

CONVERTING SHAREBLOCK TO SECTIONAL TITLE: IS IT A GOOD IDEA?

Recent amendments to the Transfer Duty Act grant a transfer duty exemption when shareblock holding is converted to sectional title ownership. This financial benefit re-opens many shareblock holders' deliberations as to whether conversion is the route to go. A brief comparison between the rights conferred in each instance will help one to come to a decision.

Shareblock ownership means that:

- The entire building is owned by the shareblock company. The holder of a block of shares in the company (a shareblock), obtains the right to use a specific portion of the building by entering into a use and occupation agreement with the company at the time of acquiring the shares. What the purchaser owns, therefore, is a shareblock and has the right to use part of the building but he/she does not **own** that part of the building.
- The shareblock company is managed by the company's Board of Directors. The Board imposes levies to fund the management and maintenance of the building. The shareholders' interests in the scheme are therefore in the hands of the Board who must manage the Company according to the complicated provisions of the Shareblocks Control Act and the Companies Act.
- Financing options for the purchase of a shareblock in such a company are limited, as the shares cannot be used as security for a mortgage. A potential purchaser must therefore generally come up with the cash himself, which can make a shareblock harder to sell.

Sectional Title Ownership means that:

- The owner owns the physical property and will receive a separate title deed relating to that particular section referred to on a Sectional Title plan.
- An owner can mortgage his/her property as security for a loan, in the same way as with freehold property.
- Management of the scheme is in the hands of Trustees who are appointed by the body corporate that is, in turn, made up of all the owners in the scheme. This structure renders the management of sectional title schemes representative of all

the owners' interests.

- Levies are raised by the Trustees for the management of the scheme. All Sectional schemes have relatively simple Management and Conduct Rules with which all owners and occupiers must comply.

To convert or not?

Sectional Title ownership is certainly the more common and recognized form of property right and does give an owner the ability to use it to secure finance. Many Shareblock properties cater for retired persons who are often financially assisted by family members in order to make the cash payment required for the acquisition of the Shareblock. Conversion to sectional title ownership might make finance more accessible to prospective buyers' families for these retirement properties.

Speak to Allan White (<mailto:AllanW@Stbb.co.za>) if you wish to investigate the advisability and details of such a conversion.

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