

# Tips for home buyers: types of property ownership

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It is widely acknowledged that investing in property is an ideal first step in wealth creation. Property is a sound medium to long term investment and also provides security for the future.

“The two most common types of ownership are freehold and sectional title. Freehold usually applies to freestanding homes in residential areas, but also applies in certain gated estates. In freehold ownership you will own your portion of land (the plot) and the buildings on it; be responsible for all municipal charges eg water, electricity, refuse removal and sewage (unless you have a septic tank) as well as for insuring the property.”

There are a variety of options available to the property purchaser – you can buy in your own name, in more than one person’s name (as a syndicate or forming a partnership) or in a company or trust, says Carol Reynolds, area principal for Pam Golding Properties in the Durban, Durban North and La Lucia areas.

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She says if it’s a freehold property in a gated estate, a levy is paid to the homeowners association (usually a non-profit company) to maintain the common property and cover security costs. In addition, you are obliged to become a member of the Homeowners Association and abide by its Conduct Rules.

“Sectional title property usually refers to flats and simplex/duplex developments and in this regard you own a ‘section’ – the interior of the unit, contained by walls, ceilings and floors plus you will own a share in the common property. Furthermore, you may be entitled to an ‘exclusive use’ area – part of the common property which is usually a garden area or a carport.

“With sectional title property you are obliged to become a member of the body corporate and abide by its conduct rules; pay a levy (this covers the cost of running the development, insurance and usually water) based on your ‘participation quota’ (determined by the area of the unit and exclusive use area); and you are responsible for paying municipal rates, electricity, refuse removal and sewage. Before buying into any complex ensure that you have received a copy of the conduct rules and recent financials for your own peace of mind, and if mortgage finance is involved in acquiring the property your bank will require them. A healthy body corporate is a good indicator of a well-run complex, which is critical from an investment perspective,” says Reynolds.

She says when purchasing property you will need to consider if you want an existing property, land on which to build, or a ‘plot and plan’ option from a developer. “When buying land you can design a brand new house custom-built for you. However, bear in mind that there are holding costs, in that you will need to rent while you are building, as well as pay for the build and pay for the bond instalments on the land. Building costs also need to be factored into the equation: currently building costs start from around R5 000 per square metre and can escalate as high as R20 000 per square metre for top quality finishes. It is also important to note that banks generally only lend up to 50 percent of the value on land sales, so you will need to have a 50 percent deposit to put down on the land. Other costs and time delays to keep in mind are costs linked to getting plan approval and professional fees.

“When buying plot and plan you will have a brand new home without the above hassles - and no transfer duty is payable. In both cases, you need to ensure that the builder is reputable and NHBRC (National Home Builder Registration Council) registered. With the Consumer Protection Act a heavier onus is on developers to ensure that the property is sold in good condition without any defects.”

## **VAT or transfer duty:**

Further useful advice from Reynolds is to remember that in regard to a property purchase only one tax can apply – either transfer duty or VAT. VAT usually applies to new residential developments as well as commercial properties where the property is owned by a VAT vendor. VAT is included in the purchase price and then paid by the seller as part of his/her VAT bill. Transfer duty is paid by the purchaser and is excluded from the purchase price.

Adds Reynolds: “It is important when buying a property and applying for a bond to disclose your marital status to the agent and bond consultant. The agent and the attorney will need to know whether you are single, married in or out of community of property and which country’s laws govern your marriage. If you are married in community of property, both spouses will need to sign the sale agreement. If you are not a South African citizen it is also important to disclose your residency status in South Africa.

“In addition, buyers should be aware that some banks will require life insurance to cover the loan in the event of your death, in which case you may be required to either cede an existing policy or to take out a separate Home Loan Protection Policy. In regard to Homeowner’s Insurance, which covers the

actual building, this resides with the owner and not the occupant, so on the date of transfer, the responsibility for insurance passes from the seller to the purchaser. If the buyer takes early occupation, ie before transfer, then the seller is still responsible for the homeowner's insurance," she says.

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