

Summary Report and Analysis: Allowable Percentage Rent Increase for 2019

I. INTRODUCTION

The following report has been prepared in order to provide the Prince Edward Island Regulatory and Appeals Commission (the “Commission”) with the background information to establish the allowable percentage rent increase for 2019. This report contains information which outlines the statutory requirements pursuant to the **Rental of Residential Property Act** (the “**Act**”); an overview of the current housing market situation; the average rent increase in other jurisdictions proposed for 2019; analysis of increase factors, including an assessment of the Consumer Price Index (CPI) and analysis of projected operating cost increases for the 2019 allowable rent increase.

II. STATUTORY REQUIREMENTS

Section 23.(1) of 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 meet the minimum three (3) months’ notice requirement 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, 2018.

Accordingly, on July 28, 2018, the Director issued a Notice inviting written representation from landlords and tenants. The Notice was advertised in the Guardian, the Journal-Pioneer, and the Royal Gazette. On August 1, 2018, the Director issued notice in the Island Press (Eastern Graphic and West Prince Graphic), La Voix Acadienne, and posted on the Commission’s web site, with a deadline for response of August 24, 2018.

III. RESPONSES TO DIRECTOR'S NOTICE

The Director received a total of 7 submissions from lessees/tenants and 6 submissions received from lessors/landlords.

Tenant concerns related primarily to issues of affordability due to increases in all areas of living costs. Most requested a freeze or moderate percentage increase.

The landlord concerns related to increases in all expenses including electricity, heat, water and sewer, and general CPI index expenses. Increases sought by landlords ranged from 2% to 6%.

IV. HISTORIC ALLOWABLE INCREASES

The following table summarizes allowable rates approved by the Commission over the last 5 years.

Prince Edward Island Regulatory and Appeals Commission Allowable Rent Increases 2014-2018		
<u>Year</u>	<u>Description</u>	<u>Allowable Increase</u>
2018	Heated premises:	1.75%
	Unheated premises:	1.50%
	Mobile home site only in a mobile home park:	1.50%
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%

V. CURRENT SITUATION

Prince Edward Island outlook:

Key findings from the CMHC Fall 2017 Rental Market Report were lower vacancy rates for Charlottetown and Summerside contributing to an overall decline in the provincial vacancy rate. There has been an increase in demand for rental accommodations in the province. As a result, the apartment vacancy rate declined significantly year over year from 2.1% in October 2016 to 1.2% in October 2017. The risk for loss of revenues to landlords due to vacancies in the current market is therefore reduced to a nominal amount.

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 (CPI) – for PEI and Canada;
- Information regarding the current and future state of the housing and rental unit industry in PEI; and
- 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.

VII. ANALYSIS

In determining the recommendation 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 2018 period.

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

A. CPI Analysis

The following tables provide additional details on the actual percentage change in the CPI for Canada and Prince Edward Island for 2014 to 2018.

Canada Consumer Price Index Percentage Change 2014 to 2018	
Year	Annual CPI
2018	2.50%
2017	1.20%
2016	1.30%
2015	1.30%
2014	2.10%

Prince Edward Island Consumer Price Index Percentage Change 2014 to 2018	
Year	Annual CPI
2018	2.90%
2017	1.80%
2016	0.60%
2015	-0.10%
2014	1.20%

For the period of July 2017 – July 2018, the Prince Edward Island (PEI) CPI *All Items* category experienced an increase of 2.9% while the Canada CPI *All Items* category increased by 2.5%. The Bank of Canada’s current monetary policy is to target inflation at 2.0%.

The Commission recognizes that the All Items category for CPI of 2.9% includes items that are not directly attributable to running a residential rental building. Items included in the all items category which helped drive the year over year increase up was both food and gasoline. Therefore, the Commission gathered additional CPI information directly applicable to residential rental companies. The Commission specifically considered increases in Prince Edward Island’s CPI for Shelter which was an increase of 2.4%. Other factors considered were Homeowner’s maintenance and repairs at 2.3%, electricity at 2.6%, fuel oil and other fuel at 11.7%.

The following table provides a comparison of the rental increases approved by the Commission to the Canadian and Prince Edward Island consumer price index.

Prince Edward Island Regulatory and Appeals Commission Allowable Rent Increases Compared to PEI Consumer Price Index 2014-2018			
<u>Year</u>	<u>Description</u>	<u>Allowable Increase</u>	<u>CPI PEI*</u>
2018	Heated premises:	1.75%	1.80%
	Unheated premises:	1.50%	
	Mobile home site only in a mobile home park:	1.50%	
2017	Heated premises:	1.50%	0.60%
	Unheated premises:	1.50%	
	Mobile home site only in a mobile home park:	1.50%	
2016	Heated premises:	0.00%	-0.10%
	Unheated premises:	0.00%	
	Mobile home site only in a mobile home park:	0.00%	
2015	Heated premises:	1.75%	1.20%
	Unheated premises:	1.00%	
	Mobile home site only in a mobile home park:	1.00%	
2014	Heated premises:	2.00%	2.20%
	Unheated premises:	1.00%	
	Mobile home site only in a mobile home park:	1.00%	

*CPI as of July 31st of year prior year

B. Key Rental Cost Components

Heating Costs

Annual heating bills, derived from furnace oil, continue to be a significant cost factor for landlords. Furnace oil pricing has increased in 2018 over 2017 by approximately 18.7%.

Property Taxes

Property taxes on non-owner occupied rental properties increase annually based on the market assessed value of these properties and in 2018 the market assessed value increased 3.0%.

Waste Watch

There was no increase in the fees associated with residential units in 2018. 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 2018 at this time.

Electricity

As per an April 2017 Island Regulatory and Appeals Commission Order, annual electricity rate increases will be limited to approximately 2.3% over the next three years.

Interest rates

The Bank of Canada has increased the overnight policy rate by 1 percent from July 2017 to July 2018. The overnight policy rate as of July 25, 2018 is 1.5%.

Minimum Wage

On April 1, 2018 minimum wage increased to \$11.55 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 2018 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 14% for sewer in 2018.

Insurance

According to Stats Canada the increase in homeowners' home and mortgage insurance increased by 3.6% between June 2017 and June 2018.

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 create 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 2019 is 1.8% and 2018 was 1.8%. Past rent increases are listed below:

Ontario	
Year	% of Rent Increase
2019	1.8%
2018	1.8%
2017	1.5%
2016	2.0%
2015	1.6%

B. Manitoba

The annual rent increase guideline is determined annually based on the Manitoba Consumer Price Index. The rent increase guideline for 2019 has not yet been issued and 2018 was 1.3%. Past rent increases are listed below:

Manitoba	
Year	% of Rent Increase
2018	1.3%
2017	1.5%
2016	1.1%
2015	2.0%
2014	1.0%

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 2019 is 4.5% and 2018 was 4%. Past rent increases are listed below:

British Columbia	
Year	% of Rent Increase
2019	4.5%
2018	4.0%
2017	3.7%
2016	2.9%
2015	2.5%

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

The Commission has used the information collected above to aid in their decision on the 2019 Allowable Percentage Rent Increase. The research identified the major drivers in the CPI increase in 2018 were due to factors which do not apply directly to residential rental organizations expenses such as food and gasoline, therefore the Commission gathered additional CPI information directly applicable to residential rental organizations to determine an appropriate increase. The Commission paid close attention to increases in Prince Edward Island's CPI for shelter, homeowner's maintenance and repairs, and water fuel and electricity.

The Commission also reviewed the following: all submissions provided by the public which included submissions from landlords and tenants, other rent controlled provinces 2019 increases, and the current rental market in Prince Edward Island. The Commission determined landlords risk of reduced revenues due to vacancies to be low as the vacancy rate as of October 2017 was 1.2% and it is forecasted to be lower this year. This provides landlords with a greater opportunity to operate at optimal occupancy and revenue levels. This does benefit the landlord financially, however, this does not eliminate their increasing costs.

Based on the foregoing information, the Commission issued Order LR18-28 which provided for an increase for the 2019 calendar year by setting the allowable percentage rent increase at 2 percent for premises heated with furnace oil and other petroleum sources; at 1.75 percent for premises heated with electricity; and an increase of 1.5 percent for unheated premises and mobile home sites 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 newspaper, and posted on the Commission's website.

The 2019 amount approved by the Commission will apply to rent increases between January 1, 2019 and December 31, 2019.