



Dispute Resolution Services

Page: 1

Residential Tenancy Branch
Ministry of Housing

DECISION

Dispute Codes ARI-C

Introduction

This hearing dealt with the Landlords' application pursuant to section 43 of the Residential Tenancy Act (the "Act") and section 23.1 of the Residential Tenancy Regulation (the "Regulation") for an additional rent increase for capital expenditures.

While the landlord, CW ("landlord"), attended the hearing by way of conference call, the tenant did not. I waited until 9:51 a.m. to enable the tenant to participate in this scheduled hearing for 9:30 a.m. The landlord was given a full opportunity to be heard, to present affirmed testimony, to make submissions and to call witnesses. I confirmed that the correct call-in numbers and participant codes had been provided in the Notice of Hearing. Another party did dial into the hearing due to an error, and was re-directed to the right teleconference call. That party exited the hearing. During the hearing, I also confirmed from the online teleconference system that the landlord and I were the only one who had called into this teleconference.

Pursuant to Rule 6.11 of the RTB Rules of Procedure, the Residential Tenancy Branch's teleconference system automatically records audio for all dispute resolution hearings. In accordance with Rule 6.11, persons are still prohibited from recording dispute resolution hearings themselves; this includes any audio, photographic, video or digital recording. The landlord confirmed that they understood.

The landlord testified that they had personally served the tenant with their dispute resolution documents and evidence on February 19, 2023. I am satisfied that the tenant was served in accordance with sections 88 and 89 the *Act*. The tenant did not submit any written evidence for this hearing.

Issues to be Decided

Are the landlords entitled to impose an additional rent increase for capital expenditures?

Background and Evidence

While I have turned my mind to all the documentary evidence properly before me and the testimony of the parties, not all details of the respective submissions and / or arguments are reproduced here. The principal aspects of this application and my findings around it are set out below.

The landlord testified that this month-to-month tenancy began on February 15, 2020. Monthly rent is set at \$1,200.00, payable on the first of the month.

A landlord may apply for an additional rent increase if they have incurred eligible capital expenditures or expenses to the residential property in which the rental unit is located. To raise the rent above the standard (annual) amount, the landlord must have either the tenant's written agreement, or apply to the RTB for either an Additional Rent Increase for Expenses (ARI-E) or an Additional Rent Increase for Capital Expenditures (ARI-C).

The landlords are seeking to impose an additional rent increase for a total capital expenditure of \$42,657.37 incurred to repair the plumbing system in the home after a flood caused by a leak in the basement suite. This application pertains to a residential property that contains two individual dwelling units. The landlords reside in the upper portion of the home, while the tenant resides in the lower unit.

The capital expenditures listed in this application are as follows:

Work Done	Cost	Date Paid	Payment method
Plumbing Repair & Upgrade	\$8,802.96	2021-10-29	Credit Card
Exploration of broken drain pipe	\$676.20	2021-09-29	Credit Card
Insurance Deductible Paid related to flood	\$5,000.00	2021-10-25	Credit Card
Restoration and renovation of basement after flood	\$28,176.21	2021-11-25 2021-12-07 2022-03-16 2022-03-15 2022-06-24 2022-06-24 2022-06-30	Cheques & Credit Card

The landlord testified that they had observed water by the front door, which was discovered to be caused by a corroded plumbing pipe. The landlord had to call a restoration company to attend and clean up the flood. The landlord had to pay for exploration work to confirm the source and extent of the leak, and then perform repairs and restoration. The basement suite was renovated as part of the repair work.

The landlord testified that they did file an insurance claim, which only covered the damage caused by the flood. The landlord had to pay a \$5,000.00 deductible for the claim.

The landlords provided pictures of the leaking drain pipe, as well as the completed renovation.

The landlord testified the above work was required, and the capital expenditures were incurred within the 18 months before this application was filed on October 3, 2022. The landlord testified that they did not expect that these expenditures would re-occur in the next 5 years.

The landlords submitted copies of invoices supporting the referenced capital expenditures, as well as proof of the payments made.

The landlords have not imposed an additional rent increase pursuant to sections 23 or 23.1 of the Regulations in the past 18 months.

The tenant did not respond to the landlord's claims, nor did the tenant provide written consent for the applied increase.

Analysis

1. Statutory Framework

Sections 21.1 and 23.1 of the Regulations and Residential Tenancy Policy Guideline #37C sets out the framework for determining if a landlord is entitled to impose an additional rent increase for capital expenditures. I will not reproduce the sections here but to summarize, the landlord must prove the following, on a balance of probabilities:

- the landlord has not made an application for an additional rent increase against these tenants within the last 18 months;
- the number of specified dwelling units on the residential property;
- the amount of the capital expenditure;
- that the Work was an *eligible* capital expenditure, specifically that:

- the Work was to repair, replace, or install a major system or a component of a major system
- the Work was undertaken for one of the following reasons:
 - to comply with health, safety, and housing standards;
 - because the system or component was
 - close to the end of its useful life; or
 - because it had failed, was malfunctioning, or was inoperative
 - to achieve a reduction in energy use or greenhouse gas emissions; or
 - to improve the security of the residential property;
- the capital expenditure was incurred less than 18 months prior to the making of the application
- the capital expenditure is not expected to be incurred again within five years.

The tenant may defeat an application for an additional rent increase for capital expenditure if they can prove on a balance of probabilities that the capital expenditures were incurred:

- for repairs or replacement required because of inadequate repair or maintenance on the part of the landlord, or
- for which the landlord has been paid, or is entitled to be paid, from another source.

If a landlord discharges their evidentiary burden and the tenant fails to establish that an additional rent increase should not be imposed (for the reasons set out above), the landlord may impose an additional rent increase pursuant to sections 23.2 and 23.3 of the Regulation.

2. Prior Application for Additional Rent Increase

Based on the testimony of the landlord, I am satisfied that the landlords have not previously imposed an additional rent increase on any of the tenant within the last 18 months.

3. Number of Specified Dwelling Units

Section 23.1(1) of the Act contains the following definitions:

"dwelling unit" means the following:

- (a) living accommodation that is not rented and not intended to be rented;
- (b) a rental unit;

[...]

"specified dwelling unit" means

- (a) a dwelling unit that is a building, or is located in a building, in which an installation was made, or repairs or a replacement was carried out, for which eligible capital expenditures were incurred, or
- (b) a dwelling unit that is affected by an installation made, or repairs or a replacement carried out, in or on a residential property in which the dwelling unit is located, for which eligible capital expenditures were incurred.

The *Act* requires that all units in the building where the repairs or replacement was carried out be considered specified dwelling units, whether vacant or not. As the specified work was performed pertains to work on the property which contains two suites, for the purpose of this application, I find that there are two "specified dwelling units".

4. Amount of Capital Expenditure

The landlord provided a comprehensive list of expenditures incurred in the 18 months prior to the filing of this application.

5. Is the Work an *Eligible* Capital Expenditure?

As stated above, in order for the Work to be considered an eligible capital expenditure, the landlord must prove the following:

- the Work was to repair, replace, or install a major system or a component of a major system
- the Work was undertaken for one of the following reasons:
 - to comply with health, safety, and housing standards;
 - because the system or component was
 - close to the end of its useful life; or
 - because it had failed, was malfunctioning, or was inoperative
 - to achieve a reduction in energy use or greenhouse gas emissions; or
 - to improve the security of the residential property;
- the capital expenditure was incurred less than 18 months prior to the making of the application;
- the capital expenditure is not expected to be incurred again within five years.

a. Type of Capital Expenditure and Reason for Expenditure

I find that the plumbing in the home qualifies as a major component for the purposes of this application, and which has failed. I find that the corrosion is indicative that the plumbing may have been close to the end of its useful life. I find that the landlord incurred this expenditure in order to replace this failed component, and therefore I find that this expenditure qualifies.

I note that as per the Policy Guideline “Cosmetic changes are not considered a capital expenditure. However, a cosmetic upgrade will qualify if it was part of an installation, repair, or replacement of a major system or component.”. I accept that the cosmetic changes were performed as part of the repair and restoration process, and therefore also qualify.

b. Timing of Capital Expenditure

As noted in Policy Guideline 37c, “A capital expenditure is considered “incurred” when payment for it is made. If a landlord pays for a capital expenditure by cheque, the date the payment is considered to be “incurred” is the date the cheque was issued by the landlord.” I accept that the landlords have met the timing requirements for this application, and that the incurred expenses occurred within 18 months of the landlords making this application.

c. Life expectancy of the Capital Expenditure

I am satisfied that the life expectancy of the components replaced will exceed five years and that the capital expenditure to replace them cannot reasonably be expected to reoccur within five years.

For the above-stated reasons, I find that the capital expenditures incurred to undertake the Work described are eligible capital expenditures, as defined by the Regulation.

6. Tenant’s Rebuttals

A tenant may defeat an application for an additional rent increase if they can prove that:

- the capital expenditures were incurred because the repairs or replacement were required due to inadequate repair or maintenance on the part of the landlord, or
- the landlord has been paid, or is entitled to be paid, from another source.

The tenant did attend the hearing to provide any rebuttals or to dispute the landlords' claims.

I am satisfied that the capital expenditures incurred were because the repairs or replacements were required, and not due to inadequate repair or maintenance on the landlords' part. I am also satisfied that the landlords have only claimed amounts that have not been paid from another source, or which they are entitled to be paid from another source.

7. Outcome

Summary

I find the landlords have met the burden of proof on a balance of probabilities that they have incurred eligible capital expenditures in the total amount of \$42,657.37. I find the landlords have established all elements necessary for an additional rent increase for the eligible capital expenditures as set out in their application.

Section 23.2 of the Regulation sets out the formula to be applied when calculating the amount of the additional rent increase as the number of specific dwelling units divided by the amount of the eligible capital expenditure divided by 120.

In this case, I have found that there are 2 specified dwelling units, and that the amount of the eligible capital expenditures is \$42,657.37.

Accordingly, I find the landlords have established the basis for an additional rent increase for capital expenditures of eligible capital expenditure as noted above ÷ number of units for that specific building (2) ÷ 120.

If this amount exceeds 3% of a tenant's monthly rent, the landlords may not be permitted to impose a rent increase for the entire amount in a single year.

The parties may refer to *RTB Policy Guideline 37c*, section 23.3 of the Regulation, section 42 of the Act (which requires that a landlord provide a tenant three months' notice of a rent increase), and the additional rent increase calculator on the RTB website for further guidance regarding how this rent increase made be imposed.

Conclusion

I grant the application for an additional rent increase for capital expenditures as specified above. The landlords must impose this increase in accordance with the *Act* and the *Regulation*.

I order the landlords to serve the tenant with a copy of this decision in accordance with section 88 of the *Act*.

This decision is made on authority delegated to me by the Director of the Residential Tenancy Branch under Section 9.1(1) of the *Residential Tenancy Act*.

Dated: April 25, 2023

Residential Tenancy Branch