

INTRODUCTION

- [1] This decision determines an application filed by the Landlord with the Residential Tenancy Office (the “Rental Office”) under the *Residential Tenancy Act*, cap. R-13.11 (the “Act”).
- [2] The Landlord seeks a 5.0% rent increase for the Unit, which is an additional 3.0% above the 2026 annual allowable guideline of 2.0%.

DISPOSITION

- [3] The Landlord’s evidence supports a 5.0% rent increase for the Unit effective January 1, 2026.

BACKGROUND

- [4] The Unit is a three-bedroom, two-and-a-half-bathroom, single-family home, owned by the Landlord since November 15, 2021.
- [5] On September 30, 2025 the Landlord served the Tenants a *Form 8 Tenant Notice of Annual Allowable Rent Increase* (the “Notice”).
- [6] On October 1, 2025 the Landlord filed a *Form 9 Landlord Application to Request Additional Rent Increase* (the “Application”) with the Rental Office. The Landlord served the Application on the Tenants with the Notice.
- [7] The Landlord requests the following rent increase:

Unit	Current Rent	Proposed Rent
39	\$2,339.00	\$2,456.00

- [8] On October 24, 2025 the Rental Office emailed the parties notice of a teleconference hearing scheduled for November 25, 2025.
- [9] On November 14, 2025 the Rental Office emailed the parties a 33-page PDF evidence package.
- [10] Included in the evidence package was a *Form 10 Landlord Statement of Income and Expenses* (the “Statement”).
- [11] On November 25, 2025 the Landlord participated in the teleconference hearing. The Landlord confirmed that no documents were missing from the evidence package.

ISSUE

- A. Does the evidence support an additional rent increase above the 2026 annual allowable guideline?

ANALYSIS

Additional Rent Increases – Factors to Consider

- [12] The Landlord has the onus of proving, on a balance of probabilities, that an additional rent increase is supported by the evidence. This means that there must be sufficiently clear and convincing evidence to support the Landlord’s additional rent increase request.

- [13] In order to determine the Application, I must consider the following factors in subsection 50(3) of the *Act* and section 4 of the *Residential Tenancy Regulations* (the "*Regulations*"), 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 and 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) 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 Unit should not require an increase in rent within the first year in order to achieve a reasonable return on the Landlord's capital investment. I find that this factor is not relevant to the Application because the Landlord purchased the Unit in November 2021.

Clause 50(3)(a) – Rent History for the Affected Unit

- [15] This factor requires that I consider the rent history for the affected Unit in the three years preceding the date of the Application. In this case, the three preceding years are: 2024, 2023 and 2022.
- [16] The Landlord stated that the last rent increase was an additional rent increase effective January 1, 2025 approved by the Rental Office. The Unit had another additional rent increase effective January 1, 2024 approved by the Rental Office and no rent increases in 2023 or 2022.

Clause 50(3)(b) – Change in Operating Expenses and Capital Expenditures

- [17] This factor 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. Most of the operating expenses have increased. Particularly, the interest on the first and second mortgage is based upon a variable rate. This resulted in significant increases from 2022 to 2023 in the operating expenses.
- [19] The Landlord's capital expenditures were not included in the Statement's calculations by error. However, the Landlord does have the annual write-off for the capital expenditures as \$9,361.60. This includes the value of the Unit, washer, dryer, hot water boiler, roof, refrigerator and stove replacements between 2021 and 2025.

Adjustments to the Statement

- [20] The adjusted Statement is detailed in Appendix "A" of this Order, which is based primarily upon the Landlord's evidence. The rental income is based upon the 2024 year and the proposed rental income is based upon the 2026 proposed rental income.
- [21] The expenses are based upon the 2024 established expenses and the proposed expenses are based upon the most recent twelve-month period in the Statement.

Capital Expenditures

- [22] The Statement provides an annual write-off of \$9,361.60. Included in the Landlord's capital expenditures was the purchase price of the Unit with a 50-year life expectancy. However, section 5 of the *Regulations* states:

For the purposes of clause 50(3)(b) of the Act,

- (a) *"capital expenditures" includes expenditures for replacement of plumbing, electrical or heating systems or appliances, and major structural repairs; and*
- (b) *"operating costs" excludes depreciation costs, but includes the basic expenditures necessary for the operation of the building such as fuel, water, electricity, insurance, taxes, maintenance, management fees, staff wages or the value of a rental unit made available of wages, and financing costs of interest on mortgages registered against the property.*

- [23] Therefore, I adjust the Statement's capital expenditures to include the following based on the evidence:

Item	Year Completed	Cost	Life expectancy	Yearly expense
Washer & Dryer	2021	\$2,288.49	10	\$228.85
Hot water boiler	2024	\$10,684.72	15	\$712.31
Steel Roof	2025	\$14,445.00	40	\$361.13
Fridge & Stove	2025	\$2,294.23	10	\$229.94
			Total	\$1,532.23

Clause 50(3)(c) – Reasonable Return on the Landlord's Capital Investment

- [24] This factor requires that I consider the Landlord's expectation to have a reasonable return on his capital investment.
- [25] In order to determine return on investment ("ROI"), I must first determine the value of the Landlord's capital investment.

Value of Capital Investment

- [26] 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.

- [27] The Landlord provided the 2021 purchase price \$391,468.53 plus \$29,712.44 in capital expenditures for the Unit, for a total value of \$421,180.97.
- [28] 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 have used the 2021 purchase price plus the capital expenditures allowed under the *Regulations* to determine the value of the Landlord's capital investment. I note that the Landlord did not have a recent appraisal of the Unit to submit into evidence.

Reasonable Return on Investment

- [29] 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.

- [30] Based upon a value of \$421,180.97 for the Unit, the Landlord's ROI is currently 4.2%.
- [31] After including the proposed rent increase, the Landlord's ROI would increase to 4.8%.
- [32] This ROI is within the 4.0% to 7.0% range of a reasonable ROI.
- [33] I note that the value of the Unit is a conservative value because it is based upon the purchase price in 2021 and the capital expenditures. Therefore, I find that a return on investment of 4.8% is supported. When a conservative value is considered, a reasonable ROI is closer to the 7.0% end of the range.

Clause 50(3)(d) – Expectation of Tenants Regarding the Annual Guideline

- [34] This factor 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 Unit was approved by the Rental Office for an additional rent increase effective January 1, 2025 and January 1, 2024. There were no rent increases in 2023 or 2022.
- [36] The Tenants did not participate in the hearing and did not submit evidence which suggest their expectations in this case.

CONCLUSION

- [37] After considering and weighing all the factors and evidence, I find that the evidence supports a 5.0% rent increase for the Unit effective January 1, 2026. Accordingly, the Application is allowed.

- [38] The factor which weighs against the Application is that the Landlord has received two additional rent increases above the annual allowable guideline in 2024 and 2025. Despite the Tenants' omission of evidence on this point, it is reasonable to conclude that a tenant would not expect three additional rent increases above the annual allowable guideline consecutively.
- [39] However, the Landlord's operating costs have steadily increased over the past three years with evidence to establish continued increases for the upcoming year. The interest on the first and the second mortgage is based upon a variable rate, which caused significant increases to the Landlord's operating costs. Further, the Landlord has incurred capital expenditures since purchasing the Unit in November 2021. The ROI based upon the proposed rent increase is on the low end of the 4.0% to 7.0% range.
- [40] Had the Landlord requested an additional rent increase be phased-in over a period of time in one of his previous applications he likely would have been approved.
- [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 January 1, 2026, the Unit's maximum allowable monthly rent is \$2,456.00.

DATED at Charlottetown, Prince Edward Island, this 19th day of December, 2025.

(sgd.) Cody Burke

Cody Burke
Residential Tenancy Officer

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.

APPENDIX "A"			
Revised Statement of Income & Expenses (Form 10)			
	Current ROI	Proposed ROI	Established Expenses
Income			
Rental Income at 100% (Line 1)	\$26,652.00	\$29,472.00	\$29,472.00
Other income (Line 2)			
Vacancy Arrears/Losses (Line 3)			
Net Income before expenses (Line 4)	\$26,652.00	\$29,472.00	\$29,472.00
Expenses			
1st Mortgage Interest (Line 5)			\$17,620.64
2nd Mortgage Interest (Line 6)			\$4,746.15
Fuel (Line 7)			
Water & Sewer (Line 8)			
Electricity (Line 9)			
Insurance (Line 10)	\$1,335.00	\$1,438.00	\$1,438.00
Property Tax (Provincial) (Line 11)	\$5,252.23	\$5,357.48	\$2,957.63
Property Tax (Municipal) (Line 12)			\$2,180.85
Island Waste Management Fees (Line 13)			\$219.00
Property Management Fees (Line 14)			
Maintenance Fee (Line 15)	\$728.93	\$728.93	\$728.93
Capital Expenditures (Line 16)	\$1,532.23	\$1,532.23	\$1,532.23
Other (Line 17)			
Total Operating Expenses (Line 18)	\$8,848.39	\$9,056.64	\$31,423.43
Net Profit or (Loss) (Line 19)	\$17,803.61	\$20,415.36	(\$1,951.43)
Value of Investment in Property	\$421,180.97	\$421,180.97	
Operating Income (Line 17)	\$17,803.61	\$20,415.36	
Return on Investment (ROI)	4.2%	4.8%	