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SECTIONAL TITLE PROPERTY: HOW IS VALUE ACTUALLY DETERMINED?



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The market values of sectional title properties are not determined solely on location, appearance and amenity of the bricks and mortar. To a large extent values are affected by the quality of administration and management of the scheme within which the unit is situated. Accordingly, any potential purchaser, before entering into that important commitment to obtain ownership, must delve deeper than merely looking at the attractiveness and suitability of the accommodation. It must be kept in mind that ownership of a sectional title unit involves much more than owning a traditional house on freehold land and that additional and more complicated issues may arise.

Apart from the fact that the prospective buyer must understand that he or she will involuntarily become a member of an association of owners, bound by rules and managed by a board of trustees, it must also be understood that in order to protect and enhance the property value, a sound understanding of sectional title property management by the owners is a basic requirement. The aforementioned is vital, given that the trustees, appointed annually at the AGM from the group of "ordinary" owners, are ultimately tasked with the management and administration of the scheme.

New owners generally have scant knowledge of sectional title management and are inclined to stand aloof from management issues – until something goes wrong affecting their interests.

It is essential that prospective owners appreciate that the standard of management has a direct impact on their Rands and Cents and that the quality of management may differ significantly from scheme to scheme.

In an attempt to assist the prospective buyer – I will list hereunder a few markers in respect of the qualities of good or bad management: Find out who the managing agent is, if any. Whilst some self-managed schemes are well run, the general rule is that the appointment of a good managing agent is a great advantage. Set up an interview with the managing agent. and obtain the following information:

(a) Is the firm a member of the National Association of Managing Agents (NAMA). If not, the danger is that the individuals may not be properly trained and experienced and may not adhere to a high ethical standard.

(b) Occurrence of disputes within the scheme and the nature thereof. Regular disputes may be a bad sign of ineffective management.

(c) Confirm owner occupancy rate. Where a substantial number of units are let in a scheme this may lead to owner apathy which in turn could have a negative impact on management and compliance with scheme rules.

(d) Obtain copies of the management and conduct rules. Be aware if the managing agent is unable to furnish these. Peruse the contents of these rules which will indicate amongst other; how levies are determined and various other do's and don'ts in the scheme. Pay particular attention to the provisions regarding pets and parking, in order to avoid unpleasant surprises. Ensure that this information

agrees with what you have been told by the seller and/or the sales agent.

(e) Obtain a copy of the sectional plan and study it so as to become familiar with the layout of the sections and exclusive use areas (where applicable). Take note of the participation quotas. If the managing agent does not have a copy of these plans, then I would question their ability to manage the scheme in accordance with the provisions of the Act and Rules and would stay clear from such a scheme.

(f) Be very careful when buying into small schemes and in particular schemes (consisting of only two units). Duet schemes, if not set up properly from the outset may present difficult and unpleasant problems which may lead to loss of property value and the same may apply to small schemes not properly managed.

(g) Obtain a copy of the scheme's insurance policy and ascertain whether the sum insured for the buildings and common property is sufficient, and whether the policy complies with Prescribed Management Rule(PMR) 29. It is recommended that the buyer consult with an expert insurance broker, if necessary.

(h) Ascertain whether the body corporate has a sufficient reserve fund. A reserve fund is compulsory but is often neglected, which may result in later unpleasant special levy surprises. Keep in mind that your purchase price includes a pro rata share in the reserve fund. If there is nothing, the price is possibly too high.

(i) Obtain a copy of the latest financial statements of the body corporate. This will reveal the position of the reserve fund, if any, and will indicate the financial health of the body corporate. Look out for levy arrears which is not a good sign if it is substantial.

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(j) Find out whether any special levies have recently been raised or are being proposed. The fact that special levies are required, usually indicates poor financial planning. This may eventually undermine the market values of units.

(k) Inspect the physical condition of all buildings in the scheme, not only the section in which you may be interested in. Keep in mind that all owners are responsible for the maintenance and upkeep of all common property in the scheme. If poor conditions prevail in these areas - be assured of increased levies or special levies in the near future.

(l) Ascertain whether annual general meetings have been held as consistently as required in terms of

PMR 51, that is within four months of the scheme's year-end. Peruse the minutes of the last AGM. If any AGM's were skipped or held outside the required period it may be an indication of poor management which in turn may be to the detriment of market values.2. The professionalism of the appointed managing agent will be key in much of the above and as noted under point 1 a good indicator of professional management is whether the managing agent is a member of NAMA, an organization which presents regular training sessions and remain in touch with all new developments in the sectional title industry. Potential purchasers of units in community

schemes need to be mindful of the fact that all owners as well as the appointed trustees are all in the same boat which may or may not sink or float, depending upon the quality of navigation set. First rate management is always a team effort by all owners. They have elected the trustees themselves, may dismiss them if necessary and they have statutory powers to issue instructions to the trustees to ensure safe navigation. Owners cannot afford to stand aloof of management issues, but at the same time should not interfere unnecessarily to an extent that makes management problematic for the trustees and the managing agent. 

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NAMA EVENTS

Gauteng North Region

21 September 2016 – Event cancelled.

Email namanorth@nama.org.za for more information

KwaZulu-Natal Region

No event scheduled for September 2016

Email namakzn@nama.org.za for more information

Western Cape Region

No event scheduled for September 2016

Email namawc@nama.org.za for more information

Eastern Cape Region

No event scheduled for September 2016

Email namanorth@nama.org.za for more information

Gauteng West Region

No event scheduled for September 2016

Email namawest@nama.org.za for more information

Free State Region

No event schedule for September 2016

Email namawest@nama.org.za for more information

Gauteng East Region

No event scheduled for September 2016

Email namawest@nama.org.za for more information

WC Region Annual Golf Day : 28 October 2016 - Stellenbosch Golf Club. R2500,00 per 4-ball (**same** price as last year). The WC Committee has challenged all NAMA WC Managing Agents to take a 4-Ball and come and play "the game of Kings". Sponsorship options are also available.

Email namawc@nama.org.za for more information

GW & GE Regions Annual Golf Day : 9 November 2016 - Killarney Country Club, Johannesburg.

R4500,00 per 4-ball.

Email namawest@nama.org.za for more information



MANAGING AGENT INFORMATION

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