



MILLEMONT

The
SLEEPING GIANT

The real estate industry is the biggest contributor to climate change and yet, up until recently, it has not attracted the attention it requires. In 2019, the UN Environment Programme reported that the industry was responsible for 35% of emissions and 38% of energy usage, and despite policy makers setting targets, CO2 emissions from real estate reached their highest levels ever.

Efforts to create a more sustainable and greener future are well established but progress has been too slow. The Intergovernmental Panel on Climate Change published its special report 'Global Warming of 1.5°C' in 2018 and since its release nine out of ten (if you include the Biden administration) of the major world economies have pledged to reach net zero by the middle of the century. Nevertheless, based on current emission levels, there are estimated to be less than 10 years of carbon budget remaining in order to keep global temperature rises below 1.5°C.

It is possible that this budget has already been exhausted. Significant progress in the next decade is critical to achieve net zero emissions by 2050.

There are several reasons why real estate is under performing.

Lack of customer demand, coupled with a misconception that retrofitting old buildings with new technology is difficult and expensive, has stifled progress; the reality is that owners could take reasonable steps to significantly enhance the status quo.



At Millemont, we think there are three reasons why this is about to change:

1 . There is growing customer demand.

It is clear that legislative action and policy alone haven't been enough; we believe progress is more likely to come from customer demand. Driven by generational shifts in spending behaviour, we are seeing increased pressure on businesses for more sustainable products and services. 68% of Millennials (who make up the largest share of the workforce) are willing to spend more on sustainable products. Younger consumers are increasingly willing to use their spending power as a force for good and as the disposable income of these generations

increases, there will be increased pressure on businesses to adopt a more sustainable corporate agenda.

In the same way that Tesla (automotive), Octopus Energy (utilities) and Brewdog (beverages) have met the demand for sustainable goods and services in their respective sectors – and in the process transformed them – we believe there is an opportunity for well-positioned investors to follow suit and achieve the same in the real estate industry.



2. New affordable technology makes it possible.

The last few years have seen significant changes in available technology. Where creating a clean office block or hotel may have previously come with significant costs, new technologies are greener and cheaper than ever before. Advances in building methods such as offsite modular construction and cross-laminated timber can significantly reduce the carbon footprint during development. During operation, it is possible to run cleaner and more efficient buildings through use

of renewable energy, battery storage, ground source heat pumps and water reuse systems. Smart technologies and “Internet of Things” combined can provide real time monitoring of air temperature and quality, and room occupancy; artificial intelligence can then use this data to improve energy and operational efficiency. With cloud computing it is much easier to retrofit this technology into existing assets relative to old HVAC and Building Automation Systems which become obsolete as new technologies develop.



3. Sustainable real estate is a better investment. Sustainable real estate is not just better for society, we also believe it is best for our investors and clients. Asset owners who are quick to adopt a sustainability philosophy will benefit from increased liquidity, higher income, more attractive funding structures (such as recently introduced ESG-linked ratchets in debt facilities) and an overall increase in value.

Those resisting change will see their income cannibalised and their taxes increase, and eventually they will be shunned for cleaner alternatives. As put by Mark Carney in his recent Reith Lectures "if society sets a clear goal, it will become profitable to be part of the solution and costly to remain part of the problem."



Why Millemont is different

Founded in 2021, in the middle of the pandemic, we are a business facing into widespread disruption. We believe that as we come out the other side there will be a need to do things differently. We hope to see green agendas being adopted with much more urgency and we are here to be part of the solution, not the problem.

We intend to embrace this opportunity and place sustainability at our core at our company and assets level, and across our investment management and advisory mandates.

From our inception as a company, we aim to remove twice as much carbon as we emit and only use renewable energy where possible. We will also target becoming a signatory of the United Nations Principles

for Responsible Investing through which we will ensure that ESG is at the heart of our business activities. We will selectively work with stakeholders that share our values.

We also believe that the best way for the industry to react to the challenge is to be much more open about how to solve it. This means that rather than keeping insight about what is or isn't working to ourselves, we will 'open source' some of our assets to use as case studies so that we can share our learnings, build on recommendations and demonstrate meaningful progress to other market participants. As a first step towards this, we will be publishing and sharing our sustainability plan in the coming weeks.



Over the coming months, we will also be publishing articles about disruptive technologies and their relevance for real estate. We intend to cover themes that have the potential to drive a greener market in the future including:

- *Energy optimisation and storage;*
- *Heat pumps and low carbon heating;*
- *Prop-tech and its uses in both retro fitted assets and new builds;*
- *Vertical farming and reducing mileage in supply chains;*
- *Changing office usage and improving capacity utilisation;*
- *Standardisation of carbon audits and metrics;*
- *Zero waste, zero plastic and other practical operational solutions; and*
- *Carbon sequestration and our partnership with Forest Carbon.*





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