

SHARED VACATION OWNERSHIP LEVIES - A VALID CHARGE OR A LICENCE TO PRINT MONEY?

(This article was written in 1994)

Shared Vacation Ownership levy payments have been the subject of much publicity over the years, invariably stemming from consumer allegations of excessive charges. The announcement of a four percent increase in VAT, together with various other inflationary factors, 1993 will inevitably see further increases. To put levies in perspective, the Vacation Ownership Association of Southern Africa (VOASA) recently undertook a comprehensive survey of levies among 87 South African shared vacation ownership resorts to determine a recommended range of levies for different categories of resort. Here VOASA addresses some of the thornier questions surrounding shared vacation ownership levies.

WHAT IS A LEVY?

“Maintenance fee” is perhaps a better term than levy, because in fact it is the annual levies, paid by owners (usually shareholders) to the non-profit management association comprised of owners at the resort, which fund the running and maintenance of any shared vacation ownership development. The annual levies thus pay for on-site management, furnishing, replacements, and the upkeep of common areas, as well as amenities such as tennis courts and swimming pools. Levies must also cover payment of rates and taxes, electricity, gas, water, fuel and other services to the building, as well as insurance premiums.

WHY PAY A LEVY?

Questions are sometimes raised as to why, having paid a lump sum to purchase the shared vacation ownership interest at the outset, it is necessary to pay levies at all. The reason for this is that in terms of the Share Block agreement – most prevalent basis for shared vacation ownership schemes in South Africa – owners of shared vacation interests do not actually buy ownership of the unit, but shares which give them the right to occupy it for a given period each year. Each owner is therefore a shareholder in the development as a whole, and as such is partially responsible for the expenses involved in its running and upkeep. His responsibilities in this regard are met by way of an annual levy payment.

WHO DETERMINES THE LEVY FEE?

It is the responsibility of the management association, body corporate or directors of the Share Block company to establish a levy fund for the operational and administrative expenses of the scheme, and to determine the contributions toward the levy fund, based on a detailed budget regarding these expenses. A sound scheme will include in its budget a replacement reserve (or stabilisation fund) to cover replacement or renovation of each item or article in the building as required in the future.

During 1992, the Vacation Ownership Association of Southern Africa (VOASA) conducted a survey of shared vacation ownership levies to determine the range of equitable levies for various categories of resorts. As a result of the survey, an average range, as well as a recommended range of levies, was determined in each category, and full details are freely available from VOASA. Buyers who are considering a shared vacation ownership interest purchase are urged to take a look at the resort's budget prior to purchasing to make certain that it's reasonable and to ensure that the levies are in line with VOASA's recommendations for the type of resort in question.

WHY ARE MY LEVIES HIGHER THAN MY FRIEND'S?

Because developers are required by law to pay levies on unsold units, there have been instances of under-budgeting in respect of the real costs, with relatively low levies being offered in the initial period.

Elec/water/rates	R140	linen, soap, toilet paper. Units fully
Maid service	R100	equipped throughout, supplied with
Garden service (1 day)	R 30	microwave, TV and airconditioning)
Pool service (1 day)	R 40	
Home insurance	R 10	

R720*

R637**

*Approximation submitted by rate-payer in Johannesburg municipal area.

**1993 recommended levy in terms of VOASA survey for top-of-the-range resort with high service costs, high maintenance requirements and expensive recreation facilities.

WHAT ABOUT ANNUAL ESCALATION IN LEVIES?

In the same way that members of the public are victims of inflation, costs to resorts of services, administration and maintenance also increase continually, with staff wages and insurance premiums being particularly costly areas. Despite this, though, the average escalation of shared vacation ownership levies from 1991 to 1992, including the introduction of VAT for 1992, was 18,2 percent. Average escalation from 1992 to 1993 is also expected to be in line with inflation.

But, of course, in considering the cost of shared vacation ownership levies in isolation as we have done here, it is all too easy to lose sight of the bigger picture. The most fundamental reason for purchasing a shared vacation ownership interest is to secure – at today's prices – a guarantee of holiday accommodation for life. And be it in terms of cash, flexibility or versatility, the value for money intrinsic in vacation ownership through shared vacation ownership remains unsurpassed in the leisure market. In short, for the estimated 160,000 shared vacation ownership owners in South Africa, the money saved through shared vacation ownership – notwithstanding the levy payment – far outweighs the real cost of the holiday, and will continue to do so more and more as time goes by.

