



## LIFE RIGHTS VS SECTIONAL TITLE

Moving into a retirement village is a vitally important decision for all retirees. Once this decision is made, they are then faced with a choice of which purchase model to pursue. In South Africa currently, the two most common purchase models are those of a Sectional Title and a Life Right. There are various opinions on which purchase model offers the "better" deal for the retiree, with both models having their advantages and disadvantages. This section aims to give you more insight into both of these models.

### WHAT IS A LIFE RIGHT MODEL?

The South African Association of Retired Persons (SAARB) defines Life Rights ownership as "a guaranteed right of occupation of individuals for their lifetime, whereby the administering authority retains ownership."

Therefore, a Life Right is purchasing the right to live in a cottage for the duration of a person's natural life whilst they are still able to live independently. Flower Foundation retains full ownership of the property, thus bearing all the responsibility of the maintenance and upkeep of the buildings and its surrounding areas. We will not ask our residents to pay a "special levy" for these items. When you purchase a Life Right with us, the repayment will become an asset in your estate. You will also be allowed to apply this repayment to the cost of care, should you move into one of our care facilities.

It is in the best interest for both parties to ensure that the property is well maintained and kept at the highest standard due to the property owner also having a vested interest in the property in the long term.

### WHAT IS A SECTIONAL TITLE?

This model describes the separate ownership of a cottage within a group owned complex or development. In a Sectional Title development, you retain full ownership of your property once you have bought it. A group of members which constitutes a "Body Corporate" will set the rules for all owners to adhere to within a retirement village. A "special levy" will be charged to recover unplanned costs for any additional maintenance that is required. Once the property purchase and transfer are complete, the developer has no obligation to remain vested in or maintain a Sectional Title development; this responsibility is thus transferred to the owners of the Sectional Title units.

The main risk of a Sectional Title development is that you may spend all your capital upfront with the purchase and outlive your annuity income. In this instance, even if your property is paid off, you may struggle to afford homeowners' insurance, rates and levies. At Flower Foundation, there are options to assist a resident under special financial circumstances.

The capital generated through the sale of a Life Right is there to enable the property owner to continue to upgrade and improve all common areas. In a Sectional Title model, these surpluses will need to be generated through the monthly levy. If this is not managed wisely, it could mean that the surrounding property areas can deteriorate, along with the value of your Sectional Title unit.

## THE FLOWER FOUNDATION OFFERING

The Life Right purchase model has increased in popularity within the retirement industry, mainly due to its cost-effectiveness. It has become a world-leading retirement housing model that offers tenure security for you and your partner. This model is recognised by the Housing Schemes for Retired Persons Act 65 of 1988. A Sectional Title allows a retiree to invest in property; however, Flower Foundation offers the Life Right model, which is an investment in lifestyle, security and peace of mind.

The purchasing process within our village is made very simple, whereby we facilitate the whole process with you, and no third party is required in this process. The retiree will remain in their independent cottage, with various activities to participate in within our villages. If a resident becomes unable to take care of themselves, we move the resident into our care facilities after consultation with their family and loved ones. Our care facilities provide skilled, dedicated and professional staff for our residents' day-to-day requirements. We strive to continuously provide a high quality of life, assisting our residents with food, care, laundry, and so much more essential daily activities. In your golden years, we believe the Life Right model allows us to walk this journey together, from Independent Living to Assisted and Frail Care Living.

When the resident leaves the village or moves into a Care Centre, Flower Foundation will facilitate all the marketing as well as managing the sale of the unit. Once the conditions of the contract are met Flower Foundation will pay the exiting resident or estate within 30 days.



Item	Which has more benefit		Reasons
	Sectional Title Model	Life Right Model	
Purchase price		X	A Sectional Title is more expensive than a Life Right model. The challenge here is that a like for like comparison needs to be made when this is done. The result is that a Sectional Title can cost more, between 30% and 50%.
Purchase process		X	Buying a Life Right model involves a contractual agreement with a membership fee below R20 000. With the Sectional Titles, they also have a membership fee, but you are required to pay transfer duty over and above.
Transferable	X		A Life Right model comes to an end when the original resident leaves the property. Wherewith a Sectional Title unit can be passed down the generations. (Keep in mind that there will be tax implications when this happens for Sectional Title holders)
Maintenance		X	The unit remains the village's property, which means that the retirement village will be responsible for maintaining it. The cost of maintenance and the upkeep of the property will be for the cost of the retirement village
Levies		X	When comparing the levies, the Sectional Title levies will be lower than that of a Life Right model. However, the levy in a Sectional Title does not include rates, taxes, and other municipal charges. The resident needs to pay these over and above the levy. In contrast, in a Life Right, the levies include all of these charges. (Only usage for electricity is billed)
Marketable		X	The responsibility of the property and the selling thereof vests with the retirement village. Therefore, it is their responsibility to ensure that the bedroom, bathrooms, kitchen, and rest align with what the current market is offering.
Responsibility on vacating		X	No responsibilities are resting with the resident when the property is vacated. No levy is due post vacating. With Sectional Titles, you will be held responsible for levies and rates and taxes.

## THE FINANCIAL COMPARISON

The most significant deterrent from a Life Right model is the perceived thinking that a Life Right model is not an investment and that through a Sectional Title, you get all your money back. Still, with a Life Right, you only get 50% back if you stay longer than five years.

These facts are true, but the purchaser needs to consider all the variables and attributes. Below is an actual comparison between Elm Park owned by Flower Foundation, and another village which is 2km away from Elm Park and is regarded as the main competitor of Elm Park that sells Sectional Title units.

Item	Competitor (90sqm)	Elm Park (92Sqm)	Gain or Loss	Over 10 years	
Purchase price	R2 650 000	R1 850 000	(R680 000)	(R800 000)	
Upgrade to get to market std	R350 000		(R350 000)	(R350 000)	a
Levy	R5 567	R5 050	(R547)	(R65 640)	
Rates and Taxes	R1 652	R0	(R1 652)	(R198 240)	b
Maintenance	R1 000	R0	(R1 000)	(R120 000)	c
Interest earned over 10 years	R0	R0	R0	(R297 516)	d
Earnings when sold	R2 650 000	R925 000	R1 590 000	R1 725 000	e
				(R106 396)	f

- This upgrade is done by Flower Foundation to ensure that the unit that is bought is at the latest standard. The unit is stripped and fully upgraded with modern finishes from bedrooms to the kitchen and bathrooms. The new resident will also be allowed to choose within a range of items.
- The rates and taxes are included in the Life Right Levy.
- The Village covers maintenance, thus leaking roofs and painting of the outside and all structural maintenance is covered by the village.
- The R680k saving that is made upfront: if this is put into an interest-bearing account at a conservative 5% and the monthly levy escalating annually at 6% is deducted from this account, it will mean that you can earn interest on your savings of R297k if you work wisely with this, and to top it off you will still have R106k left in this account by the end of 10 years. *(THIS MEANS THAT YOU ACTUALLY STAYED FOR FREE OVER THE 10 YEAR PERIOD)*
- One can argue capital growth, but the same would apply for both models, the capital growth will also be that of personal perception and an estimated guess at best.
- The end result of all of this is that you still have a cash surplus of R106k, bearing in mind that the upswing of R1.7mil for a Sectional Title is depleted after this period.