

# The Landlord

For Landlords and Sectional Title Owners



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## 470 Eco-Friendly Homes in Vista Park

Welcome back to 2012! It already looks like being a great year. One of the early projects will be the development of some 470 eco-friendly homes in Vista Park. Each home will be constructed using airiated concrete bricks. These bricks that are very widely used elsewhere in the World and known by various propriety names, have exceptionally high thermal, noise and moisture insulation. The building materials are going to reduce the buyers energy bills significantly when compared to a similar sized conventionally built home. Far less energy will be required to heat or cool these homes, which are expected to come complete with double glazed windows. The developers, based in Mumbai, Vladivostok, and Prague, are currently considering implementing full internet connections for each property as a free extra.

Homes, which will be of both two or three bedroom design, each with high quality fittings. Prices are expected to range from R500,000 to R650,000 and the innovative design has already been approved by some of the major banks. A waiting list for potential buyers has been opened at Platinum Global with the official announcement and launch expected in February this year.

## CHECK OUT YOUR COMPLEX PLANS

A good resolution for the new year would be to have a look at the sectional title plans for your complex and compare them to what is actually on the ground. You will be surprised how many unauthorised changes are likely to have been made. Some units could have extra extensions, rooms, garages, carports, enclosed stoeps and balconies, garden enclosures etc. Some of the common property, gardens, parking, could well have been allocated incorrectly. All these changes will have to be rectified.

Some of these changes might seem innocuous but others can be quite serious. ALL changes must be approved in the proper way.

- ✓ Proper motivated plans for any changes that are intended . Some people ask owners to receive municipal approval first but I think that permission – subject to municipal approval – should be given as the cost of having plans drawn and approved can be considerable.
- ✓ Their submission at a general meeting where all the owners have an opportunity to decide whether or not the changes should be approved. Remember nobody can change the outside appearance or increase the size of their unit without receiving written approval of all the people in the building (not just the trustees) and this is why it must go to a general meeting.
- ✓ Some of the problems that are likely to arise are;
  - That the building has already been built to its maximum bulk and that no further building is allowed (this is part of the zoning building allowances)
  - That the buildings are inside “no building areas” of the ground of the complex (pipe line and electricity rights of ways)
  - That you are taking away somebody else’s rights
  - That you want to use part of the building for a purpose other than it was designed for. A common example would be where somebody wants to change a garage into an extra room. The sectional titles act specifically prohibits this. The main reason being that the municipality has parking regulations and all too often these parkings are taken away one way or another and fall below the municipal requirements.
  - The changes are in excess of 10% of the size of the unit. In this case not only the Body Corporate must agree to the changes but the bond holders – all the bondholders who have bonds in the scheme have to be notified and any one of them can object to the change. Luckily it is no long necessary to get a positive reply from every bond holder. It is just necessary to notify each bond holder and not get an objection within 30 days. However one must be very careful when doing this. While it is fairly easy to get hold of the main banks, what happens when the bond holder is somebody living somewhere in Australia. It might be very difficult to get their correct address. No changes can be started until proper notice to a proper address has been sent.
  - Somebody might object!

Who pays the cost of these changes. Obviously the owner does. It has nothing to do with the body corporate and all costs must be covered by the owner/s involved. If there are any legal fees incurred by the body corporate in checking whether changes are allowed or not these would also have to be covered by the owners asking for permission. At the end of the day the sectional title plans must be changed to reflect the new situation. The additional areas must be drawn on the plans and the levies will have to be recalculated to take this into account. Remember a larger area means a higher insurance value, possibly a greater outside area to maintain. This cost must also be covered by the owners involved. It might be a good thing to get all the changes that need to be rectified done at one time and those owners involved to share the cost. Remember NO changes may be made until all the proper approvals have been given. The body corporate is under no obligation to accept any changes that owners have made without permission and are quite able to enforce their rights to have any changes demolished with costs. Owners be aware and do things the right way.

## Pay Insurance Claims into the Body Corporate Account

A very interesting article was published by well known sectional specialist attorneys Biccari Bello Marinao Inc about what happens to money received from insurance claims.

“Section 37 (1) (h) of the Sectional Titles Act mentions that ‘all insurance monies received’ must be used for the reason of the claim in respect of damages”. In other words if you claim for damaged ceilings due to a storm you have to use the insurance claim money to fix the ceilings. They say that some complexes which have inadequate levies make use of these funds for the daily running of the complex – which is not legal. The insurance money should never be paid to the owner involved as if this owner does not use it to fix the fault all owners in the building will be at financial risk as the building falls into a state of disrepair.

For this reason it is preferable for claims payments to be made directly into the bank account of the Body Corporate, where they have a separate account, as they do at Platinum Global, or the Managing Agents trust account to ensure the funds are utilised for the purpose for which they were intended.

Mike heartedly agrees with the above sentiments. All insurance money should be paid to the Body Corporate account and ALL money received must be used to fix the problem. The insurance policy belongs to the body corporate and not to the individual owner and the claim should be handled by the managing agent or the Trustees where there is no managing agents. Where the claim resulted from damage or lack of maintenance by the body corporate – storm damage/roof leak, then the excess should be paid by the body corporate. But where the damage is not on the common property then the excess must be paid by the owner concerned.

All claims must be reported to the insurance company within 30 days of discovery. Whoa betides any Body Corporate that does not keep an eye on maintenance –the insurance company will simply repudiate the claim. Typically this happens with roof leaks where maintenance has not been done and for this the reason for the insurance company may not be happy to pay out. If this happens the owner of the unit would be fully entitled to expect the body corporate to pay instead. Trustees must keep an eye on the building and do regular top to bottom inspections. It is a good idea to do this together with the managers.

## What is the Right Rental

What rental should you get for your investment property? In mainly tenanted sectional title buildings it is often the case that rentals vary considerably. Sometimes this is caused by the lack of knowledge by owners of the range of rentals that are being charged for other units in the building. Sometimes it is the owner who restrict the rental increases for one reason or the other – they have sympathy for the tenants situation. But vary they do.

Condition does have an influence of the rental that can be obtained but in a market where accommodation is in short supply this should not have a major effect. Poor flats will take longer to let but will be let – with the risk of a month or so of vacancy – and tenants immediately start looking for something better. Really nice condition flats normally let immediately. So it does pay to make sure that your flat is in fairly good condition and to do any repairs/painting that might be necessary when tenants change.

Landlords should do what good managing agents do – make a list of all the flats/townhouses in your building, put down the size and condition (if known) and the rental received. It will then be possible to judge whether you are charge too much or too little.

I do not suggest that you should be aiming to receive the highest rental in the building. Very high rentals put potential tenants off unless there is something very special about that particular place. Asking rentals that are 10% of so off the maximum (for a reasonable condition flat) is likely to achieve the maximum long term rental.

When increasing rentals, it is important to give the proper notice in terms of the lease that you are using (often two calendar months). Don't leave it to the last minute and ensure that the tenant “receives” it before the end of the month instead of sending it before “12 o'clock” on the first day of the next month which is unfortunately so common.

It should be possible to increase rentals by improving the condition of your property. A spring clean, new light fittings, repainting may be all that is needed. Owners might consider upgrading with new carpets, floor and wall tiles, cupboards etc. It might sound expensive but can be done for quite moderate amounts. R40,000 will often go a long way which is effectively less than R400 pm on your bond. For getting a better quality tenant and a higher rental that will cover this amount may well be worth it. If you are able to pay cash for the improvements and get this sort of extra income this represents a sizeable 12% net return on your investment!

## Is Your Levy Too Low?

Is your Levy too low? Sounds a crazy question but many levies are far too low to keep your property probably maintained.

Some owners and Trustees don't want to make the levies higher because one or more of their owners is financially strained, other times because the building is mainly let and owners are looking for maximum returns.

But it is a Trustees obligation and responsibility to ensure that the levy is sufficient to pay for all running expenses for the forthcoming year AND includes a savings portion that will be available to pay for future major maintenance items (waterproofing, lift replacement etc).

A recent change was made to the Sectional Titles Act that now requires the levy to run from the beginning of the financial year and not from the AGM as many body corporates still do. When this is done it means that the increased income only starts after the AGM and can create a budget shortfall.

Budgets should be realistic and based on previous years costs. Each item should be investigated and adjusted for inflation or expected increases – it would make real sense to increase electricity by 25% because of Eskom's increases. Increases should not necessarily occur from the start of the budget year as increases happen at different times. Municipal increases in Bloemfontein start from 1<sup>st</sup> July each year for example. As you will see an increase for only 6 months will have a different effect on your levy than one for all 12 months.

Don't forget to have a reserve (savings) portion to your levy. Be realistic. If painting needs to be done in about 5 years and costs R500,000 you will need to save R100,000 per annum to accumulate enough to pay for it. Your reserve fund may be set for a number of different items which you know ARE going to have to be done, painting, water proofing, paving replacement, lift motor replacement and more. If you don't save sufficiently you will end up having a Special Levy. Most owners would rather pay R100 pm more now that have to cough up thousands of Rands in a year or two's time.

Remember the Trustees are obliged to see the levy from the beginning of the financial year and are allowed to increase levies by up to 10% without reference to the owners in general meeting. The budget is still discussed at the AGM and can be altered by owners if they feel they need to.



### Union Ave 2 Bedroom R350,00 Bargain

Serious seller – serious selling price. Most 2 bedroom units sell for close to R450,000. Yes, this one needs some work, estimated at R40,000 but it is a really good buy. If you are renting it would make a great affordable first home. For an investment it will give a very satisfactory return. Other units in the same building are on the market at far higher prices. Contact Mike Spencer @ 082 881 4711 to view.



### Massive 207 sq m. townhouse R1,500,000

Well priced huge ground floor 3 bedroom, 2 bathroom townhouse as big as most houses. Ideal for retirees and widows. Big private garden. Double garage. Owner moving to retirement home. Individually designed unit in small complex in northern suburbs. Separate dining room and wine cellar included. Occupation date negotiable. Really worth while viewing if your are looking for a special nice spacious home. Contact Mike Spencer 082 881 4711



### At UFS Main Gate

Well run and financed low maintenance complex of one and two bedroom units. Currently a choice of 4 two bedroom flats available to choose from. Prices from R600,000. Less than 5 minutes walk from main gate of UFS. Close to Mimosa Mall and Brandwag Shopping centres.

Ideal for students and young people. Good covered parking and additional open bays. Good security make it a safe place to stay. Talk to Platinum Global about this and other student flats for your sons and daughters.

Contact Mike Spencer 082 881 4711

### Other great buys

One only OAKLEAVES in Bainsvlei R615,000. Two bedroom flat (new) with double carport and swimming pool in the complex. Price includes transfer costs. This is a sort after unit by both owner occupiers and investors. Price includes built in oven and plates. OAKLEAVES is situated in the grounds of the Bains Game Lodge but accessed independently from the road behind. Just minutes drive from UFS it is close to Langenhoven Park and all its facilities. Would suite young couple as first home, student/s at UFS, small families and retirees. Investors have bought about half of the units in this development.

PARK LANE Puuurrfect property. Probably one of the nicest upgraded flats that I have seen. This two bedroom flat with its own lock up garage is ideal for young at heart retiree, couples or spinsters. It has been beautifully up graded to the highest quality throughout and includes extensive first class cupboards and display cases in the lounge. Park Lane is managed by Platinum Global and has excellent reserves. Definitely one to see. Quiet north facing buy for “parents”.



### RESIDENTIAL PROPERTY SPECIALIST WANTED

Do you think you have what it takes to be a great home marketer. Platinum Global are looking to expand its residential sales team in 2012 to cater for the growing demand for its services. We are looking for energetic people for all areas. Specialist training will be given to new entrants into the industry. You will be expected to acquire your NQF4 (Real Estate) qualifications within 6 months of joining the company. CV to [mikehome@telkomsa.net](mailto:mikehome@telkomsa.net)

Pass this “The Landlord” on to your friends or get them to subscribe to [mikehome@telkomsa.net](mailto:mikehome@telkomsa.net). If you have questions about letting residential property or the management of your scheme you are welcome to write to the same email address and we will do our best to give you professional guidance. Contact Tania at 051 447 4711 in connection with letting out residential homes.