Clause 50(3)(a) requires that I consider the rent history for the affected Units in the three years preceding the date of the Applications.

[16] The evidence establishes that in the past three years, the Landlord increased each Unit’s rent by the allowable rent increase for that year.

[17] I find that this factor alone is neutral with respect to the Landlord’s request for the proposed increases, because there have been no additional rent increases in the past three years.

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

[18] 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 Applications that I consider to be relevant and reasonable.

[19] The Landlord provided the operating expenses for the past three years in the Statement. Some of the Landlord’s expenses increased, such as insurance, property taxes, IWMC fees, and property management fees. Some of the Landlord’s expenses decreased in 2023/2024, but increased in 2024/2025, such as mortgage interest, fuel, maintenance, and other expenses (grass cutting/snow removal). Water and sewerage expenses increased in 2023/2024 but decreased in 2024/2025.

[20] In October 2025, the Landlord assumed responsibility for the electricity expenses previously incurred by the Tenants due to the installation of heat pumps. Therefore, the Landlord’s electricity expenses will increase in the future.

[21] The Landlord’s total operating expenses decreased between 2022/2023 and 2023/2024. This was primarily due to increased maintenance costs in 2022/2023. The Landlord’s total operating expenses increased between 2023/2024 and 2024/2025.

[22] Each of the claimed expenses was supported by testimony and documentary evidence, such as statements, invoices, and spreadsheets, to corroborate the claimed amounts. Other than the adjustments below, I accept the Landlord’s evidence regarding the Statement.

### Adjustments to the Statement

[23] The adjustments to the Statement are as follows:

- a. Line 8 (Water/Sewerage): The documentary evidence establishes that this expense is \$1,493.60. This line is adjusted.
- b. Line 9 (Electricity): The evidence establishes that the Landlord installed heat pumps in the Units in 2025. As of October 2025, the Landlord has assumed responsibility for the electricity expenses. The Landlord estimates that future yearly electricity expenses will be similar to the Tenants' previous yearly expenses of \$2,534.64. I accept this as a reasonable estimated expense based on the documentary evidence. This line is adjusted.
- c. Line 10 (Insurance): The documentary evidence establishes that this expense is \$1,155.00. This line is adjusted.
- d. Line 14 (Property Management fees):

Subsection 1(c) of 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.*"

The Representatives stated that they disagreed with subsection 1(c) of the Regulations, which does not allow landlords to claim their actual costs.

Despite the Landlord's objection, I am bound by the Act and Regulations. The documentary evidence establishes that the Landlord paid a third-party company for property management services. I have adjusted Line 14 to \$1,252.40 as the Landlord claimed more than 5.0% of the gross rental income for the previous year (\$25,048.00).

- e. Line 15 (Maintenance expenses): The Landlord provided additional documentary evidence establishing that this expense is \$0.00. This line is adjusted.
- f. Line 16 (Capital expenditures): The Representatives stated that they did not add as many capital expenses to the Residential Property as planned. The documentary evidence establishes that this expense is \$3,657.33. This line is adjusted.

Year	Date	Description	Cost	Amortize	Amount
2021	10/05/2020	Greenfoot Energy-insulation to foundation	\$ 3,550.05	20	\$ 177.50
2020	25/05/2020	Darrell's Window & Door-Windows	7,463.34	25	298.53
2021	08/20/2020	Chris Boswall-Central basement walls-rebuild	7,682.00	10	768.20
2021	09/02/2020	Harpers Exteriors	10,307.09	20	515.35
2022	02/11/2022	Noonan - Central combi-boiler renovation	10,499.39	8	1,312.42
2025	10/01/2025	Heat Pumps (net of rebate)	6,020.00	15	401.33
2025	10/01/2025	Hot Water tank	1,437.50	10	143.75
2025	10/01/2025	Electrician-for Heat Pumps, Hot water tanks, additional heaters	402.50	10	40.25
		Total Cost of Capital Improvements	\$ 47,361.87		
		Total Annual Depreciation on Capital Improvements			\$ 3,657.33

[24] I find that this factor alone weighs in favour of the Landlord's request for the proposed increases.

**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 their 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 2020, the Landlord purchased the Residential Property for \$125,975.08. The documentary evidence establishes that the Landlord has added \$47,361.87 in capital expenditures to the Residential Property since that time. The Landlord does not have an appraisal for the Residential Property.
- [29] 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 Residential Property should be based on the purchase price plus capital expenditures, totalling \$173,336.95.

**Reasonable Return on Investment**

- [30] 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.*

- [31] Based on the Residential Property's value of \$173,336.95, and excluding mortgage interest, the Landlords' ROI is currently 2.2%.

[32] After including the proposed phased-in rent increases and the 2026 annual allowable rent increase of 2.0%, the Landlord's ROI would increase to 6.8%. This is on the higher end of the 4.0% to 7.0% range for a reasonable ROI. However, I note that the Landlords have added \$47,361.87 in capital expenditures to the Residential Property since 2020.

[33] I find that this factor alone weighs in favour of the Landlords' request for the proposed increases.

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

[34] Clause 50(3)(d) requires that I consider the Tenants' expectation that rent increases will remain within the annual guideline. In 2026, the annual guideline increase is 2.0%.

[35] The Tenant in Unit 1 stated that she was not opposed to the phased-in rent increases. The Tenant in Unit 2 made no submissions regarding the rent increases.

[36] I find that this factor alone is neutral with respect to the Landlord's request for the proposed increases.

#### **Weighing the Factors**

[37] The documentary evidence establishes the rent history for the last three years. The Landlord only increased the Units' rents by the allowable rent increase for each year.

[38] The evidence establishes that some of the Landlord's operating expenses have increased over the past three years, and the Landlord's overall operating expenses have increased over the past year.

[39] The Landlord has added \$47,361.87 in capital expenditures to the Residential Property since 2020. Additionally, in October of 2025, the Landlord installed heat pumps in the Units and assumed responsibility for the electricity expenses.

[40] One Tenant stated that she was not opposed to the phased-in rent increases.

[41] The Commission commented that an ROI of 4.0% to 7.0% is reasonable, on a case-by-case basis, based on the specific circumstances. In this case, the Landlord is currently making a 2.2% ROI based on the current rents.

[42] With a 5.0% rent increase in 2026, the Landlord would be making an ROI of 3.1%.

[43] With the proposed phased-in rent increases, the Landlord would be making a 6.8% ROI. This is within the 4.0%-7.0% return range considered by the Commission to be a reasonable rate of return.

[44] After considering and weighing all the factors and evidence, I find that the Applications are allowed.

[45] I further find that the rent increases will be phased in, under subsection 50(7) of the Act:

*Where the Director grants an application under subsection (6) or orders that the increase granted be phased in over a period of time, the amount of the increase in rent in a calendar year shall not exceed 3 per cent in addition to the maximum percentage increase permitted under section 49.*

[46] **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, 2026, the maximum allowable rents for the Units are:

Unit	Rent (5.0% increase)
1	\$1,229.00
2	\$1,040.00

2. With proper notice each year, the Landlord can implement a 3.0% additional rent increase for each Unit on January 1, until the additional rent increases per Unit totals the rents below, per month, after which the Landlord may not implement additional rent increases:

Unit	Rent (29.3% increase)
1	\$1,514.00
2	\$1,281.00

3. Future year's calculations: (previous year's rent) + (% annual allowable guideline) + (3.0% additional increase).

**DATED** at Charlottetown, Prince Edward Island, this 12th day of December, 2025.

(sgd.) Mitch King

Mitch King  
Residential Tenancy Officer

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

	<b>Current ROI</b>	<b>2026 ROI</b>	<b>Proposed ROI</b>
		5.0%	29.3%
<b>Income (Yearly)</b>			
Rental income at 100% occupancy (Line 1)	\$25,641.00	\$27,228.00	\$33,540.00
Other income (Line 2)	\$0.00	\$0.00	\$0.00
Less vacancy / Arrears loss (Line 3)	\$0.00	\$0.00	\$0.00
Net Income (Line 4)	\$25,641.00	\$27,228.00	\$33,540.00
<b>Expenses (Yearly)</b>			
Interest payments on first mortgage (Line 5)	\$0.00	\$0.00	\$0.00
Interest payments on second mortgage (Line 6)	\$0.00	\$0.00	\$0.00
Fuel (Line 7)	\$7,302.00	\$7,302.00	\$7,302.00
Water/Sewerage (Line 8)	\$1,493.60	\$1,493.60	\$1,493.60
Electricity (Line 9)	\$2,534.64	\$2,534.64	\$2,534.64
Insurance (Line 10)	\$1,155.00	\$1,155.00	\$1,155.00
Provincial Property Tax (Line 11)	\$1,645.00	\$1,645.00	\$1,645.00
Provincial Property Tax (Line 12)	\$1,623.00	\$1,623.00	\$1,623.00
Island Waste Management fees (Line 13)	\$219.00	\$219.00	\$219.00
Property Management fees (Line 14)	\$1,252.40	\$1,252.40	\$1,252.40
Maintenance expenses (Line 15)	\$0.00	\$0.00	\$0.00
Capital expenditures (Line 16)	\$3,657.33	\$3,657.33	\$3,657.33
Other (Line 17)	\$934.00	\$934.00	\$934.00
<b>Total operating expenses (Line 18)</b>	<b>\$21,815.97</b>	<b>\$21,815.97</b>	<b>\$21,815.97</b>
<b>Net profit/loss (Line 19)</b>	<b>\$3,825.03</b>	<b>\$5,412.03</b>	<b>\$11,724.03</b>
Value of Investment in Property	\$173,336.95	\$173,336.95	\$173,336.95
Operating Income (Line 17)	\$3,825.03	\$5,412.03	\$11,724.03
<b>Return on Investment (ROI)</b>	<b>2.2%</b>	<b>3.1%</b>	<b>6.8%</b>

**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.