



Summary Report and Analysis: Allowable Percentage Rent Increase for 2016

**Pursuant to Section 23 of the
*Rental of Residential Property Act***

September 18, 2015

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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 2016. 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 2016, analysis of increase factors, including an assessment of the Consumer Price Index (CPI) and analysis of projected operating cost increases for the 2016 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, 2015.

Accordingly, on July 16, 2015, 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 14, 2015.

III. RESPONSES TO DIRECTOR’S NOTICE

The Director received a total of six submissions from lessees/tenants. Only two submissions were received from landlords.

Tenant concerns related primarily to issues of affordability, existing vacancy rates 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 inability of wage increases to keep pace with cost of living and rental increases; and
- the negative effects of a rent increase on students.

The landlord concerns related to increased expenses for operations and maintenance and the relatively high vacancy rates. They included:

- the introduction of HST resulting in an additional 9% cost to many expenses;
- increased snow removal costs in the past year;
- increased cost of electricity; and
- increased advertising and management costs.

IV. HISTORIC ALLOWABLE INCREASES

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

Island Regulatory & Appeals Commission
Allowable Rent Increases
2006-2015

Year		Allowable Rent Increase
2015	Heated premises:	1.75%
	Unheated premises:	1.00%
	Mobile home site only in a mobile home park:	1.00%
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 un heated 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	Heated premises:	7.50%
	Unheated premises:	3.50%

V. CURRENT SITUATION

PEI Housing Outlook

A review of CMHC *Housing Market Outlook* for PEI issued Spring 2015 confirms that low borrowing costs, low vacancy rates, and a surge in net migration to the capital region resulted in a sharp increase in rental market construction from 2010 to 2013. During that time period, annual new rental units to market averaged 223 units, which is significantly higher than the ten year historical average of 147 units. Above average construction of rental units resulted in a growing imbalance between supply and demand in the local market. The increase in supply resulted in a vacancy rate increase, which gave developers a reason to pull back on new projects in 2014. The decline in construction and continued net migration gains were strong contributors toward fewer vacant units in 2015. The vacancy rate in Charlottetown was 6.1 per cent in April 2015, which was down from 8.7 per cent in April 2014. From 2005 to 2014 the average vacancy rate in Charlottetown was 5.21 per cent.

In Summerside, the rate of construction of new rental projects has been significantly slower than what was observed in Charlottetown since 2010. For the past three years, the average annual new rental units to market was 23 units. A rise in out-migration was a contributor in the vacancy rate rising to 9.0 per cent in April 2015 from 7.3 per cent in April 2014. From 2005 to 2014 the average vacancy rate in Summerside was 4.89 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 decreased to 6.7 per cent in April 2015 compared to 9.3 per cent in April 2014. In Summerside, the vacancy rate for two-bedroom units was 7.8 per cent in April 2015 compared to 5.8 per cent in April 2014.

Vacancy Rates

The most recent CMHC *Rental Market Report* indicates the provincial overall average vacancy rate has decreased to 6.5 per cent in April 2015 from 8.5 per cent for the same period last year. At 6.1 per cent, Charlottetown experienced a lower vacancy rate than the provincial average. The vacancy rate in Summerside increased to 9.0 per cent this spring.

The CMHC survey states the average Charlottetown two-bedroom unit rental in April 2015 was \$845 as compared to \$814 in 2014. In Summerside, the average two-bedroom rental was \$741 in 2015 as compared to \$744 in 2014.

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 2005 – 2015 as measured in the spring of each year:

VACANCY RATES		
YEAR	CHARLOTTETOWN	SUMMERSIDE
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
2015	6.10	9.00

VI. CRITERIA FOR DETERMINING ALLOWABLE INCREASE

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

Some key factors include:

- the Consumer Price Index- for PEI and Canada;
- 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.

VII. 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 the PEI CPI *Shelter* and *Energy* indexes for the 2015 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

The following tables provide additional detail on the actual percentage change in the CPI for Canada and Prince Edward Island for 2006 to 2015.

Canada	
Year	Annual CPI Increase
2006	2.0%
2007	2.3%
2008	2.0%
2009	0.3%
2010	1.8%
2011	2.9%
2012	1.5%
2013	0.9%
2014	2.1%
2015	1.3%

Prince Edward Island	
Year	Annual CPI Increase
2006	2.3%
2007	1.8%
2008	3.4%
2009	-0.2%
2010	1.9%
2011	2.9%
2012	1.5%
2013	2.2%
2014	1.2%
2015	-0.1%

For the period of August 2014 - August 2015, the PEI CPI *All Items* category experienced a decrease of 0.1%. Specific sub-indexes within the *All Items* index show a *Shelter* decrease of 2.2% and an *Energy* decrease of 13.6% for the same reporting period.

The Bank of Canada's current monetary policy is to target inflation at 2.0%. The July 2015 national inflation rate was 1.3%, 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. Furnace oil pricing has decreased dramatically over the past year. Given the current state of the global oil commodity market, it is anticipated that relative stability in furnace oil prices will be experienced over the next twelve months.

Property Taxes

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 2015. 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 2016 at this time.

Electricity

As a result of the PEI Energy Accord, electricity prices' annual increases were limited to approximately 2%. With the expiration of the Accord in March 2016, the extent of rate changes for the foreseeable future is unknown.

Maintenance Costs

These are rising associated with the introduction of HST and the increase in cost of goods associated with the lower exchange rate for the Canadian dollar.

Interest

Interest rates have been very favorable over the past year. Pronouncements from the Bank of Canada indicate interest rates will not see a material change in the next year.

Minimum Wage

On June 1, 2014, minimum wage rates increased from \$10.00 per hour to \$10.20 and increased to \$10.35 on October 1, 2014. On July 1, 2015 minimum wage rates increased to \$10.50 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 2015 increased by 2% in Summerside while rates remained the same in Charlottetown.

VIII. 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 to a maximum of 2.5%. The annual rent increase guideline is still an average of the monthly Ontario Consumer Price over the past year. The rent increase guideline for 2016 is 2.0%. Past rent increases are listed below.

Ontario	
Year	% of Rent Increase
2015	1.6
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

B. Manitoba

The annual rent increase guideline is determined annually based on the Manitoba Consumer Price Index. The rent increase guideline for 2016 is 1.1%. Past rent increases are listed below.

Manitoba	
Year	% of Rent Increase
2015	2.4
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

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 2016 is 1.5%. Past rent increases are listed below.

Nova Scotia	
Year	% of Rent Increase
2015	1.6
2014	2.9
2013	3.0

D. British Columbia

The rent increase guideline is calculated under the *Residential Tenancy Act*, which created a system of rent regulation that links the annual rent increase to the British Columbia Consumer Price Index. The rent increase guideline for 2016 is 2.9%. Past rent increases are listed below.

British Columbia	
Year	% of Rent Increase
2015	2.5
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

IX. 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.

X. SUMMARY

Based on the foregoing information, the Commission issued Order LR15-028 which did not provide for an increases for the 2016 calendar year by setting the allowable percentage rent increase at zero (0.0) percent for heated premises, unheated premises and mobile home site only in a mobile home park. Notification of the allowable percentage rent increase amount will be published in the *Royal Gazette*, advertised in the local newspapers, and posted on the Commission's web site.

The 2016 amount approved by the Commission will apply to rent increases between January 1 and December 31, 2016.