

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 is an additional 3.0% above the 2026 annual allowable guideline of 2.0%, and additional increases phased in to achieve a reasonable return on investment.

DISPOSITION

- [3] The evidence supports 5.0% rent increases for the Units effective January 1, 2026 (Unit 1) and April 1, 2026 (Unit 3), and 15.0% additional increases phased-in beginning in 2027.

BACKGROUND

- [4] The Units are two rental units located in a duplex (the "Residential Property") owned by the Landlord since 2019.
- [5] On September 26, 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 September 26, 2025, the Landlord filed the Applications with the Rental Office.
- [7] The Applications seek 5.0% rent increases for the Units, which is an additional 3.0% above the 2026 annual allowable guideline of 2.0%, and additional increases phased in to achieve a reasonable return on investment. The current rents are as follows:

Unit	Current Rent
1	\$1,095.00
3	\$1,441.56

- [8] On October 29, 2025, the Rental Office sent the parties notice of a teleconference hearing scheduled for December 9, 2025.
- [9] On November 25, 2025, the Landlord provided the Rental Office with a *Form 10 Landlord Statement of Income and Expenses* (the "Statement").
- [10] On December 3, 2025, the Rental Office emailed the parties a 96-page evidence package.
- [11] On December 9, 2025, the Landlord participated in a teleconference hearing. The Landlord stated that he received a copy of the evidence package and that everything he submitted to the Rental Office was included. The Tenants did not participate in the teleconference hearing. One Tenant provided a written submission.
- [12] After the hearing, the Landlord provided additional evidence, which was sent to the Tenants. The Tenants did not provide any additional submissions.

ISSUE

- A. Does the evidence support additional rent increases above the 2026 annual allowable guideline and additional increases phased in?

ANALYSIS

Additional Rent Increase – Factors to Consider

- [13] The Landlord has the onus of proving, on a balance of probabilities, that the evidence supports an additional rent increase. This means that there must be sufficiently clear and convincing evidence to support the Landlord's additional rent increase request.
- [14] 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.
- [15] 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. I find that this factor is not relevant because the Landlord purchased the Residential Property in 2019.

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

- [16] 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.
- [17] In 2023, the allowable rent increase was 0.0%. In 2024, each Unit's rent was increased by the 3.0% allowable rent increase.
- [18] Under Rental Office Order LD24-418, the Landlord was permitted to increase the rent for Unit 1 by 5.3% on January 1, 2025.
- [19] Under Order LR25-13, issued by the Island Regulatory and Appeals Commission (the "Commission"), the Landlord was permitted to increase the rent for Unit 3 by 5.3%, on April 1, 2025.

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

- [20] 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.
- [21] The Landlord provided the operating expenses for the past three years in the Statement, which have increased over that period. The Landlord's capital expenditures expense is \$1,920.73, which includes new furnaces, insulation, and heat pumps installed between 2024 and 2025, totalling \$26,079.73.
- [22] Some of the Landlord's expenses increased over the past year, such as water/sewerage, property taxes, IWMC fees, maintenance expenses, and other expenses (lawn care). Some of the Landlord's expenses decreased over the past year, such as interest payments on the first and second mortgages and fuel. The Landlord stated he has to renew the mortgages in February 2026, and that his interest rate and payments are expected to increase.

Capital Expenditures

Item	Year completed	Cost	Life expectancy	Yearly expense*
Furnace	2025	\$ 7469.25	20	\$ 373.46
Insulation	2025	\$ 4183.73	40	\$ 104.59
Heat pumps	2024	\$ 14426.75	10	\$ 1442.68

[23] Each of the claimed expenses was supported by testimony and documentary evidence, such as statements, invoices, and spreadsheets, to corroborate the claimed amounts. I accept the Landlord's evidence, and there are no adjustments to the Statement. The Statement is detailed in Appendix "A".

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

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

[25] 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

[26] In Order LR25-31, 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] In 2019, the Landlord purchased the Residential Property for \$289,000.00. In 2025, the Residential Property was appraised at \$510,000.00.

[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 find that the evidence supports that the value of the Residential Property should be based on the 2025 appraisal of \$510,000.00. I find that the 2025 appraisal provides an accurate fair-market value of the Units.

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] For the present time, the Commission is still without a professional analysis setting out an appropriate rate of return on investment for residential rental properties. We do acknowledge that investment conditions change and, in fact, have changed since Order 22-39. However, until such time as we are presented with a professional analysis, we are satisfied that, 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.

[61] Additionally, it is always open to landlords on additional rent increase applications to bring forward professional evidence and challenge the accepted ROI guideline, but the upper limit of 7% should not be adjusted further upward unless satisfactory professional evidence is provided.

[30] Based on the Residential Property's value of \$510,000.00, and excluding mortgage interest, the Landlord's ROI is currently 3.8%.

[31] After including the 2026 annual allowable rent increase of 2.0% and the maximum additional rent increase of 3.0%, the Landlord's ROI would increase to 4.1%.

[32] The Landlord is seeking an additional rent increase be phased in to achieve a reasonable return on investment. As mentioned above, with the 2026 approval, the Landlord will be on the low end of the 4.0% to 7.0% range. However, the evidence establishes that the Landlord invested \$26,079.73 into capital expenditures for the Units. The Landlord stated that a 5.5% ROI would be reasonable in these circumstances.

[33] I find that in these circumstances, a 5.0% ROI is reasonable based upon the value of the Units and other factors considered. This would mean a 15.0% additional phased-in rent increase beginning in 2027.

[34] Therefore, I find that a 5.0% return on investment is supported in this case.

[35] I note that the Landlord filed five applications for additional rent increases for three separate residential properties (two duplexes and a single-family house) with the Rental Office simultaneously. In this matter, I found that a 5.0% ROI was reasonable. In the second matter, I found that an ROI of 4.6% was reasonable. In the third matter, I found that an ROI of 4.0% was reasonable.

[36] In all three matters, the Landlord's total operating expenses per Unit were similar, and the Landlord's ROI is currently below 4.0% for each residential property. However, in this matter, the Landlord invested approximately \$26,000.00 into capital expenditures for the Units. In the second matter, the Landlord invested approximately \$10,000.00 less into capital expenditures for the Units than in this matter. In the third matter, the Landlord invested approximately \$16,000.00 less in capital expenditures for the Unit than in this matter.

[37] As stated in Order LR25-31, at present, the Commission (and the Rental Office) is still without a professional analysis setting out an appropriate rate of return on investment for residential rental properties. Landlords are entitled to an ROI of at least 4.0% and, on a case-by-case basis, may justify an ROI of up to 7.0% as reasonable, based on the specific circumstances.

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

[38] 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%.

[39] The Tenant in Unit 1 stated that she was opposed to an additional rent increase. The Tenant in Unit 3 made no submissions regarding the rent increases.

Weighing the Factors

[40] After considering and weighing all factors and evidence, I find that the evidence supports 5.0% rent increases for the Units effective January 1, 2026 (Unit 1) and April 1, 2026 (Unit 3), and 15.0% additional phased-in rent increases beginning in 2027.

[41] The Landlord's operating expenses have increased over the past three years. The Landlord has added capital investments to the Units, including furnaces, insulation, and heat pumps, totalling \$26,079.73.

[42] The Landlord's ROI is currently below 4.0%. With a 15.0% additional rent increase for the Units, the Landlord would achieve an ROI of 5.0%, which I find is supported by the evidence. As a result, I find that the factors and evidence support additional phased-in rent increases.

[43] Despite the Landlord increasing the Units' rents by 3.0% in 2024 and 5.3% in 2025, and one Tenant opposing the additional rent increases, I find that in this case, these factors do not sufficiently outweigh the other factors supporting the additional phased-in rent increases.

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

[45] I further find that the additional 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 rent for Unit 1 is \$1,150.00.
2. Effective April 1, 2026, the maximum allowable rent for Unit 3 is \$1,514.00.
3. With proper notice each year, the Landlord can implement a 3.0% additional rent increase for each Unit twelve months after the previous increase, until the additional rent increases per Unit totals the rents below, per month, after which the Landlord may not implement additional rent increases:

Unit	Total Approved Rent
1	\$1,314.00
3	\$1,730.00

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

DATED at Charlottetown, Prince Edward Island, this 24th day of December, 2025.

(sgd.) Mitch King

Mitch King
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.

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

	Current ROI	2026 ROI	Proposed ROI	Established Expenses
		5.0%	20.0%	
Income (Yearly)				
Rental income at 100% occupancy (Line 1)	\$30,438.72	\$31,960.66	\$36,528.00	
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)	\$30,438.72	\$31,960.66	\$36,528.00	
Expenses (Yearly)				
Interest payments on first mortgage (Line 5)	\$0.00	\$0.00	\$0.00	\$7,960.00
Interest payments on second mortgage (Line 6)	\$0.00	\$0.00	\$0.00	\$1,960.00
Fuel (Line 7)	\$0.00	\$0.00	\$0.00	\$0.00
Water/Sewerage (Line 8)	\$1,147.20	\$1,147.20	\$1,147.20	\$1,147.20
Electricity (Line 9)	\$0.00	\$0.00	\$0.00	\$0.00
Insurance (Line 10)	\$1,788.67	\$1,788.67	\$1,788.67	\$1,788.67
Provincial Property Tax (Line 11)	\$3,017.00	\$3,017.00	\$3,017.00	\$3,017.00
Provincial Property Tax (Line 12)	\$1,387.82	\$1,387.82	\$1,387.82	\$1,387.82
Island Waste Management fees (Line 13)	\$438.00	\$438.00	\$438.00	\$438.00
Property Management fees (Line 14)	\$0.00	\$0.00	\$0.00	\$0.00
Maintenance expenses (Line 15)	\$224.25	\$224.25	\$224.25	\$224.25
Capital expenditures (Line 16)	\$1,920.73	\$1,920.73	\$1,920.73	\$1,920.73
Other (Line 17)	\$920.00	\$920.00	\$920.00	\$920.00
Total operating expenses (Line 18)	\$10,843.67	\$10,843.67	\$10,843.67	
Net profit/loss (Line 19)	\$19,595.05	\$21,116.99	\$25,684.33	
Value of Investment in Property	\$510,000.00	\$510,000.00	\$510,000.00	
Operating Income (Line 17)	\$19,595.05	\$21,116.99	\$25,684.33	
Return on Investment (ROI)	3.8%	4.1%	5.0%	