

**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 5.0% rent increases for the Units, which are an additional 3.0% above the 2026 annual allowable guideline of 2.0%.

**DISPOSITION**

- [3] I find that the evidence supports 5.0% rent increases for the Units.

**BACKGROUND**

- [4] The Units are located in a duplex that the Landlord has owned since 2016.
- [5] On October 1, 2025, the Landlord filed two *Form 9 Landlord Application to Request Additional Rent Increase* (the "Applications") with the Rental Office and served these documents. The Landlord also provided the Rental Office with two *Form 8 Notice of Annual Allowable Rent Increase*.
- [6] The Landlord requests the following rent increases:

Unit	Current Rent	Proposed Rent
A	\$1,570.00	\$1,649.00
B	\$1,664.00	\$1,747.00

- [7] On November 5, 2025, the Rental Office issued notice of a teleconference hearing scheduled for December 11, 2025.
- [8] On November 27, 2025, the Landlord provided the Rental Office with a *Form 10 Landlord Statement of Income and Expenses* (the "Statement").
- [9] On December 5, 2025, the Rental Office issued a 33-page PDF evidence package.
- [10] On December 11, 2025, the Landlord's representative (the "Representative") participated in the teleconference hearing. The Representative confirmed that no documents were missing from the evidence package.

**ISSUE**

- A. Does the evidence support 5.0% rent increases for the Units?

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

- [11] In order 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.

[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 Units 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 duplex since 2016.

#### **Clause 50(3)(a) – Rent history of the affected rental units**

[13] 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.

[14] Within the last three years, the Landlord increased the Units’ rent by about 3.0% on January 1, 2024 and by about 2.3% on January 1, 2025. I find that this factor alone is neutral regarding the Landlord’s request for the proposed increases.

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

[15] 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.

[16] The Landlord provided the operating expenses for the past three years in the Statement. These expenses have been increasing. In particular, the Landlord’s interest cost has increased by several thousand dollars during the past three years because of an increased interest rate.

[17] I find that this factor alone supports the Landlord’s request for the proposed increases.

#### **Adjustments to the Statement**

[18] The adjusted Statement is detailed in Appendix “A” of this decision, which is based upon the Landlord’s costs in the most recent twelve-month period in the Statement. The rental income is based upon the annual current and proposed rents.

[19] The Landlord included heat pump installation as a maintenance cost. Under the *Act* and the *Regulations*, it is considered a capital expenditure and I find that an annual deduction of \$353.21 is supported (\$2,472.50 divided by a 7-year life expectancy). The maintenance expense is reduced to \$5,236.71.

#### **Clause 50(3)(c) – Reasonable return on the Landlord’s capital investment**

[20] Clause 50(3)(c) requires that I consider the Landlord’s expectation to have a reasonable return on its capital investment.

[21] In order to determine return on investment (“ROI”), I must first determine the value of the Landlord’s capital investment.

#### **Value of capital investment**

[22] 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.*

- [23] The Landlord provided the Units’ 2025 tax assessed value, in the amount of \$454,440.00.
- [24] 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 tax assessed value. I note that this is a conservative value of the Units.

#### **Reasonable return on investment**

- [25] 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.*

- [26] The Landlord’s ROI is currently 4.6%.
- [27] After including the proposed rent increases, the Landlord’s ROI would increase to 5.0%.
- [28] This ROI is within the 4.0% to 7.0% range for a reasonable ROI.
- [29] The value of the Units is a conservative number because it is based upon the tax assessed value. Therefore, I find that a return on investment of 5.0% is supported. When conservative values are used, a reasonable ROI is closer to the 7.0% end of the range.
- [30] I find that this factor alone weighs in favour of the Landlord’s request for the proposed increases.

#### **Clause 50(3)(d) – Expectation of Tenants regarding the annual guideline**

- [31] Clause 50(3)(d) requires that I consider the Tenants’ expectations that rent increases will remain within the annual guideline. In 2026, the annual guideline increase is 2.0%.
- [32] The Tenants did not participate in the hearing regarding their expectations. I find that this factor alone is neutral regarding the Landlord’s request for the proposed increases.

**CONCLUSION**

- [33] After considering and weighing all the factors and evidence, I find that the evidence supports 5.0% rent increases for the Units and the Applications are allowed.
- [34] The Landlord's operating costs have significantly increased. The Landlord has also incurred recent capital expenditures. The ROI based upon the proposed rent increases is supported because the calculation is based upon a conservative value of the Units and the higher end of the 4.0% to 7.0% range is supported. The other two factors in this case are neutral.
- [35] The Landlord provided the Tenants with three months' notice of the rent increases to be effective on January 1, 2026 in accordance with the *Act* and subsection 33(8) of the *Interpretation Act*.
- [36] **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 Units' maximum allowable monthly rents are:

Unit	Rent
A	\$1,649.00
B	\$1,747.00

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

(sgd.) Andrew Cudmore

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Andrew Cudmore  
Residential Tenancy Officer

APPENDIX "A"		
Revised Statement of Income & Expenses (Form 10)		
Rental Income	Current Rent	5.0% Increase
Income (Lines 1 & 2)	\$38,808.00	\$40,752.00
Vacancy/Arrears (Line 3)	\$0.00	\$0.00
Net Income (Line 4)	\$38,808.00	\$40,752.00
<b>Expenses</b>		
1st Mortgage Interest (Line 5)	\$0.00	\$0.00
2nd Mortgage Interest (Line 6)	\$0.00	\$0.00
Fuel (Line 7)	\$0.00	\$0.00
Water & Sewer (Line 8)	\$1,624.00	\$1,624.00
Electricity (Line 9)	\$0.00	\$0.00
Insurance (Line 10)	\$2,475.04	\$2,475.04
Property Taxes (Lines 11, 12 & 13)	\$2,414.08	\$2,414.08
Property Management Fee (Line 14)	\$1,940.40	\$2,037.60
Maintenance Fee (Line 15)	\$5,236.71	\$5,236.71
Capital Expenditures (Line 16)	\$353.21	\$353.21
Other (Line 17)	\$3,748.34	\$3,748.34
Total Expenses	\$17,791.78	\$17,888.98
Annual Net Profit	\$21,016.22	\$22,863.02
<b>Return on Investment</b>		
Value of Investment	\$454,440.00	\$454,440.00
Net Profit	\$21,016.22	\$22,863.02
Return on Capital Investment	4.6%	5.0%

## 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.

### 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.