



VOASA

VACATION OWNERSHIP ASSOCIATION OF SOUTHERN AFRICA

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.



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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.

This obviously makes the scheme more attractive to buyers. However, not only does it present an unrealistic picture for would-be buyers, shopping around and weighing up their options, but it also means that those who do buy into such schemes invariably face excessive levy hikes in the future. Again, buyers are advised to check the VOASA survey to ensure that levies do not fall below the recommended range.

The more common reason for variances in levies, however, is the varying nature of the different resorts. For example, an inland resort with few recreation facilities and low maintenance requirements would not require the same degree of levy funding as would a high maintenance seaside complex with say, a golf course and three swimming pools. The VOASA survey on recommended levy range clearly differentiates between different categories of resort.

AM I GETTING VALUE FOR MY MONEY?

In essence, shared vacation ownership is a system of purchasing the right to occupy a particular unit at a given resort for a certain period of time each year. The initial capital expenditure can therefore be viewed as an investment in guaranteed availability of the accommodation of your choice, at the destination of your choice, for future holidays. That accepted, the "real cost" of the holiday period – and how the levy compares – can be viewed in a number of ways.

Generally, one "buys" a weeklong module (or a number of weeks) in a unit which – certainly at most South African resorts – is equipped for self-catering. The cost of traditional hotel holidays has become prohibitively high for many South African families, and even at the most modest hotel in a low-season period, a seven-night stay, with three meals a day, for, say a family of two adults and two teenage children, would cost considerably more than a shared vacation ownership levy for a four-sleeper self-catering unit.

In comparing the cost of a week's shared vacation ownership holiday with a week long hotel stay, shared vacation ownership is clearly far more cost-effective.



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But how do shared vacation ownership levies rate in terms of real costs? While comparing the upkeep and maintenance costs of a shared vacation ownership resort with those of a residential home may be rather like comparing apples with oranges, such a comparison gives an interesting perspective.

Take, for example, some very basic costs incurred in running an average home in a middle-class suburb for one week and consider how these compare to a week's shared vacation ownership levy.

HOME: FAMILY OF FOUR

RESORT UNIT: 4-6 SLEEPER

RECREATION FACILITIES:

Pool, garden

RECREATION FACILITIES:

Pool, tennis court, golf course, hiking trail, extensive grounds (On-site restaurant and bar)

ONE WEEK'S COSTS (25% of Month)

ONE WEEK'S LEVY COSTS

Bond	R400
Elec/water/rates	R140
Maid service	R100
Garden service (1 day)	R 30
Home insurance	R 10
	<u>R720*</u>

(Includes regular provision of fresh linen, soap, toilet paper. Units fully equipped throughout, supplied with microwave, TV and air-conditioning)
Pool service (1 day) R 40

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.

PO Box 2823, Durbanville, 7551 ■ Tel: +27 (0)21 914 9693 ■ Fax: +27 (0)21 914 5202 ■ Email: voasa@voasa.co.za ■ Website: www.voasa.co.za

DIRECTORS: D.P. VILJOEN (CHAIRMAN),

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