



# **Summary Report and Analysis: Allowable Percentage Rent Increase for 2017**

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

September 23, 2016

**Summary Report and Analysis:**

## Allowable Percentage Rent Increase for 2017

### 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 2017. 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 2017, analysis of increase factors, including an assessment of the Consumer Price Index (CPI) and analysis of projected operating cost increases for the 2017 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, 2016.

Accordingly, on August 17, 2016, 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 31, 2016.

### III. RESPONSES TO DIRECTOR'S NOTICE

The Director received a total of 24 submissions from lessees/tenants and 11 submissions were received from landlords.

Tenant concerns related primarily to issues of affordability 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 decrease in oil prices.

The landlord concerns related to increased expenses for operations and maintenance. They included:

- the increase in HST to 15% resulting in an increase in cost to many expenses;
- increased snow removal costs;
- increased cost of electricity; and
- increased water and sewer rates.

#### **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  
2007-2016

Year		Allowable Rent Increase
2016	Heated premises:	0.00%
	Unheated premises:	0.00%
	Mobile home site only in a mobile home park:	0.00%
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%

## V. CURRENT SITUATION

### *PEI Housing Outlook*

A review of CMHC *Housing Market Outlook* issued spring 2016 confirms that Charlottetown's rental market will see steady growth in demand as a result of a growing population. International immigration and seniors looking to downsize have contributed to the demand for rental accommodations. The number of rental apartments breaking ground over the forecast horizon will be modest as much of the growth in demand will be met by new units nearing completion. The vacancy rate in Charlottetown was forecast as 3.6 per cent in April 2016, which was down from 6.1 per cent in April 2015. From 2006 to 2015 the average vacancy rate in Charlottetown was 5.38 per cent.

*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:

<b>VACANCY RATES</b>		
<b>YEAR</b>	<b>CHARLOTTETOWN</b>	<b>SUMMERSIDE</b>
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 2016 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 2007 to 2016.

Canada		Prince Edward Island	
Year	Annual CPI Increase	Year	Annual CPI Increase
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%
2015	1.3%	2015	-0.1%
2016	1.3%	2016	0.6%

For the period of July 2015 - July 2016, the PEI CPI *All Items* category experienced an increase of 0.6%. Specific sub-indexes within the *All Items* index demonstrate no change in *Shelter* and an *Energy* decrease of 10.6% for the same reporting period.

The Bank of Canada’s current monetary policy is to target inflation at 2.0%. The July 2016 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 once again 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. Such increases amounted to +2.3% between 2014 and 2015.

Waste Watch

There was no increase in the fees associated with residential units in 2016. 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 2017 at this time.

#### Electricity

As per a February 2016 *Island Regulatory and Appeals Commission* Order, annual electricity rate increases will be limited to approximately 2.3% over the next three years.

#### Maintenance Costs

While these are rising as a result of increased labour costs and the increase in cost of goods associated with the lower exchange rate for the Canadian dollar, for the most part maintenance costs escalation over the coming year should remain within CPI level increases. The increase in such costs between 2014 and 2015 amounted to +2.5%.

#### 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, 2016, minimum wage rates increased from \$10.50 per hour to \$10.75 per hour on PEI. On October 1, 2016 minimum wage will increase to \$11.00 per hour, representing an increase of 4.7% since June 2016.

#### 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 2016 increased by 5% in Summerside while rates remained the same in Charlottetown. Of note, water and sewer rates in Stratford, PEI's third largest municipality, increased by 9.5% in 2016.

#### Insurance

According to Stats Canada the increase in homeowners' home and mortgage insurance increased by 8.1% between 2014 and 2015.

#### HST Increase

On Prince Edward Island HST rates will increase by 1% from 14% to 15% effective October 1, 2016. As residential rental accommodations are not subject to HST, input tax credits related to same are not available to landlords. Accordingly, the 1% increase will have a direct impact on the cost of residential rental operations.

#### Snow Removal

Snow removal rates were observed to have increased significantly during the winter of 2015 and largely the result of the abnormal snow fall experienced in 2014. Such increased costs did and will in all likelihood continue to impact the operations of all landlords and, in particular, mobile home park operations.

**VIII. OTHER JURISDICTIONS**

Across Canada, the 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 2017 is 1.5%. Past rent increases are listed below.

Ontario	
Year	% of Rent Increase
2016	2.0
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

B. Manitoba

The annual rent increase guideline is determined annually based on the Manitoba Consumer Price Index. The rent increase guideline for 2017 is 1.5%. Past rent increases are listed below.

Manitoba
----------



Year	% of Rent Increase
2016	1.1
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

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 2017 is 1.1%. Past rent increases are listed below.

Nova Scotia	
Year	% of Rent Increase
2016	1.5
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 2017 is 3.7%. Past rent increases are listed below.

British Columbia	
Year	% of Rent Increase
2016	2.9
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

## **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 LR16-14 which provided for an increase for the 2017 calendar year by setting the allowable percentage rent increase at one and a half (1.50) per cent 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 2017 amount approved by the Commission will apply to rent increases between January 1 and December 31, 2017.