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WHY HAS THERE BEEN A RISE IN LEVY LIABILITIES IN SECTIONAL TITLE SCHEMES?

Sectional title schemes that were financially poorly managed ran into various problems in the past. As a result a lot of distressed owners not only saw the scheme's ongoing deterioration but also had to come to terms with the inevitable and sometime sharp depreciation in the value of their property investments.

It became difficult and sometimes impossible for owners in these schemes to sell their properties and even when they were able to find a buyer, banks were reluctant to grant mortgage finance to their buyers as the banks felt their security was at risk

The legislator recognized this problem in schemes when it formulated the new Sectional Title Management Act, and addressed these shortcomings to protect owners in schemes as well as their investments by introducing the following new measures:

1. Compulsory creation of a reserve fund by the body corporate in addition to the administrative fund to cover future expenses arising from unforeseen or major maintenance to common property. The reserve fund will mitigate the need to raise special levies, which often come as an unexpected shock to owners in a scheme and often proves difficult to collect.
2. Compulsory creation of a maintenance, repair and replacement plan with a view to prepare for the maintenance of major capital items on the common property for a period of 10-years. This includes items like electrical systems, plumbing, drainage, heating, lifts, roofing, painting, security systems and recreational and parking areas. The maintenance plan is there to give owner's peace of mind over the effective management of these future expenses.
3. Compulsory fidelity insurance against the risk of money being lost as a result of fraud or dishonesty by an "insurable person" which means anyone who has access to or control over money belonging to the scheme.
4. Compulsory public liability insurance to cover compensation for bodily injury, death or illness of a person in connection with the common property or damage or loss of property sustained in connection with the common property. Both these events in 3 and 4 had potentially devastating financial consequences for the owners in a scheme and legislation now provides for compulsory protection against it.

These additional compulsory protection measures in 1 – 4 above introduced by the Sectional Title Management Act as well as the small administration fees per unit introduced by the Community Scheme Ombud Service Act (for quick and affordable dispute resolution to the Community Scheme Ombud Service) resulted therein that additional funds needed to be generated from each owner in the sectional title scheme. Ultimately the benefits and security these measures provide to the owners and their property investment far outweigh the additional costs on the monthly levy statement.

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