



**THE ISLAND REGULATORY AND
APPEALS COMMISSION**

Prince Edward Island
Île-du-Prince-Édouard
CANADA



Summary Report and Analysis: Allowable Percentage Rent Increase for 2015

Pursuant to Section 23 of the
Rental of Residential Property Act

September 24, 2014

Summary Report and Analysis: Allowable Percentage Rent Increase for 2015

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 2015. 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 2015, analysis of increase factors, including an assessment of the Consumer Price Index (CPI) and analysis of projected operating cost increases for the 2015 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, 2014.

Accordingly, on July 28, 2014, 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 29, 2014.

III. RESPONSES TO DIRECTOR’S NOTICE

The Director received a total of five submissions from lessees/tenants and one from a landlord. One of the five lessee/tenant submissions was in the form of a petition consisting of thirty names.

Tenant concerns related primarily to issues of affordability, existing vacancy rates and the related discounting of rents currently being observed. More specifically, tenants had the following concerns:

- the negative effects of a rent increase on those living on fixed incomes;
- the inability of wage increases to keep pace with cost of living and rental increases;
- the above average construction of new rental units; and
- the current practice of rental discounting as landlords compete for tenant occupancy.

The landlord submission cited the rising costs of energy, the constant requirement of property improvement, and the ongoing inflationary trends related to the cost of labour and materials all as factors pressuring the viability of residential rental unit management.

IV. HISTORIC ALLOWABLE INCREASES

The following table summarizes allowable rates approved by the Commission over the last 9 years:

Island Regulatory & Appeals Commission
Allowable Rent Increases
2006-2014

Year		Allowable Rent Increase
2014	Heated premises:	2.00%
	Unheated premises:	1.00%
	Mobile home site only in a mobile home park:	1.00%
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%

V. CURRENT SITUATION

PEI Housing Outlook

A review of CMHC *Housing Market Outlook* for PEI issued Spring 2014 confirms that with the end of the Provincial Nominee Program in 2012, international migration declined significantly in 2013 with further declines expected for 2014. In addition, out-migration to Alberta resulted in approximately 1,000 residents relocating to Alberta in 2013. 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 2014. Since the beginning of 2009, the Charlottetown area has added nearly 1,200 new rental units to the market, which is well above the ten-year annual average of 130 units. During the past twelve months, local developers had added an additional 150 new rental 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 2014 at 8.7 per cent. From 2004 to 2013 the average vacancy rate in Charlottetown was 4.76 per cent.

In Summerside, the level of construction of new rental projects has been above average during the last four years. While demand has remained steady, supply has increased. The result is a raise in the local vacancy rate to 7.3 percent in April 2014, from 2.3 per cent in April 2013. From 2004 to 2013 the average vacancy rate in Summerside was 4.58 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 9.3 per cent in April 2014 compared to 9.1 per cent in April 2013. In Summerside, the vacancy rate for two-bedroom units was 5.8 percent compared to 2.5 per cent in April 2013.

Vacancy Rates

The most recent CMHC *Rental Market Report* indicates the provincial overall average vacancy rate has increased to 8.5 per cent in April 2014 from 7.8 per cent for the same period last year. At 8.7 per cent, Charlottetown experienced a higher vacancy rate than the provincial average. The vacancy rate in Summerside increased to 7.3 per cent this spring.

The CMHC survey states the average Charlottetown two-bedroom unit rental in April 2014 was \$814 as compared to \$831 in 2013. In Summerside, the average two-bedroom rental was \$744 in 2014 as compared to \$697 in 2013.

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 2004 – 2014 as measured in the spring of each year:

VACANCY RATES		
YEAR	CHARLOTTETOWN	SUMMERSIDE
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
2014	8.70	7.30

VI. ECONOMIC OUTLOOK

The Bank of Canada in early September renewed its commitment to a stable interest rate environment for the foreseeable future. The Central Bank said that the risks to the outlook for both inflation and household debt remain the same as before. Indeed, the Governor of the Bank of Canada, Stephen Poloz, has cautioned that the stubborn lack of traction in the global economic growth is delaying Canada's recovery and will serve to constrain inflation going forward. The Bank projects that over the next two years inflation is expected to fluctuate around 2%.

Canada's largest bank, The Royal Bank of Canada, announced in September, 2014 that its 2014 forecast of economic growth for Canada is now set at 2.4%. It predicts economic growth of 2.7% in 2015.

In PEI, the Royal Bank predicts growth of 1.4% percent for 2014 and 1.2 percent for 2015. The Royal Bank notes that a sluggish domestic economy and falling capital investment are expected to persist into next year resulting in subdued overall economic growth for the province.

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 2014 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 2014, as well as the most recent various sub indexes measured by Statistics Canada.

Canada		Prince Edward Island	
Year	Annual CPI Increase	Year	Annual CPI Increase
2005	2.2%	2005	3.1%
2006	2.0%	2006	2.3%
2007	2.3%	2007	1.8%
2008	2.0%	2008	3.4%
2009	0.3%	2009	-0.2%
2010	1.8%	2010	1.9%
2011	2.9%	2011	2.9%
2012	1.5%	2012	1.5%
2013	0.9%	2013	2.2%
2014	2.1%	2014	1.2%

For the period of August 2013- August 2014, the PEI CPI *All Items* category indicates an increase over the same period in 2013 of 1.2%. Specific sub-indexes within the *All Items* index show a *Shelter* increase of 0.7% and an *Energy* decrease of 0.3% for the same reporting period.

The Bank of Canada’s current monetary policy is to target inflation at 2.0%. The August 2014 national inflation rate was 2.1%, as reported by Statistics Canada.

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 six years, year-over-year average furnace oil prices have increased a cumulative 40%. Increases experienced over this past year alone have been observed to be approximately 4.5% 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 2014. 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
2013-2014	109.2	4.5

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 2014. 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 2015 at this time.

Electricity

As a result of the PEI Energy Accord, relative stability in electricity prices will be observed over the next two 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

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 provincial government announced in April of 2014 that provincial minimum wage rates would increase from \$10.00 per hour to \$10.20 as of June 1 and to \$10.35 as of October 1 providing for an overall increase of 3.5%.

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 2014 increased by 14% in Summerside while rates remained the same in Charlottetown.

IX. OTHER JURISDICTIONS

Across Canada, the only other provinces with rent control are Ontario, Manitoba, Nova Scotia 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 2015 is 1.6%. Past rent increases are listed below.

Ontario	
Year	% of Rent Increase
2014	0.8
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 2015 is 2.4%. Past rent increases are listed below. This guideline applies to apartments or houses renting for less than \$1,435.00 a month as of December 31, 2014.

Manitoba	
Year	% of Rent Increase
2014	2.0
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. Nova Scotia

The rent increase guideline is calculated under the *Nova Scotia Residential Tenancies Act*, which created a system of rent regulation that links the annual rent increase to the Nova Scotia Consumer Price Index. The rent increase guideline for 2015 is 1.6%. Past rent increases are listed below.

Nova Scotia	
Year	% of Rent Increase
2014	2.9
2013	3.0

D. British Columbia

The rent increase guideline for 2015 is 2.5%. Past rent increases are listed below.

British Columbia	
Year	% of Rent Increase
2014	2.2
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 INCREASE ABOVE THE ALLOWABLE AMOUNT

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.

The statutory criteria to be considered in approving a rent increase above the allowable amount 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 2015 amount approved by the Commission will apply to rent increases between January 1 and December 31, 2015.