

Real Estate Law

ALERT | 19 August 2025



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SOUTH AFRICA

The hidden (and not-so-hidden) additional costs of scheme living in South Africa



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The hidden (and not-so-hidden) additional costs of scheme living in South Africa

Buying into a sectional title complex, gated estate or managed residential scheme offers convenience, shared amenities and, often, enhanced security. However, this lifestyle also comes with a bundle of recurring and once-off costs that you wouldn't typically have with a freestanding house. It is therefore crucial to look beyond the surface-level expenses such as levies and ensure that you understand all the costs up front. This will help you budget properly, avoid nasty surprises and prevent unexpected financial burdens.

Monthly levies – the big recurring cost

In a sectional title scheme, you own your individual unit while sharing ownership of the common areas in the scheme with the other unit owners. This creates a *"collective ownership"*, which in turn forms the basis of the body corporate that manages and maintains the common property and administers the scheme.

Most scheme owners pay a monthly levy (sometimes called *"contributions"*) to the body corporate or homeowners' association. Levies fund the day-to-day operations of the scheme: cleaning, gardening, security staff, electricity for common areas, lifts, building insurance, managing agent fees and administrative costs. Schemes are required to maintain two funds: an administrative fund for routine expenses and a reserve fund for major repairs – and levies are used to build both.

Note: levies vary hugely by scheme (basic complexes can have low levies whereas the levies for luxury estates with pools, gyms and 24/7 security can be much higher).

Reserve fund contributions and special levies

Since 2016, body corporates have been obliged to plan for long-term maintenance (a 10-year maintenance/repair plan is common), which is designed to prevent the sudden imposition of special levies for big maintenance issues. If the reserve fund is too small, trustees can either raise regular levies or impose a special levy to cover large, unexpected or unbudgeted-for costs (e.g. roof replacements, major plumbing/electrical work, structural repairs, etc). Special levies can be material and are often payable as a lump sum. They are the main 'surprise' cost that buyers should watch out for.

CSOS levy and other statutory charges

Sectional schemes must also contribute to statutory oversight bodies. A small Community Schemes Ombud Service (CSOS) levy is charged to owners and collected quarterly. This is capped at a modest amount, in accordance with the formula and limits set by law. Make sure you know whether your managing agent already collects this levy and how it's charged.



The hidden (and not-so-hidden) additional costs of scheme living in South Africa

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Municipality rates, taxes and utility billing

Living in a managed residential scheme does not always remove municipal bills. Some schemes bulk-buy water/electricity and recover costs via levies or prepaid meters; in other cases, each unit is separately rated, and the owner pays their own rates and utilities. Owners should understand exactly how the scheme handles municipal rates, refuse, sewerage, water and electricity costs and whether any shortfalls are recovered from owners via levies or special charges.

Security, amenity and maintenance costs

Security (guards, cameras, electric fencing), pool and gym upkeep, garden maintenance, lift contracts and cleaning expenses are routinely paid from levies. The more amenities, the higher the running costs. If you value those services, remember that someone pays for them every month – whether they use the pool or not.

Insurance and repairs

The body corporate normally insures the building structure and common property, however, each owner must insure the interior of their unit (contents and, often, improvements/fittings). Check the body corporate insurance cover and the excess amount payable. If a claim affects the whole scheme, excesses or shortfalls can be paid from levies or by way of a special levy imposed on the owners.

Diesel charge

Due to the high risk of load-shedding in South Africa, most sectional schemes have introduced a charge for diesel to each owner in the scheme. This aims to cover the costs of running a generator at the complex during the load-shedding periods. This cost is usually not a constant monthly cost but can appear on an owner's levy statement in the months when load-shedding peaks.

Once-off purchase and transfer costs (scheme-specific)

When buying into a scheme, expect standard conveyancing costs (transfer and bond registration) plus scheme-specific administrative costs such as rates-clearance, levies in arrears, an administration fee for issuing the certificate of compliance, and occasionally a new owner admin fee charged by the managing agent. These costs are usually payable prior to transfer as a levy clearance certificate needs to be issued by the body corporate before the transfer can be lodged at the relevant deeds registry.



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Hidden or irregular fees: Legal, collection and admin costs

If owners fall behind, the body corporate may charge collection fees, legal costs, interest on arrears or fines for rule breaches. Managing agent fees, auditor fees and ad-hoc consultant fees (engineers/specialist contractors) also appear in budgets, and these costs can inflate levies if not well-managed.

How to avoid or limit surprises

- Request the latest financial statements and bank statements (last 12 months) from the body corporate.
- Request the 10-year maintenance/repair plan from the body corporate, and check if the reserve fund aligns with the plan.
- Request the history of levy increases and check whether special levies have been raised recently by the body corporate.
- Request the copies of minutes from recent AGMs/trustee meetings.
- Request the insurance schedule (cover, excess, exclusions) from the body corporate.
- Obtain the details of what costs are included in the levies and any exclusive use area levies from the body corporate.

- Ensure that you are familiar with the rules and fines of the scheme – for example, rules relating to pets, rentals and renovations.
- Get a copy of the managing agent contract and ensure you understand the fee structure and termination clauses.

Conclusion

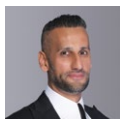
Scheme living offers many conveniences and, most importantly, a sense of security when living in South Africa, but those conveniences and safety features come at a cost and are paid for by way of levies and occasional special charges. Smart purchasers treat levies like a mortgage instalment: non-negotiable, recurring and essential to preserve value. Do your homework on the scheme's finances, ask for the documents listed above, and build a contingency into your budget for unexpected special levies.

Lutfiyya Kara



OUR TEAM

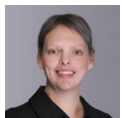
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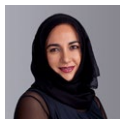
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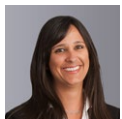
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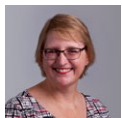
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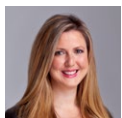
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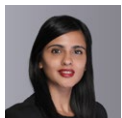
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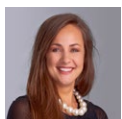
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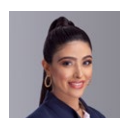
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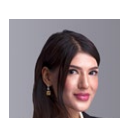
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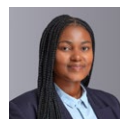
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Our BBBEE verification is one of several components of our transformation strategy and we continue to seek ways of improving it in a meaningful manner.

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