



Summary Report and Analysis: Allowable Percentage Rent Increase for 2014

Pursuant to Section 23 of the
Rental of Residential Property Act

September 13, 2013

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I. INTRODUCTION

The following report has been prepared in order to provide the Commission with background information to establish the allowable percentage rent increase for 2014. This report contains information which outlines the statutory requirements pursuant to the *Rental of Residential Property Act*, an overview of the current housing market situation, the average rent increase in other jurisdictions proposed for 2014, analysis of increase factors, including an assessment of the Consumer Price Index (CPI) and analysis of projected operating cost increases for the 2014 allowable percentage rent increase.

II. STATUTORY REQUIREMENTS

Section 23(1) of the *Rental of Residential Property Act* (the *Act*) requires the Commission to establish, by Order, an allowable percentage amount for residential rent increases each year, and to publish the Order in the *Royal Gazette*:

23.(1) Except as provided in subsection (3) and notwithstanding the terms of any rental agreement, the amount of any rent increase between January 1 and December 31 of any year shall not exceed the percentage amount which is established by an order of the Commission and published in the Gazette.

Section 23(2) of the *Act* requires the Director of Residential Rental Property, (the *Director*), to invite written comments from lessors and lessees to assist in establishing the recommendation of the prescribed rate for the coming year.

23. (2) The Director shall invite written representations from lessors and lessees to assist in establishing the annual prescribed percentage rent increase.

In order that a lessor will meet the minimum three (3) months' notice required for a rent increase to be effective on January 1, the prescribed rent increase must be established and published in the *Royal Gazette* no later than September 30, 2013.

Accordingly, on July 26, 2013, the Director issued a Notice inviting written representation from landlords and tenants. The Notice was advertised in *The Guardian*, *The Journal-Pioneer*, *La Voix Acadienne*, *Island Press (Eastern Graphic and West Prince Graphic)*, the *Royal Gazette*, and posted on the Commission's web site, with a deadline for response of August 26, 2013.

III. RESPONSES TO DIRECTOR’S NOTICE

The Director received a total of eight submissions from lessees/tenants, one from a landlord, and one from the ALERT anti-poverty association.

Tenant concerns related primarily to issues of affordability, current vacancy rates, justification of past allowable rental increases and the responsibility of landlords to continually reinvest in existing tenant accommodations. More specifically, tenants had the following concerns:

- the negative effects of a rent increase on those living on fixed incomes;
- the negative effects of a rent increase on students;
- the above average construction of new rental units; and
- wages are not increasing as rapidly as past allowable rental increases.

The landlord submission cited the ever rising costs of heating fuel, electricity, waste management and water and sewer rates as factors pressing the bottom line performance of residential rental unit operation.

ALERT raised a number of concerns specific to those relying on Social Assistance, stressing that recent increases in allowable rent charges have far exceeded increases in support payments to cover rent. This has health implications as the food budget is used to cover fixed costs such as rent.

ALERT, referring to their own report on Housing, indicated the lack of affordable housing means lower income Islanders are even more negatively impacted by rent increases. The organization is also concerned about the poor maintenance and lack of security of some housing options.

ALERT encouraged the Commission to seek new ways of gaining input about rental costs from low income Islanders and those on Social Assistance who may be reluctant to take part in the current process.

IV. HISTORIC ALLOWABLE RATES

The following table summarizes allowable increases approved by the Commission over the last 10 years:

**Island Regulatory & Appeals Commission
Allowable Rent Increases
2004-2013**

Year		Allowable Rent Increase
2013	Heated premises:	5.00%
	Unheated premises:	3.00%
	Mobile home site only in a mobile home park:	1.50%
2012	Heated premises:	3.20%
	Unheated premises:	2.00%
	Mobile home site only in a mobile home park:	1.00%
2011	Heated premises:	2.00%
	Unheated premises:	1.00%
	Mobile home site only in a mobile home park:	1.00%
2010	Heated premises:	2.00%
	Unheated premises:	2.00%
	Mobile home site only in a mobile home park:	2.00%
2009	Heated premises:	5.00%
	Unheated premises:	3.00%
	Mobile home site only in a mobile home park:	3.00%
2008	Heated and unheated premises:	1.00%
	Mobile home site only in a mobile home park:	0.00%
2007	Heated and unheated premises:	3.00%
	Mobile home site only in a mobile home park:	1.00%
2006	Unheated Premises:	3.5%
	Heated Premises:	7.5%
2005	-	2.00%
2004	-	2.00%

V. CURRENT SITUATION

PEI Housing Outlook

A review of CMHC *Housing Market Outlook* for PEI issued Spring 2013 confirms that economic growth in PEI is expected to be subdued over the next two years as reductions in both public sector employment and spending will have a negative effect on the local economy. Due to a decrease in demand, activity in the housing market is expected to decline. Last year, the Charlottetown area recorded an increase in the number of vacant apartment units and the vacancy rate remained high in 2013. During the past twelve months, local developers have added nearly 290 new rental units to the market which is well above the ten-year annual average of 119 units. The increase in supply of new rental units in the Charlottetown area has more than offset the increase in demand. As such, the vacancy rate in Charlottetown remained high in 2013 at 8.7 per cent and increased over 2012’s rate of 5.0 per cent. From 2003 to 2013 the average vacancy rate in Charlottetown was 4.23 per cent.

In Summerside, the level of construction of new rental projects slowed in 2012, after two years of above average construction. With the limited amount of

construction and steady demand, the vacancy rate in Summerside decreased from 3.5 per cent in April 2012 to 2.3 per cent in April 2013. From 2003 to 2012 the average vacancy rate in Summerside was 4.81 per cent.

As in many rental markets, two-bedroom units account for the vast majority of rental apartment units in the urban centres of Prince Edward Island. In Charlottetown, the vacancy rate for two-bedroom units increased to 9.1 per cent in April 2013 compared to 5.4 per cent in April 2012. In Summerside, the vacancy rate for two-bedroom units remained statistically unchanged from the previous year at 2.5 per cent.

Vacancy Rates

The most recent CMHC *Rental Market Report* indicates the provincial overall average vacancy rate has increased to 7.8 per cent in April 2013 from 4.8 per cent for the same period last year. Charlottetown experienced a higher vacancy rate at 8.7 per cent than the provincial average while Summerside experienced a vacancy rate of 2.3 percent.

The CMHC survey states the average Charlottetown two-bedroom unit rental in April 2013 was \$831 as compared to \$797 in 2012. In Summerside, the average two-bedroom rental was \$697 in 2013 as compared to \$669 in 2012.

Statistical Overview

Statistical information provided by CMHC (as shown on the following table) indicates the following vacancy rates for the Charlottetown and Summerside areas from 1992 – 2013 as measured in the spring of each year:

VACANCY RATES		
YEAR	CHARLOTTETOWN	SUMMERSIDE
2003	3.40	4.60
2004	4.20	4.20
2005	4.40	4.40
2006	4.80	7.80
2007	4.30	7.80
2008	5.20	3.60
2009	3.40	3.20
2010	2.70	6.70
2011	4.90	2.30
2012	5.00	3.50
2013	8.70	2.30

VI. ECONOMIC OUTLOOK

The most recent pronouncement from the Bank of Canada to maintain overnight target interest rates at current levels noted the stagnation in the global economy in 2012. The European Union countries are experiencing debt refinancing difficulties and cuts to government services have not been easily accepted by citizens. The American economy continues to demonstrate slow growth with consumer spending weakening. American households are burdened with debt and the labor market for job creation is weak. Canada's economic numbers show economic growth stalled in 2012. Canada's economy will not be immune to the effects of a slowing global economy. The Bank of Canada expects Canada's inflation will return to the target 2 percent rate as a result of the slowing economy.

Canada's largest bank, The Royal Bank of Canada, announced during July 2013 that its 2013 forecast of economic growth for Canada is now set at 1.8%. It predicts economic growth of 2.7% in 2014.

In PEI, the Royal Bank predicts growth of 1.8% percent for 2013 and 1.9 percent for 2014. The Royal Bank notes that a significant pullback in government spending is expected to have a substantial dampening effect on domestic economic activity.

VII. CRITERIA FOR DETERMINING ALLOWABLE INCREASE

Many factors are considered in establishing an allowable rent increase percentage.

Some key factors include:

- the Consumer Price Index—both regionally and nationally;
- information regarding the current and future state of the housing and rental unit industry in PEI;
- operating costs for a residential rental building, including expenses such as fuel, water, electricity, insurance, taxes, maintenance, waste watch collection, management fees, staff wages, and financing costs of principal and interest on mortgages registered against a property; and
- the impact of heating oil and electricity costs and the likelihood of price increases.

VIII. ANALYSIS

In determining the recommended percentage amount for the annual rent increase, two main factors were taken into consideration. The first involved an assessment of the CPI *All Items* and CPI *Shelter* and *Energy* indexes for the 2013 period.

The second set of factors included an assessment of the specific operating expenses and anticipated component cost increases for rental units.

A. CPI Analysis

A **consumer price index (CPI)** is a measure estimating the average price of consumer goods and services purchased by households. A consumer price index measures a price change for a constant market basket of goods and services from one period to the next within the same area. The percent change in the CPI is a measure estimating inflation or price changes.

Although somewhat simplified, an analysis of CPI changes should reflect anticipated changes in annual household operating costs as measured by price changes.

The following tables provide additional detail on the actual percentage change in the CPI for Canada and Prince Edward Island for 2005 to July 2013, as well as the most recent various sub indexes measured by Statistics Canada.

Canada	
Year	Annual CPI Increase
2005	2.2%
2006	2.0%
2007	2.3%
2008	2.0%
2009	0.3%
2010	1.8%
2011	2.9%
2012	1.3%
2013*	1.2%

*July Year-Over-Year

Prince Edward Island	
Year	Annual CPI Increase
2005	3.1%
2006	2.3%
2007	1.8%
2008	3.4%
2009	-0.2%
2010	1.9%
2011	2.9%
2012	1.5%
2013*	2.2%

*July Year-Over-Year

For the period of June 2012- June 2013, the PEI CPI *All Items* category indicates an increase over the same period in 2012 of 2.2%. Specific sub-indexes within the *All Items* index show a *Shelter* increase of 2.2% and an *Energy* increase of 4.6% for the same reporting period.

The Bank of Canada’s monetary policy and the Government of Canada’s policy is to target inflation at 2.0%. The July 2013 national inflation rate was 1.3% as reported by Statistics Canada. The most recent Bank of Canada interest rate decision to hold the line on rates noted the modest global economic growth situation. The Bank of Canada also commented that it expects core inflation rates to continue at current levels with the stagnant economic growth.

B. Key Rental Cost Components

Heating Costs

Annual heating bills, derived from either electricity or furnace oil, continue to be a significant cost factor for landlords. In past and present submissions, landlords have suggested to the Commission that previously approved increases have not sufficiently addressed their energy cost increases. The Commission is appreciative of this concern but is also mindful of the responsibility on the part of landlords to invest in reasonable energy conservation measures.

Furnace oil pricing has increased dramatically in recent years. Over the past four years, year-over-year average furnace oil prices have increased a cumulative 35%. Increases experienced over this past year, however, have been limited to slightly in excess of 2% and it is anticipated that similar price inflation will be observed in the coming heating season.

Listed below are the yearly average furnace oil base prices in cents per litre from 2008 to 2013. Prices are based on a heating season from September to August.

FURNACE OIL – YEARLY AVERAGE BASE PRICES		
YEAR	AVERAGE PRICE	% CHANGE YoY
2008-2009	75.1	-
2009-2010	76.7	2.13
2010-2011	92.2	20.23
2011-2012	102.3	10.99
2012-2013	104.5	2.13

Property Taxes

The Department of Finance and Municipal Affairs manages the property tax system. Property taxes on non-owner occupied residential properties increase annually based on the market assessed value of these properties. It is anticipated that these increases will be within CPI level increases.

Waste Watch

There was no increase in the fees associated with residential units in 2013. Unsorted residential material drop off tippage fees were also unchanged at that time. The Commission has received no request for rate changes at IWMC for 2014 at this time.

Electricity

As a result of the PEI Energy Accord, relative stability in electricity prices will be observed over the next three years with annual increases limited to approximately 2%.

Maintenance Costs

These are rising associated with CPI increases and the rising cost of energy overall. At a minimum, a CPI level of increase can be expected.

Interest Rates

Interest rates have not changed significantly over the past year and pronouncements from the Bank of Canada indicate rates will not change in the foreseeable future.

Minimum Wage

The most recent minimum wage adjustment occurred on April 1, 2012, at which time minimum wage rates were increased by 4.0% to \$10.00 per hour.

Water and Sewer Rates

Water and sewer rates for various rural municipalities have increased by varying amounts in recent years as infrastructure upgrades have been carried out in many communities. With regard to the province's two larger urban centers, water and sewer rates in fiscal 2013 increased by 1.4% in Charlottetown and by 2.0% in Summerside.

IX. OTHER JURISDICTIONS

Across Canada, the only other provinces with rent control are Ontario, Manitoba and British Columbia.

A. Ontario

The rent increase guideline is calculated under the *Ontario Residential Tenancies Act*, which created a system of rent regulation that links the annual rent increase to the Ontario Consumer Price Index. In 2012, the Ontario government amended their legislation capping the annual increase at 2.5%. The annual rent increase guideline is still an average of the monthly Ontario Consumer Price over the past year. That calculated average is then limited to the annual cap. The rent increase guideline for 2014 is 0.8%. Past rent increases are listed below.

Ontario	
Year	% of Rent Increase
2013	2.5
2012	3.1
2011	0.7
2010	2.1
2009	1.8
2008	1.4
2007	2.6
2006	2.1
2005	1.5

B. Manitoba

The rent increase guideline for 2014 has not yet been set. Past rent increases are listed below. This guideline applies to apartments or houses renting for less than \$1,140.00 a month as of December 31, 2012.

Manitoba	
Year	% of Rent Increase
2013	1.0
2012	1.0
2011	1.5
2010	1.0
2009	2.5
2008	2.0
2007	2.5
2006	2.5
2005	1.5

C. British Columbia

The rent increase guideline for 2014 is 2.0%. Past rent increases are listed below.

British Columbia	
Year	% of Rent Increase
2013	3.8
2012	4.3
2011	2.3
2010	3.2
2009	3.7
2008	3.7
2007	4.0
2006	4.0
2005	3.8

X. REQUEST FOR VARIANCE FROM ALLOWABLE INCREASE

In cases where an increase greater than the allowable percentage amount is necessary, a lessor has the opportunity to recover extraordinary costs by making an application to the Director for approval of a rent increase above the established amount, pursuant to Section 23(3) of the *Act*:

23.(3) Where the lessor seeks a rent increase greater than the amount permitted by subsection (1), the lessor shall apply to the Director for approval of the proposed increase not later than ten days after notifying the lessee.

In cases where the lessee believes the rent increase is not warranted, even if it is within the allowable margin set by the Commission, they may make an application under Section 23 (4) of the *Act*.

23.(4) Where the lessor seeks a rent increase equal to or less than the percentage amount permitted by subsection (1), the lessee may apply to the Director, not later than ten days after being served with the notice of rent increase, to have the Director review the rent increase being sought.

The statutory criteria to be considered in an application pursuant to subsection (3) or (4) are set out pursuant to Section 23(8) of the *Act*:

(a) whether the increase in rent is necessary in order to prevent the lessor sustaining a financial loss in the operation of the building in which the premises are situate;

(b) increased operating costs or capital expenditures as advised by the lessor;

(c) the expectation of the lessor to have a reasonable return on his capital investment;

(d) such other matters as may be prescribed by the regulations.

XI. SUMMARY

Following the Commission's determination in this matter, an Order will be issued and notification of the allowable increase percentage amount will be published in the *Royal Gazette*, advertised in the local newspapers, and posted on the Commission's web site.

The 2014 amount approved by the Commission will apply to rent increases between January 1 and December 31, 2014.