

Summary Report and Analysis: Allowable Percentage Rent Increase for 2018

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 2018. 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 2018, analysis of increase factors, including an assessment of the Consumer Price Index (CPI) and analysis of projected operating cost increases for the 2018 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, 2017.

Accordingly, on July 29, 2017, 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* and the *Royal Gazette*. On August 2, 2017, the Director issued notice in the *Island Press* (*Eastern Graphic and West Prince Graphic*), and posted on the Commission's web site, with a deadline for response of August 31, 2017.

III. RESPONSES TO DIRECTOR'S NOTICE

The Director received a total of 6 submissions from lessees/tenants and 1 submission was received from landlords.

Tenant concerns related primarily to issues of affordability. Most requested 0% increase or if any increase a maximum of 1%.

The landlord concerns related to increased expenses in electricity, heat, water and sewer, and general CPI increases.

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
2007-2017**

| Year | | Allowable Increase |
|-------------|--|--------------------|
| 2017 | Heated premises: | 1.50% |
| | Unheated premises: | 1.50% |
| | Mobile home site only in a mobile home park: | 1.50% |
| 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% |

V. CURRENT SITUATION

PEI Housing Outlook

Key findings from the CMHC Fall 2016 Rental Market Report were lower vacancy rates for Charlottetown and Summerside contributing to an overall decline in the provincial vacancy rate; Immigration is the key driver of rental demand throughout the province.

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 2017 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 2017.

| Canada | |
|--------|---------------------|
| Year | Annual CPI Increase |
| 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% |
| 2016 | 1.3% |
| 2017 | 1.2% |

| Prince Edward Island | |
|----------------------|---------------------|
| Year | Annual CPI Increase |
| 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% |
| 2016 | 0.6% |
| 2017 | 1.8% |

For the period of July 2016 - July 2017, the PEI CPI *All Items* category experienced an increase of 1.8% while the Canada CPI *All Items* category increased by 1.2%. The Bank of Canada's current monetary policy is to target inflation at 2.0%.

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 increased in 2017 over 2016 by approximately 5%.

Property Taxes

Property taxes on non-owner occupied residential properties increase annually based on the market assessed value of these properties. For residential owner property taxes were limited to CPI increase of 1.2% in 2017.

Waste Watch

There was no increase in the fees associated with residential units in 2017. 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.

Interest

Interest rates have been very favorable over the past year. The Bank of Canada has increased rates by half percent in the past year.

Minimum Wage

On October 1, 2016 minimum wage will increase to \$11.00 per hour and on April 1, 2017 it increased to \$11.25.

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 2017 increased by 2% in Summerside while rates remained the same in Charlottetown. Water and sewer rates in Stratford, PEI's third largest municipality, increased by 6% for water and 15% for sewer in 2017.

Insurance

According to Stats Canada the increase in homeowners' home and mortgage insurance increased by 10.8 % between 2015 and 2016.

VIII. OTHER JURISDICTIONS

Across Canada, the 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 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 2018 is 1.8% and 2017 was 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 2018 is 1.3% and 2017 was 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. 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 2018 is 4% and 2017 was 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 LR17-16 which provided for an increase for the 2018 calendar year by setting the allowable percentage rent increase at 1.75 per cent for heated premises, increase of 1.5 per cent for 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 2018 amount approved by the Commission will apply to rent increases between January 1 and December 31, 2018.