WHAT IS A LIFE RIGHT AND WHAT ARE ITS ADVANTAGES?

INTRODUCTION

Deciding that it is time to secure accommodation in a retirement village is a critical step for elderly people. Once the decision is made, however, it is then difficult to decide upon which ownership model to consider (i.e. life right, freehold, sectional title or share-block).

Although retirement housing is not traditionally viewed as a financial advisor’s domain, financial advisors are increasingly confronted with questions regarding different financial models of retirement housing and a basic knowledge on the subject can assist your clients. A recurring theme is the client’s need for a life rights explanation and the desirability of a life right purchase as a retirement investment.

Global View of Life Rights
Life rights is a widely practiced and requested retirement model worldwide.

USA is the world market leader for retirement villages. The most common type of sale is based upon the Life Plan model, the same as the South African Life Rights system.

In Australia, it is rare for a retirement village operator to sell the title of a unit. The most widely accepted model is the License to Occupy (life right) scheme.

New Zealand retirement developments follow the same. 80% of residents in a retirement village have a Licence to Occupy agreement.

The UK is facing a shift towards private retirement villages. Developers generally use the Life Time Lease model. In Europe, the Apartments for Life ('levensloopbestendige' units), sold on a life rights basis are increasing in popularity across Europe.

Life Rights is hence a widely practiced and well recognized retirement scheme worldwide.

South Africa: Life rights as a legal right:

A life right is the purchase of the right to live in a specific unit. It is a real right, giving one the security of tenure for the remainder of one’s life. The Life Rights scheme has been officially recognized by the Housing Schemes for Retired Persons Act of 1988.

An advantage of life rights is that there is no transfer duty or VAT payable on Life Rights. As there are no title deeds, there are no registration fees.
What should a quality and sound life right contract include?

Villages differ in terms of what they offer; therefore a potential purchaser should ensure all of the following four features are incorporated in the contract.

1) **Security of Tenure**
   This is the foundation of a life right, but should not be the only item addressed in the contract. Should a life right owner fall into financial hardship, he cannot be expropriated from his accommodation.

2) **Physical Security:**
   A life right should also buy the retiree physical security. In terms of the standards of village security measures the following items must be transparent and detailed in the agreement, e.g. electric fencing, 24 hour guards, CCTV cameras, panic buttons and emergency armed response.

3) **Health Security:**
   A life rights contract must be clear regarding health care available in your unit, prior to moving to frail care. Do the units have a nurse call facility and 24 hour emergency care? A purchaser should investigate whether there is a frail care facility within the village, as having to move later in life, when frail care becomes a necessity is traumatic. Frail care rooms are often in short supply and outsiders pay a higher frail care rental than residents.

4) **Financial Security:**
   The life right contract must be transparent in terms of disclosing the yearly escalation costs. This allows for reliable financial planning in your retirement years. In a life right village there should not ever be a need for unexpected “special levies” as this will be for the residents account. In addition, should a life right owner fall into financial hardship, any levies not able to be paid, can be recouped from the resale of the unit.

The developer remains the sole owner of each unit and carries the responsibility of maintenance and the upkeep of the village and its facilities (including frail care if offered). This relationship ensures that the frail care and communal facilities will be kept operational and maintained at a high standard.

In the instance of badly managed frail care units, where the frail care is not economically viable and closed down, buyers become the losers. After paying a premium on the purchase price due to the frail care facility, their properties are worth a lot less when the frail care is closed down.