Rent Strike Narrowly Averted in Africa’s Newest Mega Housing Project – Kilamba City Angola

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Jacinto Figueiredo was aghast when he received his rent notice for last October, requiring him to start paying off more than a year of debt arrears by doubling his monthly rent. Mr. Figueiredo expressed the worry of most of the twenty thousand families now resident in the famous Kilamba New City, Africa’s largest Chinese-built housing project. "They can not make residents pay two months simultaneously! That’s too heavy for us .... we may have to take the management to court".¹

The Kilamba project became the show-piece of Angola’s Housing and Urban Development Program announced by the President in 2008. With US$ 3.5 billion financing from the Industrial and Commercial Bank of China, purportedly backed by oil-revenues, the project was built in a record 18 months by CITIC a major Chinese

consortium and completed in 2012. The Kilamba City project, includes 750 apartment buildings, schools, and more than 100 retail units. The new city was built to accommodate 160,000 people in 20,000 flats, each with a floor area of between 110 and 150 m$^2$ and costing from US$120,000 to US$200,000.

SONIP Housing had been created in 2013 as a real-estate arm of the Angolan state petroleum company SONANGOL. It was given the mandate to commercialize, manage and distribute 33,255 housing units of which 20,000 of them were in the recently completed Kilamba City. Kilamba has gained fame as being the largest Chinese built housing complex in Africa and the show-case of Angola’s post-war National Urban Housing Program. During the first year of SONIP’s management of Kilamba, it only distributed 12,425 units and acquired a substantial waiting list of impatient aspirant clients. Smaller, most affordable, three bedroom T3 units were in great demand but the larger expensive five-bedroom units remained empty. By September 2013 the three and four bedroom units were exhausted, and clients reluctantly accepted the larger units, but often expressed concerns about their capacity to make the payments of US$ 12,000 per year.

Initially projected as a social housing program, the apartment prices on offering proved too expensive for even middle class families and senior civil servants. Angolan commercial banks rarely approved housing loans so the State was therefore obliged to step in to save the important project. A heavily subsidized rental scheme was introduced. Not only interest rates were highly subsidised but the initial selling prices for apartments ranging from three to five bedrooms had, during the previous year, been cut in May 2013, due to lack of client take-up, from US$ 125,000 and US$ 200,000 respectively to US$ 70,000 to US$ 180,000. The annual payments for a basic three bedroom flat were specified in the contract to be US$5,686 meaning that they became affordable for professional-level civil servants earning monthly salaries over US$1,200. In fact, civil servants were the preferred clients, since rental payments could be deducted from their salaries, directly through their bank accounts.

Over the last three years, about 80,000 residents have moved out to Kilamba City about 20 km from the centre of Luanda. On the 1st of February 2013 the sale of apartments in Kilamba City under the subsidised scheme began. Prospective clients often queued overnight to claim a place on the waiting list and pay a one-year deposit as a down-payment. The smallest flats, being three bedroom T3 units were quickly sold out. Many residents however, began to voice their concerns about how rents were going to be charged. Having been obliged to make a down-payment of a whole year’s rent in advance, they were concerned about their capacity to continue paying a whole year’s rent in advance each year. The chairman of the board of directors of SONIP Housing company announced in September 2013 that the requirement to make annual per-payments would be dropped in favour of regular monthly payments, bringing the practice into conformity with the Angolan rental housing legislation.

On 11 August 2014 a presidential decree was published setting out the option for renter’s in Kilamba City to acquire their apartments through a process of rent-to-purchase. It was explained that “rents” specified in the original contracts were not really rents but actually payments against purchase that were provided at the subsidised interest rate of 3% per annum paid as rent-to-purchase scheme over a 20 year period (or 15 years for those aged over 40) at which time ownership would pass to the resident. The concept of “housing finance” is new and not well understood by Angolan families who, according to a recent Development Workshop study of

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2 AngoNoticias (04 Sept 2013) Kilamba: Candidatos podem lever as barras do Tribunal as imobiliarias SONIP e Delta.


4 Francisco Lemos – Chairman of Board of SONIP quoted in Jornal Expansao, 21 Fev 2014.

5 Lei do Inquilino

6 Lending rates at commercial and State banks averaged at 12% per annum at this time.
Residents in Kilamba City\(^7\), demonstrated that almost everyone considered themselves still renters rather than owners of their apartments.

Complaints about SONIP’s slow rate of distribution mounted and their transparency in managing the list of priority clients was questioned\(^8\). By the end of 2014, about 5500 of these prospective clients had gone to the extent of paying their first-year down-payment but had not yet been issued their residencies to occupy. In the meantime, the SONIP chairman’s promise to allow monthly payments never materialised in the form of new written contracts for clients. Legal arguments were raised by housing rights advocates and the media about the practice by SONIP of setting of rents in US Dollars and insisting on conversion into Angolan currency at the floating rate-of-the-day. Without revised contracts, most residents ceased paying their rents and waited for a written clarification from the authorities. Sales by SONIP, were suspended in December 2014, after five thousand citizens had registered complaints about the management of the program.

On the 29\(^{th}\) of December of 2014 the Government revoked SONIP’s mandate and transferred it to another company IMOGESTIN (a public-private partnership) that had existed since 1997 and already had accumulated the experience of successfully managing a substantial real-estate portfolio. IMOGESTIN restarted the distribution of housing units in June 2015 and cleared the backlog by September. By that time, a full two years had lapsed since the announcement by the former chairman of SONIP regarding the new modality of monthly payments.

The Executive Director of IMOGESTIN, was tasked with managing Kilamba City and trying to make it financially sustainable. She had spent most of the time since taking over the project, dealing with over 5000 complaints from unhappy clients who had paid down payments on homes but had not received their houses. Having solved that problem she now was faced with thousands of occupants who had not paid their rents for more than a year. In an interview with Jornal Manchete she expressed the opinion that “…the sooner we can recover the payments will be better for all of us. People, when they signed up for a flat in Kilamba, were aware of what they did, no one forced them to buy a home that they were unable to pay for, … they had the choice of various types of flats at different prices”.\(^9\) IMOGESTIN’s chef financial officer, reiterated his director’s position saying that; “at no time was there any communication informing that rents would be reduced in the transition from SONIP to IMOGESTIN”.

Angola is sub-Saharan Africa’s third-largest economy, with crude oil accounting for almost all of its exports and more than two-thirds of government revenues. The dramatic fall of petroleum prices from 2014 through 2016, has resulted in the Angolan state budget being substantially reduced. It became difficult for the government to continue to provide investment and subsidies for building new housing in the same form and rhythm as before. The prop of oil that supported the value of the Angolan Kwanza has also fallen since 2014, resulting in an official devaluation by mid 2016 of more than 40%, but more dramatically, a depreciation of 400% of its street value. The original contracts for Kilamba apartments specified payments in Angolan Kwanzas calculated at the exchange-rate of the day against US Dollars. While early buyers had their payments set at the favourable original conversion rate, through 2015 the Kwanza denominated costs of purchase and rental contracts steadily increased, but civil servants' salaries remained frozen. Civil servants represent the majority of Kilamba’s residents, but the remainder, being private sector employees, suffered even more through mass redundancies as Government financed projects closed and contracts went unpaid.

\(^7\) Development Workshop (2015) report on the Angolan Housing Sector.
\(^8\) AngoNoticias (06 June 2014) SONIP: Detidos funcionarios acusados de venda ilegal de apartamentos no Kilamba.
It became incumbent for para-statal enterprises like IMOGESTIN to, not only cover their costs, but to begin to recover earlier investments by the State in order to provide financing for new growth. Housing expenditure had been seen in Angola's post war years as a social expenditure warranting major subsidies from the State budget. In the new economic environment, the idea that housing finance could be sustainable became more than a novelty, but a necessity. IMOGESTIN had built a professional reputation having previously managed the large-scale Nova Vida housing project since 2005. After the Government handed over most of the State-financed housing portfolio, that included the 20,000 units in Kilamba, another 5,000 units under construction and other newly built housing stock around the country, the Government created a new real-estate investment mechanism, Housing Asset Development Fund (FADEH) to hold the rental income from IMOGESTIN's housing stock. FADEH's task was to re-invest this income in real-estate development projects to build more housing.

Almost a year passed after the hand-over from SONIP while IMOGESTIN dealt with the backlog of complaints and restructured the sector along the lines of a real-estate enterprise. During the year, SONIP's collection of rents was suspended and client-contractual procedures were re-structured. In order to recover lost earnings, dating back to 2014, IMOGESTIN attempted to collect on the accumulated debts from renters who had not been invoiced since before SONIP's demise. It was proposed that during the latter quarter of 2015, residents could chose to pay double monthly rents or pay-off their negative balances in one-off deposits before April 2016.

As mentioned earlier, Mr. Figueiredo was only one of the thousands of Kilamba residents who had not paid rent for many months and rebelled against this imposed requirement for paying arrears. Residents’ Commissions that had been set up in almost every building met in heated sessions to protest and discuss the need for a collective response to the new management. Kilamba's social media sites became a venue for protest and the issue was debated widely in the national media.

The residents’ commissions turned to the newly-founded Angolan Association of Consumer Rights (AADIC) for advice. The chairman of AADIC, the lawyer Diogenes de Oliveira, became a champion of the rights of Kilamba's residents. He claimed that IMOGESTIN infringed for having changed the contract without the other party's consent\(^\text{10}\). The lawyer considered the collection of double monthly fee to be illegal because it was not what was agreed between the parties in concluding the contract and, had violated several legal requirements set out in the Consumer Rights Law\(^\text{11}\) (LDC). He cited the violation of the right to information, the right of equality of the contracting parties, the clauses that relate to the supplier's liability for defects or the failure to deliver basic services. He explained that this law makes void any unfair or abusive obligations imposed on one of the parties such as the unilateral modification of the contract in a way that is disadvantageous for the consumer. "I think that this decision is a violation of fundamental principles of the Angolan legal system" he warned. He also pointed out that indexing payments to a rate of exchange set in foreign currency was also against Angolan law. He also claimed that the collection of 3% annual interest on the value of the apartment as an administrative service charge was also illegal, because it was a kind of double taxation that ran contrary to the Decree that established the rent-to-purchase scheme\(^\text{12}\). AADIC argues that the residents of the Kilamba City, are not in default, because the IMOGESTIN never delivered a formal

\(^{10}\) O PAIS (2015) Empresa imobiliária acusado de violar a lei, 30 October 2015, saying that Article 406 of the Civil Code paragraph 1, states that a contract can only be modified or be terminated by mutual consent of the contracting parties or where permitted by law.

\(^{11}\) Lei 15/03 de 22 Julho (2002) Lei de Consumidor, Law on Consumer Rights, provides that the provider of housing must provide a 5 year quality guarantee against defects.

\(^{12}\) Presidential Decree no. 329/14 of 29 December, paragraph 1 of article no.1
notification to the tenants to comply with these payments\textsuperscript{13}.

AADIC, on behalf of the Kilamba City Residents, called for a formal meeting with the State Prosecutor in October 2015, in order to bring their case to court\textsuperscript{14}. AADIC appealed to residents of Kilamba City to remain calm but adopt the culture of complaining, denouncing and safeguarding their fundamental rights under the Angolan Constitution. Diogenes de Oliveira stated “Consumers can not overlook what is rightfully theirs, for example accurate information. We must understand that the supplier and the consumer both have rights and responsibilities.”

While waiting for the Prosecutor’s office to respond, the case was brought to the court of public opinion through television, radio and the independent press. An increasing number of residents of Kilamba City withheld their rent payments. Graciete António, a woman who spoke to the press in February 2016 on behalf of the Kilamba Residents Commission said that “we are not prepared financially or psychologically to pay the rental arrears for 2015, because we are living through a difficult period with declining incomes to run our homes, and increasing family expenses and resources to pay school fees and food”\textsuperscript{15}. At a general meeting in February, of the Kilamba City Residents’ Commission a communication was prepared stating that residents were prepared to pay their rents but “with justice” and rejected IMOGESTIN’s double payment demand. The residents prepared a dossier on the problem of arrears and sent it to the Ombudsman’s Office, the Constitutional Court, the Prosecutor General, National Assembly, Civil House of the President of the Republic, among others\textsuperscript{16}. By May 2016 almost 60% of Kilamba City’s residents were withholding payments of their rents\textsuperscript{17}.

IMOGETIN responded to the advocacy from the Residents Commissions and AADIC and negotiated a number of concessions. By making revisions in the SOMIP agreements, they permitted people who had initially signed contracts, which provided for annual payments, to convert to phased monthly payments. Promissory-buyers now were able to pay their monthly installments through their Multicaixa cards or by bank transfer. The main concession made by IMOGESTIN however was to remove the obligation of residents to make double payments to cover their arrears and have the option of extending their repayment period by an additional year. For example, a client who has an expected repayment agreement for 20 years will pay off in 21 years instead.

IMOGETIN explained the necessity of indexing housing contracts to US Dollars because part of the building materials was imported. Mário Guerra, legal director, said in March 2016 however, that from the moment that the contract with the resident is signed the price would be fixed. There would be no longer any indexing of subsequent payments. Any future adjustments would be related only to the rate of inflation. So the values of contracts signed at the time between residents and SONIP or IMOGESTIN were no longer considered to be pegged to the dollar and would now be updated quarterly based on the coefficient of the Consumer Price Index (CPI), calculated by the National Statistics Institute (INE).

IMOGETIN is currently reviewing its whole portfolio and negotiating with each contract-holder the alternative modalities of payment through outright purchase or rent-to-purchase. They remain committed to finding a sustainable financial model that will adapt to the clients weakened capacity to cover large down-payments

\textsuperscript{13} Osvaldo Manuel (2016) AADIC diz moradores não têm de pagar benefícios já em 2015. Jornal Expansão 12 de fevereiro de 2016

\textsuperscript{14} Diogenes de Oliveira (2016) Interview in Luanda on 19 August 2016 http://www.dw.angonet.org/forumitem/o-acesso-habita-o-e-formas-de-pagamento-na-perspectiva-do-consumido

\textsuperscript{15} Osvaldo Manuel (2016) ibid.

\textsuperscript{16} Neusa John (2016) Jornal Expansão 04 de março de 2016

\textsuperscript{17} Neusa Salgado (2016) Kilamba: more than half of the residents do not pay benefits from the houses, Interview with Mário Guerra the spokesman and legal director of Imogestin. “Who does not pay, says, will be deprived of their residences”. Jornal Expansão 27 de maio de 2016
and rent-arrears. Advance notice was sent to residents individually via letter, about the value they will have to pay. New contracts are being signed with each occupant family. The company spokesperson, Mário Guerra, says\textsuperscript{18} that rent payments are now improving. He emphasizes that; “residents have obligations and not just rights. No one was forced to sign contracts. The State’s obligation is to deliver the property, and now the obligation of anyone who buys is to do their part by paying. The price of homes in Kilamba is not for everyone. Here in Angola, people will never acquire housing with the quality of Kilamba at that price; they are lucky because of the introduction of the rent-to-purchase scheme. Despite all the efforts of the State in providing housing to the citizen, there are a good number of the population who do not have the capacity to make the payment of these monthly rents. Those residents who cannot afford to pay those prices are probably those who falsified their requirement of a proof of income when they applied to qualify for a flat”.

In the process of these negotiations the company is seeking to identify those people who may have acquired residences in bad faith or illegally. Some have falsified their documentation and claimed to have high salaries, but they cannot support their rent payments today. Some occupants are no longer able to pay the monthly rent-to-purchase fees, even though they are still highly subsidized by the State. In the process of cleaning their portfolio inherited from SONIP, IMOGESTIN will be obliged to cancel non-paying contracts. IMOGESTIN argues that its role in the housing sector, as a public-private company, is limited to the sale and management of real-estate on behalf of the State. The revenue recovered from the real-estate market goes to the account of the Housing Asset Development Fund (FADEH) whose assets are invested in the development of housing.

The case study presented here demonstrates the emergence of an Angolan housing market that had largely been dominated by the State to date. Public-private enterprises such as IMOGESTIN are attempting to introduce more market-oriented methodologies in an environment where the State can no longer subsidize the sector as in the past. The emergence of the consumer as an actor in the market is significant. The Kilamba residents are increasingly aware of their rights as citizens and the power of their voices when organized as residents associations, and the importance of the new civil society organization AADIC in defending their interests.

\textsuperscript{18} Neusa Salgado (2016) Ibid