

What body corporate finances really mean for your investment

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Whether you own a property in a sectional title complex or are looking to invest in one, the financial standing of the body corporate is the single most important thing that can affect your investment or your buying decision. This is because the financial management of a complex will have significant impact on the property's appreciation potential as well as levy amounts payable, future increases and the potential of special levies being implemented.



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Audited financials

Before buying into a sectional title complex or apartment block, buyers should request a copy of the latest audited financials. These financials will give you a gauge as to how well the body corporate is doing its job, whether or not the common property will be well looked after and maintained and will be indicative of how likely the implementation of a special levy will be in the future.

The levies paid each month by homeowners in a sectional title complex are used for the maintenance and general upkeep of the property as well as services such as security and gardening. Therefore it is essential to establish in the financial documents that the levies collected each month actually cover the costs of this upkeep and security. Properties situated within a well-maintained, secure complex or apartment block will naturally have a much better appreciation potential and will therefore be a good investment option for buyers.

Implementation of special levies

In the event that the monthly levy amounts do not meet the financial needs of a complex, a special levy is often implemented over and above the monthly levy amount due. While special levies are mostly reserved for occasional big and expensive projects like repainting the entire complex, frequent special levy implementations should raise concerns that the complex is either in bad repair and is in need of excessive maintenance or that the monthly levies collected are not sufficient to cover these costs, or both.

The amount of levies in arrears is another area to check out on the financials of a complex, as too many levy arrears can mean trouble for a complex's financial stability. This will influence future levy increases as well as increase the chance of a special levy being put into place in order to pay for the ongoing maintenance projects of a complex.

Special levies place an additional financial burden on the property owners, which is ideally a situation best to be avoided. A well-run complex where the body corporate is functioning effectively will have stable financials that show the monthly levies are meeting the day-to-day running costs of the complex, there are few arrears and special levies are seldom required. This is the kind of complex or apartment block you want to invest in as it means that your property value will be protected and is likely to grow in the future.

ABOUT CHRIS RENECLÉ

Chris Reneclé, MD of Renprop, completed his B.Comm Hon (Wits and Uisa) in 1990 and undertook his articles at Ernst & Young. In 1992 he joined Renprop as the financial director, and in 1993 was appointed managing director. Over the past 23 years, under his leadership, the company has transformed from being a traditional real estate agency to one of the largest providers of residential property in South Africa.

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