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Life rights vs sectional title living: pros and cons

As an increasing number of South Africans look ahead towards retirement, the two most popular homeownership options are life rights and sectional titles properties. Gus van der Spek, founder and owner of life rights management company Manor Life, looks at the pros and cons of each.

Gus van der Spek, founder and owner of Manor Life

"Simply put, life rights buys you the right to live in a home in a retirement facility and gives the holder of the right the security of tenure for the rest of their life," explains Gus van der Spek, founder and owner of life rights management company Manor Life.

The process is clearly and legally regulated and protected by the Housing Development Schemes for Retirement Persons Act (HDSRPA) 65 of 1988, which states that life right holders are entitled to the same rights they would have if they had entered in a registered long-term property lease.

When the occupant is deceased or chooses to move, the sale of the life right operates similarly to that of a house sale.

The holder of the right will receive payment upon sale to the next holder and if the holder is the occupant, the money will be paid to their estate. "If the right sells for more than the previous holder paid, they will be paid back the full amount they invested, less any transactional and renovation costs," says Van der Spek.

Sectional titles refer to ownership of a unit within a complex or development. This differs from a full title, which is where full ownership rights, including the land upon which the property is built, are purchased.

Sectional title owners are subject to levies and maintenance costs, usually according to the size of their unit. Levies are calculated according to the budget put forward by the trustees.

In comparing life rights with sectional titles, there are advantages and challenges to consider, he adds. "The choice ultimately depends on your finances, the lifestyle you're striving for, and your personal preferences when it comes to investing in your future", says Van der Spek.

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Marina Constas 3 May 2021

Life rights: Pros and cons

No property transfer. This makes life right living a more affordable option, as there are no transfer duties, no vat and no bond registration fees involved. "For many retirees worried about the depletion of their retirement funds, these savings are one of the major advantages of life right living," says Van der Spek.

No special levies. Life right holders are far less likely to face hidden costs and special levies. "The HDSRPA requires developers of a life rights village to produce a transparent statement declaring how levies will be calculated, as well as a two-year projection of what levies will be. This is a big help to occupants who can plan their finances accordingly," explains Van der Spek.

Reduced cost of living. A primary benefit of life rights living is that day-to-day running costs are greatly reduced. "Longevity of living capital is crucial when planning your retirement, what developments offer are a basket of services and facilities which replace the relatively higher costs of homeownership and unshared services. For example, your home cleaning service can be purchased by the hour, instead of an inefficient daily service; over years, these savings add up to a considerable sum of money.

Developers have a vested interest in property value. "The developers are committed to maintaining the conditions of the unit, the facilities, and the village, as when the life right terminates, ownership reverts back to them and the on-going perceived value is directly related to the condition of the estate."

Extensive facilities. "Living in a modern village with extensive on-site facilities and access to healthcare is of major benefit to retirees and relieves a lot of stress that would be a part of living in a freehold property," says Van der Spek.

Resort-like living. Secure, communal living which provides all the advantages of homeownership without the hassles of repairs and upgrades, domestic workers, garden upkeep, insurance and home maintenance leaves a lot of free time for a stress-free retirement.

While Van der Spek is a big proponent of the 'hassle-free' aspect of life rights, he does indicate that there are some features of the option that might not be best suited to every individual.

No-pet policies. Many retirement villages, whether life right or sectional title, enforce no-pet policies.

Transition period. For those moving from large family homes or freestanding units, a more communal style of living may require a period of adjustment.

Waiting lists. As the popularity of life right schemes continues to rise, retirees might face long waiting lists for life rights developments.

Similarly, sectional title properties have their own list of pros and cons that require closer examination.

Sectional title properties: Pros and cons

Maintenance is taken care of. "Sectional title schemes are self-regulated and owners share in the costs and responsibility of services and repairs. They are centrally managed by a body corporate which comprises owner representatives. Self-governance is appealing to some people.

More cost-effective than full title or freestanding homes. Sectional title homes are often more affordable than freestanding or full title homes and can be a good property investment.

Security. As with life rights villages, sectional title complexes often provide reliable security, such as security guards, cameras, and secured entry points.

A sense of community. Similarly to life rights villages, complexes offer a sense of shared community, and the opportunity for a communal way of living.

There are also significant disadvantages of this model that prospective buyers need to be aware of. These include:

Reliance on complex management. "If the complex is managed poorly and owners fail to pay levies on time, the body corporate will not be able to pay its creditors, leaving the complex to fall into disrepair."

Under-insured units. Units are often under-insured, as trustees fail to increase the insurance in an effort to keep levies lowered. This leaves owners vulnerable if they need to claim. "Owners can increase their insured value but are then liable for the additional premium incurred," adds Van der Spek.

Special levies. Owners may be expected to come up with finances they hadn't budgeted for to pay special levies. Trustees may claim payment of special levies to cover specific needs, such as security upgrades or the installation of new facilities. They may also claim special levies as a result of improper budgeting, leaving owners to contribute an additional amount.

"Whether you choose a life rights community or become the owner of a sectional title home depends on what you want out of your retirement. Are you looking to invest in a property, or a lifestyle?" concludes Van der Spek.