

# Market Value Impact Report

Divestment of freehold underground land required for tunnel infrastructure projects

**Reliance Restricted**

1 July 2019 | VGV Ref: S136118/2 (Final Report)

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## Dashboard

### Release Notice

Dashboard  
1 Executive Summary  
2 Introduction  
3 Methodology to Determin ...  
4 Case Studies  
5 Transactional Evidence

6 Matters Relevant to the ...  
7 Appendices

Ernst & Young has been engaged by Valuer-General Victoria (“VGV”) for the Department of Transport (“DoT” or “Secretary”) to prepare an expert report (“Services”) to consider the impact on the Market Value of land in respect of the divestment of underground land required for government infrastructure projects.

The results of Ernst & Young’s work, including the assumptions and qualifications made in preparing the report, are set out in Ernst & Young’s report dated 1 July 2019 (“Report”). The Report should be read in its entirety including this notice, transmittal letter, and the applicable scope of the work and any limitations. A reference to the Report includes any part of the Report. No further work has been undertaken by Ernst & Young since the date of the Report to update it.

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## Reliance Restricted

Mr. Robert Marsh  
Valuer-General Victoria  
Level 4, 1 Little Collins Street  
Melbourne, VIC, 3000  
Attention:

## Divestment of Underground Land required for Government Infrastructure Projects

1 July 2019

Dear Robert,

In accordance with the Letter of Instruction from the Valuer-General Victoria (“VGV”) dated 12 April 2019 (“Instructions”), please find enclosed our expert report in respect to the impact on the Market Value of land as a result of the divestment of underground land required for government infrastructure projects. The enclosed report (the “Report”) sets out the outcomes of our work. You should read the Report in its entirety. A reference to the report includes any part of the Report.

Where underground strata land is divested, eligible landowners may make a claim for compensation in accordance with section 163 of the *Major Transport Projects Facilitation Act 2009* (“MTPF Act”) which refers to the *Land Acquisition and Compensation Act 1986* (“LAC Act”). Our advice considers how it may be possible to assess the potential for properties located above a proposed tunnel alignment from which subsurface land is divested to suffer an impact upon their Market Value (if at all), and the key factors potentially impacting Market Value (the “Purpose”).

Our Report outlines the rationale and methodology we would adopt to assess whether a property will experience ‘No Impact’ or a ‘Possible Impact’ upon Market Value in accordance with section 41(3) of the LAC Act and section 5A of the *Valuation of Land Act 1960* (“VL Act”) as a result of the divestment of underground strata land. We have not sought to quantify the extent of any ‘Possible Impact’ upon Market Value in relation to specific properties affected by the divestment of underground strata land.

Our work commenced on 12 April 2019 and was completed on 1 July 2019. Therefore, our Report does not take account of events or circumstances arising after 1 July 2019 and we have no responsibility to update the Report for such events or circumstances.

The Report describes our methodology, summarises the facts and data underlying our opinion, and presents our conclusions. The conclusions and opinions stated herein are subject to our Statement of General Assumptions and Limiting Conditions. This letter should be read in conjunction with our Report, which is attached. Thank you for your instructions and entrusting this work with our Firm. We trust that we have provided you with the information you require, however, should you have any queries regarding this matter please contact us.

Yours sincerely,

Richard Bowman,  
Partner, Real Estate Advisory Services



**Dashboard**  
Table of contents

- Dashboard
- 1 Executive Summary
- 2 Introduction
- 3 Methodology to Determin ...
- 4 Case Studies
- 5 Transactional Evidence

- 6 Matters Relevant to the ...
- 7 Appendices

---

## Dashboard

Page 2

---

## Executive Summary

1

Page 5

---

## Introduction

2

Page 7

---

## Methodology to Determine ...

3

Page 11

---

## Case Studies

4

Page 14

---

## Transactional Evidence

5

Page 28

---

## Matters Relevant to the ...

6

Page 41

---

## Appendices

7

Page 48

# 1

## Executive Summary

In this section	Page
Property Classification Impact Matrix	6



# 1 Executive Summary

## Property Classification Impact Matrix

Dashboard

**1 Executive Summary**

2 Introduction

3 Methodology to Determin ...

4 Case Studies

5 Transactional Evidence

6 Matters Relevant to the ...

7 Appendices

The following table outlines our findings on the characteristics relevant to the classification of ‘No Impact’ or ‘Possible Impact’ on the Market Value of property above a tunnel alignment.

### No Impact

**A ‘No Impact’ property may exhibit one or several of the characteristics shown to the right.**

These properties, which are situated above the proposed tunnel alignment, may not experience an impact on their Market Value, as a result of the underground strata land divestment for the purpose of a tunnel infrastructure project, as measured by the ‘Before and After’ approach to valuation.

- ▶ Where the underground strata land divestment is at a depth beneath surface level that will not impact on the Highest and Best Use of the land owing to one or more of the following factors;
  - ▶ the existing use reflects the Highest and Best Use of the land;
  - ▶ a reasonable probability that the underground strata land is not required to realise its Highest and Best Use potential;
  - ▶ the title being defined by strata, volumetric or depth limited title;
  - ▶ the property not being one of a number properties held in common ownership that together form part of a larger property capable of redevelopment;
  - ▶ the building or land being limited by heritage controls;
  - ▶ a current or likely future zoning which does not support further and material development potential;
  - ▶ being of a size and physical characteristic which limits its development potential; and
  - ▶ the introduction of the DDO for the purpose of the Project.



### Possible Impact

**A ‘Possible Impact’ property may exhibit one or several of the characteristics shown to the right.**

These properties, which are situated above the proposed tunnel alignment, may experience an impact on their Market Value, as a result of the underground strata land divestment for the purpose of a tunnel infrastructure project, as measured by the ‘Before and After’ approach to valuation.

- ▶ Where the underground strata land divestment is at a depth beneath surface level that will impact on the Highest and Best Use of the land owing to one or more of the following factors;
  - ▶ a reasonable probability that the underground strata land is required to realise its Highest and Best Use potential;
  - ▶ being defined by freehold fee simple title;
  - ▶ not being limited by heritage controls;
  - ▶ has a current or likely future zoning which supports further and material development potential;
  - ▶ being of a size and physical characteristic which enables significant and probable development potential; and
  - ▶ the introduction of the DDO for the purpose of the Project.
- ▶ Where the subterranean tunnel infrastructure impacts on existing improvements on the property.
- ▶ Where the proximity of the project infrastructure at surface level impacts the Market Value of the property.



# 2

## Introduction

In this section	Page
Instructions, Context & Purpose	8
Critical Assumptions	9
Scope and Approach	10



## 2 Introduction

### Instructions, Context & Purpose

Dashboard

1 Executive Summary

**2 Introduction**

3 Methodology to Determin ...

4 Case Studies

5 Transactional Evidence

6 Matters Relevant to the ...

7 Appendices

Figure 1. DoT Logo



Department  
of Transport

Source: <https://transport.vic.gov.au/>

### Instructions

In accordance with our Instructions from the VGV dated 12 April 2019, EY have been engaged by VGV on behalf of the DoT to provide an expert report in respect of the proposed divestment of strata land for a number of major infrastructure Projects which are being, or are likely to be, delivered under the *Major Transport Projects Facilitation Act 2009* (“MTPF Act”). The delivery of these Projects will require land to be made available by the State Government (the “State”), in some cases necessitating the compulsory acquisition of underground strata land pursuant to section 162 of the MTPF Act.

### Context – The Projects

Victoria is currently experiencing vast infrastructure growth with numerous rail and road projects being delivered by the Victorian Government. The delivery of these projects requires land to be made available. Projects including but not limited to North East Link Project (“NELP”), West Gate Tunnel Project (“WGTP”), Metro Tunnel Project (“MTP”), Level Crossing Removal Project (“LCRP”) (the “Projects”).

### Purpose

This report has been prepared in order to assist the DoT to understand the rationale and methodology which the authors believe relevant in their experience and expertise as valuers to assess whether a property will experience ‘No Impact’ or a ‘Possible Impact’ upon Market Value in accordance with section 41(3) of the *Land Acquisition and Compensation Act 1986* (“LAC Act”) and section 5A of the *Valuation of Land Act 1960* (“VL Act”) as a result of the divestment of underground strata land. This report considers a framework for assessing the potential impact on properties which are located above the proposed tunnel alignment which may suffer impacts on their Market Value.

This Report has been prepared for the purposes stated above only and must not be used for any other purpose. This report or any part of this report (including without limitation any conclusions as to value, the identity of EY or any individuals signing or associated with this report, or the professional associations or organisations with which they are affiliated) must not be disseminated to any third party by any means without the prior written consent and approval of EY.

A copy of our Instructions are provided in Appendix B.





## 2 Introduction

### Critical Assumptions

[Dashboard](#)[1 Executive Summary](#)**[2 Introduction](#)**[3 Methodology to Determin ...](#)[4 Case Studies](#)[5 Transactional Evidence](#)[6 Matters Relevant to the ...](#)[7 Appendices](#)

### Critical Assumptions

Our report is subject to the following critical assumptions:

- ▶ Damage (if any) to existing improvements as a result of the construction of the Projects is the responsibility of the construction contractor and has not been considered in the classification of properties into 'No Impact' or 'Possible Impact'.
- ▶ It is expected that the acquiring authority will be responsible for costs which may arise as a result of the Projects in respect of the administrative tasks associated with a change in the owners interest in the land.
- ▶ We have only considered affected properties where underground strata land is to be divested for the purpose of a tunnel infrastructure project.

In preparing this Report we have considered and relied upon information from a range of sources believed, after due enquiry, to be reliable and accurate. We have no reason to believe that any information supplied to us, or obtained from public sources, was false or that any material information has been withheld from us.

Should any of the above assumptions prove incorrect; we reserve the right to review and amend the Report.

### Out of Scope

This Report seeks to identify Market Value impacts only as a result of the divestment of underground land and is not intended to deal with any other Heads of Claim. We have not sought to identify or quantify the extent of any impact upon Market Value.



## 2 Introduction

### Scope and Approach

Dashboard	6 Matters Relevant to the ...
1 Executive Summary	7 Appendices
<b>2 Introduction</b>	
3 Methodology to Determin ...	
4 Case Studies	
5 Transactional Evidence	

### Date of Advice

Our work commenced on 12 April 2019 and was completed on 1 July 2019. Therefore, our Report does not take account of events or circumstances arising after 1 July 2019 and we have no responsibility to update the Report for such events or circumstances.

### Relevant Legislation

- ▶ The *Major Transport Projects Facilitation Act 2009* (“MTPF Act”) in respect of granting the authority powers to acquire interests in land required for the project.
- ▶ The *Land Acquisition and Compensation Act 1986* (“LAC Act”) in respect to compensation for acquisition of land in Victoria.
- ▶ The *Valuation of Land Act 1960* (“VL Act”) in respect of matters to consider when determining Market Value.

### Provided Information

In undertaking this advice we have been provided with the following information:

- ▶ Letter of Instruction from VGV to EY, dated 12 April 2019.
- ▶ Letter of Instruction from DoT to VGV, dated 15 March 2019.
- ▶ Details on the Projects provided by various State Government Project teams.

### Authors of this Report

This Report has been prepared by Richard Bowman, a Partner of EY, a Certified Practising Valuer (“CPV”) and a Fellow of the Australian Property Institute (“FAP I”). Richard has 25+ years experience with respect to compulsory acquisition matters.

Richard has been assisted by Ryan Costin an Associate Director of EY, a Certified Practising Valuer (“CPV”) and an Associate of the Australian Property Institute (“AAPI”).

The criteria used to assess the ‘Possible Impact’ and ‘No Impact’ on the Market Value of the retained land by virtue of the divestment of the underground strata land or part underground strata land is a matter of opinion of the authors and is based on their experience and expertise as valuers.

# 3

## Methodology to Determine Potential Impact

In this section	Page
Market Value Impact – Overview	12
Identification of Possible Impacts on Value	13



## 3 Methodology to Determine Potential Impact

### Market Value Impact – Overview

Dashboard

1 Executive Summary

2 Introduction

**3 Methodology to Determi ...**

4 Case Studies

5 Transactional Evidence

6 Matters Relevant to the ...

7 Appendices

#### Market Value in accordance with Section 40 of the Land Acquisition and Compensation Act 1986

*“market value, in relation to any [interest](#) in land on a particular date, means the amount of money that would have been paid for that [interest](#) if it had been sold on that date by a willing but not anxious seller to a willing but not anxious purchaser”*

#### Market Value Impact - Overview

Properties affected by an underground strata land Divestment Order are entitled to claim compensation, in accordance with section 163 of the MTPF Act. Section 41(1) of the LAC Act sets out the relevant considerations in assessing the amount of compensation payable to a dispossessed land owner (the “Claimant”).

In the context of the Projects it is likely that such claims for impact on Market Value will primarily arise by way of one or both of the following;

- ▶ the retained land by virtue of the divestment of the underground strata land or part underground strata land ([loss attributable to severance](#)); and
- ▶ the enhancement or depreciation in value of the [interest](#) of the [claimant](#), at the [date of acquisition](#), in other land adjoining or severed from the [acquired](#) land by reason of the implementation of the purpose for which the land was [acquired](#);

#### Methodology to measure Market Value Impact - “Before” and “After” Approach

The appropriate valuation methodology for the quantification of the loss in Market Value, is the ‘Before’ and ‘After’ method as set out in the Section 41(3) of the LAC Act, that is;

- ▶ If less than the whole of the land in which a [claimant's interest](#) subsists is [acquired](#) or less than the whole of that [interest](#) is [acquired](#), the [market value](#) of the [acquired interest](#) is the difference between the [market value](#) of the [interest](#) before the acquisition and the [market value](#) of the [interest](#) after the acquisition.

The focus of this Report is therefore to consider whether there are any comparable case studies or transactions which indicate the potential for the acquisition of underground strata land only (i.e. without any acquisition at surface level) which gives rise to an impact on the Market Value of the balance land. In doing so we have considered a range of criteria which we believe in our expert opinion as valuers may give rise to an impact on Market Value. Our investigations have included;

- ▶ The nature and design of relevant Projects;
- ▶ The potential benefits and impacts of relevant Projects;
- ▶ The impact of relevant Projects on the Highest and Best Use of land, and;
- ▶ Transactional evidence from relevant Projects, in order to identify the potential impact on Market Value (if any).



## 3 Methodology to Determine Potential Impact Identification of Possible Impacts on Value

[Dashboard](#)[1 Executive Summary](#)[2 Introduction](#)[3 Methodology to Determine ...](#)[4 Case Studies](#)[5 Transactional Evidence](#)[6 Matters Relevant to the ...](#)[7 Appendices](#)

### EY Methodology used to develop the Classification

The case studies have considered state and national projects which required subterranean land acquisition. The methodology consists of two parts;

- ▶ **Identification of impacts through analysis of transactions:** We have developed a method of analysis that valuers use in attempting to understand the potential impact on Market Value. This has included:
  - ▶ Analysis of individual historic transactions for comparable case studies;
  - ▶ Analysis of recent transactions within designated tunnel project areas;
  - ▶ Statistical (Hedonic) modelling of historic transactions; and,
  - ▶ Interviews with industry professionals, real estate agents, previously impacted land owners and other market participants.
- ▶ **Identification of impact on Highest and Best Use:** The analysis of the comparable transactions (both at an individual and project level) together with our market participant discussions has enabled us to develop a set of criteria where specific examples which we believe relevant to the classification of 'No Impact' vs 'Possible Impact' on Market Value of the balance land have occurred. We have concluded that the divestment of underground strata land may have an impact on the Market Value of the balance land where it impacts upon the Highest and Best Use of the land.

The result is a Property Classification Impact Matrix to assist the DoT in understanding whether properties affected or proposed to be affected by the divestment of underground strata land may experience an impact upon Market Value.

# 4

## Case Studies

In this section	Page
Case Study Projects	15
CityLink	16
EastLink	20
Brisbane Airport Link	24
WestConnex	27



## 4 Case Studies

### Case Study Projects

Dashboard	6 Matters Relevant to the ...
1 Executive Summary	7 Appendices
2 Introduction	
3 Methodology to Determin ...	
<b>4 Case Studies</b>	
5 Transactional Evidence	

### Case Study Projects

EY have identified six (6) case studies with respect to underground strata land divestment. They are:

- ▶ CityLink (Burnley Tunnel)
- ▶ EastLink (Melba Tunnel)
- ▶ Brisbane Airport Link
- ▶ WestConnex Sydney
- ▶ West Gate Tunnel Project
- ▶ Melbourne Metro Rail Project

These infrastructure projects are all different in that each of them present unique characteristics and are located in different geographic areas with inherently different property market characteristics, project designs and acquisition processes. However, there are similarities between the projects that provide relevance for our analysis. We have undertaken statistical modelling on two (2) of these projects to test the impact on Market Value (CityLink and EastLink) within this section of the Report.

The statistical modelling methodology is useful in understanding impacts on Market Value through the analysis of mass sales data over different phases of major infrastructure projects. EY has defined the Project Affected Areas (“Affected Area”) above the tunnel, and also defined comparison areas (“Control Area”), which are used to test relative price movements and therefore the relative impact of the tunnels to target the analysis for the purpose of this report. This analysis focuses on:

- ▶ Sales price investigation: Where plotted house prices within the affected and control areas between years 2000 and 2018 are used to visualise any patterns in how prices within the impact areas may be different to those in the control areas.
- ▶ Median price investigation: Where plotted median house price trends between years 2000 and 2018 are compared to understand if there is a difference in the trend between houses in the impact and control areas.
- ▶ Hedonic investigation: Where hedonic price modelling is used to overcome issues with omitted variable bias that can affect median price analysis, accounting for specific characteristics including number of bedrooms, bathrooms and year of sale. This results in an estimate of the probability that the tunnel may impact property values.

In addition to the statistical analysis of mass data EY has also investigated individual transactional evidence, this analysis is set out in Section 5 of this Report.

## 4 Case Studies

### CityLink

Dashboard	6 Matters Relevant to the ...
1 Executive Summary	7 Appendices
2 Introduction	
3 Methodology to Determin ...	
<b>4 Case Studies</b>	
5 Transactional Evidence	

**Figure 2. Melbourne CityLink Map**



Source: <https://www.citylink.com.au/using-citylink/entries-and-exits>

### Melbourne City Link

Melbourne CityLink was a privately funded toll road project connecting three of Melbourne's major freeways; the Tullamarine Freeway, West Gate Freeway and Monash Freeway. Construction of the project commenced in May 1996 with Western Link opening in August 1999, the Southern Link which comprises two three-lane tunnels beneath the Yarra River opened on 28 December 2000.

The CityLink Domain tunnel commences at Grant Street in Southbank, traverses through the Royal Botanical Gardens, under the Yarra River and surfaces at grade just prior to the Punt Road crossover and does not affect privately owned land.

The CityLink Burnley tunnel also commences at Grant Street in Southbank, traverses through the Royal Botanical Gardens, Olympic Park Sporting precinct as well as a number of commercial and residential properties throughout the inner Melbourne suburbs of Richmond and Cremorne. The tunnel exists at depths typically beyond fifteen (15) metres below the surface.

### Acquisition Process

The land acquisition process for the Melbourne CityLink project was similar when compared with what is proposed for the Projects under the MTPF Act.

- ▶ The acquisition process was undertaken via section 30 of the *Melbourne City Link Act 1995* (MCL Act) as it was known at the time, under which the affected property owner became responsible for initiating a compensation claim for the divestment of underground land in accordance with the LAC Act.
- ▶ The resultant Certificates of Title for affected properties did not specifically illustrate the location and depth of the subterranean strata land acquired, rather a notation on the Title Plan was created indicating a depth limitation.

The results of our statistical modelling is shown overleaf.



## 4 Case Studies

### CityLink

Dashboard	6 Matters Relevant to the ...
1 Executive Summary	7 Appendices
2 Introduction	
3 Methodology to Determin ...	
<b>4 Case Studies</b>	
5 Transactional Evidence	

**Figure 3. Map showing Investigation Area**



Source: CoreLogic Data 2018 & EY 2019

### Control Area

A total of approximately 3,200 detached residential property transactions are included within our analysis 70 of which fall within the Affected Area.

### Affected Area

Includes all detached residential dwellings over the City Link Tunnel which transacted post construction between years 2000 and 2018 shown yellow in the map to the left.

### Control Area

Includes all detached residential dwellings bound by CityLink to the south, Punt Road to the west, Bridge Road to the north and Burnley Street to the east which have transacted between 2000 and 2018 shown grey in the map shown left.

### Sale price investigation

- ▶ Individual house sale prices between 2000 and 2018 is plotted in Graph 1 overleaf.
- ▶ The plot shows no obvious difference when comparing properties over the CityLink tunnels with surrounding properties.

### Median house price investigation

- ▶ Annual median house price between 2000 and 2018 is plotted in Graph 2 overleaf.
- ▶ Prices within the affected area very closely track those in the control area, suggesting property price is not impacted by being above the tunnels.

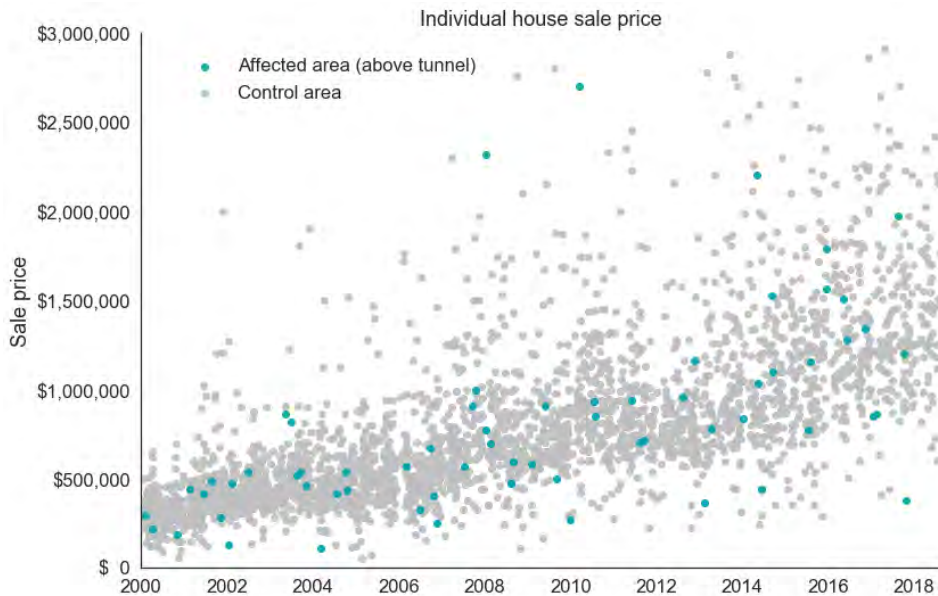


# 4 Case Studies CityLink

- Dashboard
- 1 Executive Summary
- 2 Introduction
- 3 Methodology to Determin ...
- 4 Case Studies**
- 5 Transactional Evidence

- 6 Matters Relevant to the ...
- 7 Appendices

**Graph 1. Sale price investigation**



Source: EY and CoreLogic 2018

**Graph 2. Median house price investigation**



Source: EY and CoreLogic 2018

### EY Comment

This analysis indicates that post construction between 2000 and 2018, properties situated above the Burney tunnel (marked yellow in the graphs) have sold at prices both above and below actual and median price for the area, suggesting that being located above the Burnley tunnel has no discernible impact on Market Value.

We have undertaken further statistical analysis overleaf to test this conclusion.



## 4 Case Studies

### CityLink

Dashboard
1 Executive Summary
2 Introduction
3 Methodology to Determin ...
<b>4 Case Studies</b>
5 Transactional Evidence

6 Matters Relevant to the ...
7 Appendices

**Table 1. Statistical model and results**

Variable	Coefficient	P-Value
Number of bedrooms	0.17	~0
Number of bathrooms	0.12	~0
<b>Tunnel location</b>	<b>-0.04</b>	<b>0.362</b>
Year of sale post 2008	0.08	~0
Constant	12.1	~0

1. A coefficient is found to be statistically insignificant if a p-value is greater than 0.05. That is, if a p-value is greater than 0.05, the corresponding coefficient is assumed to be 0 and the variable is found to have no impact on house prices.

Source: EY 2018

### Key Findings

The CityLink Project underwent a similar compulsory acquisition process to what is proposed to take place for the divestment of underground strata land under the MTPF Act.

The sale price, median sale price and statistical analysis is limited to transactions of detached residential dwellings which occurred post completion of the project.

The results indicate the existence of the tunnel is found to have no discernible impact upon the Market Value of affected properties when compared with the control area in the post construction phase between 2000 and 2018.

### Statistical investigation

For the statistical investigations, we have used a hedonic house price model to overcome issues with omitted variable bias that can affect median price analysis.

We accounted for the following house sale characteristics:

- ▶ Number of bedrooms - (*nbed*)
- ▶ Number of bathrooms - (*nbath*)
- ▶ Tunnel location (i.e. above tunnel) - (*tunnel*)
- ▶ Date of sale – (*year*)

The results of the regression (Table 1) show that there is no statistical evidence of a price difference for properties over the tunnels compared to the surrounding area. They indicate that house prices are roughly 17% more expensive per bedroom, 12% per bathroom, and have grown by 8% per year after 2008.

### Statistical model and results

$$\ln(\text{Price}_{\text{house}}) = 0.17 * nbed + 0.12 * nbath - 0.04 * tunnel + 0.08 * year + 12.1 + \text{error}_{\text{house}}$$

**Tunnel location** is found to have **no discernible impact** on house prices. A coefficient of -0.04 was estimated for the impact of tunnel location, however given this result is statistically insignificant, we conclude that **tunnel location has no discernible impact on house prices**. In our opinion the project delivered few (if any) direct benefits to the Market Value of the properties within the Richmond and Cremorne precincts.

EY have mapped a sample of comparable transactions relative to affected properties within Section 5 of this Report. The CityLink Project provides sales activity during the post completion phase of the project.



## 4 Case Studies EastLink

- Dashboard
- 1 Executive Summary
- 2 Introduction
- 3 Methodology to Determin ...
- 4 Case Studies**
- 5 Transactional Evidence

- 6 Matters Relevant to the ...
- 7 Appendices

**Figure 4. EastLink Map**



Source: <https://www.eastlink.com.au/about-eastlink/eastlink-tunnels>

### EastLink Tunnel

EastLink is a motorway in Melbourne’s east connecting the Eastern, Monash and Peninsula Link freeways. The project was announced in May 2003 and construction commenced in May 2005, the road was officially opened in June 2008.

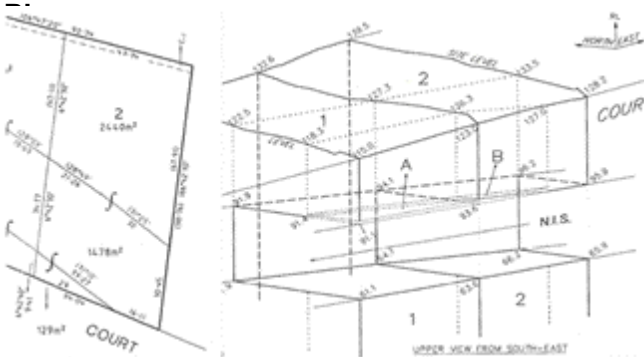
The project incorporates two (2) 1.6 kilometre tunnels that run parallel through Donvale. The tunnels have a vehicle height clearance of 4.65 metres, and are located up to approximately 50 metres below the surface.

There are two areas that are affected by the Eastlink tunnel which can be defined as follows:

- ▶ South Western Portion – including Lisbeth Avenue, Rangeview Road, Young Street and Vasey Grove
- ▶ North Eastern Portion – including properties on Craig Road, Beckett Street and Chaim Court

For the purpose of this statistical analysis we have investigated the South Western Portion only given the more homogenous nature of the dwellings in this location.

**Figure 5. Example extract of notation on Title**



Source: [www.landata.vic.gov.au](http://www.landata.vic.gov.au)

### Acquisition Process

The land acquisition process for the EastLink project was different when compared with what is proposed for the Projects under the MTPF Act.

- ▶ The acquisition of subterranean strata land as a result of the EastLink tunnel project was undertaken via the publication of Notices of Acquisition (“NOA”) under the LAC Act, which required the acquiring authority to make an offer of compensation for the acquisition of underground strata land.
- ▶ The EastLink acquisition process resulted in the illustration on the title plan shown in Figure 5.

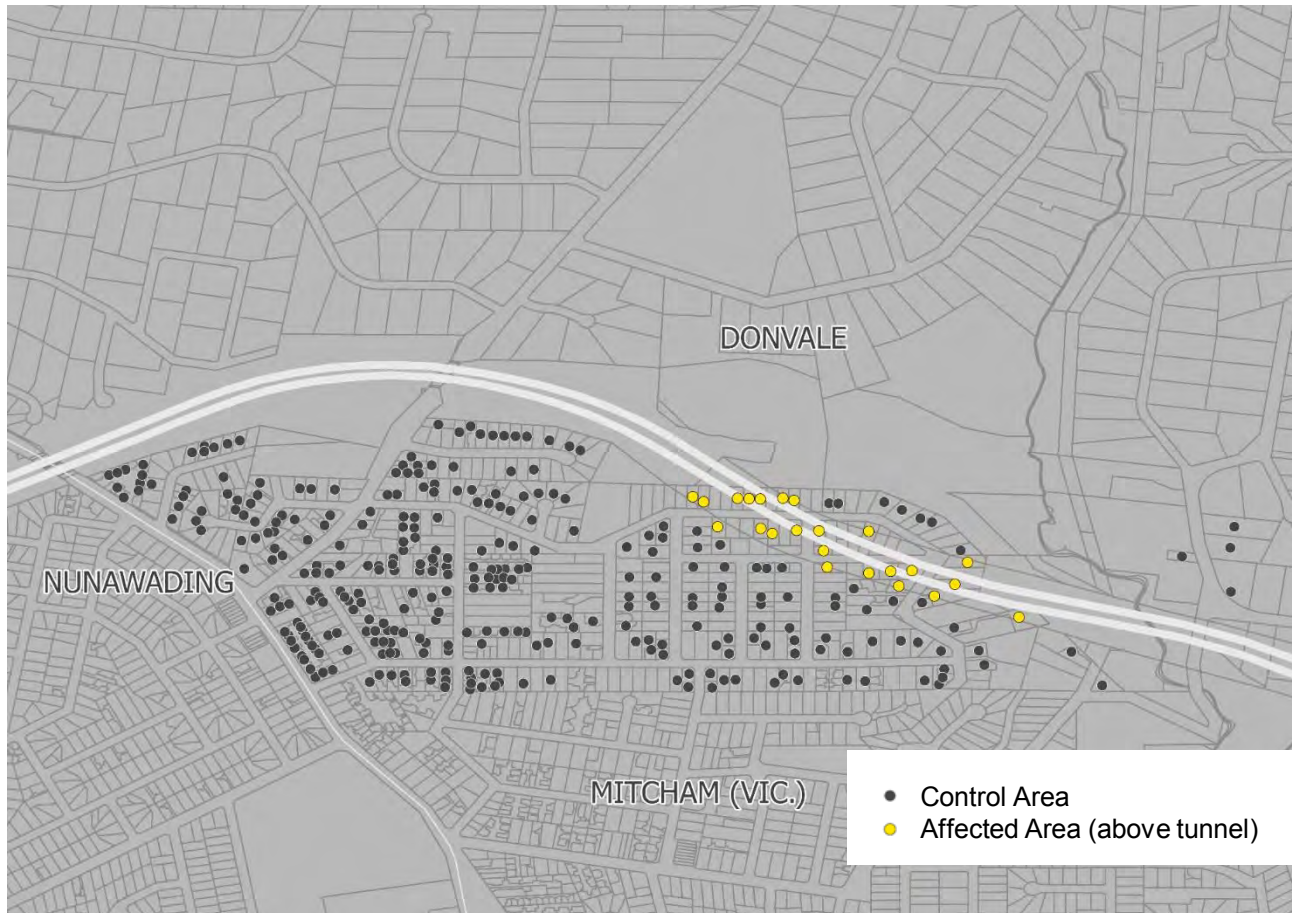
We have researched a number of sales that lie directly above the Eastlink Tunnels, which occurred within the South Western and North Eastern Portions following the completion of the project.

## 4 Case Studies

### EastLink

Dashboard	6 Matters Relevant to the ...
1 Executive Summary	7 Appendices
2 Introduction	
3 Methodology to Determin ...	
<b>4 Case Studies</b>	
5 Transactional Evidence	

**Figure 6. Map showing Investigation Area**



Source: CoreLogic Data 2018 & EY 2019

### EastLink (above Melba Tunnel) Affected and Control Area

A total of 280 detached residential property transactions are included within our analysis, 40 of which fall within the Affected Area.

#### Affected Area

Includes all detached residential dwellings over the EastLink Tunnel which have transacted before, during and post construction between 2000 and 2018 shown yellow in Figure 6 to the left.

#### Control Area

Includes all detached residential dwellings bound by Chippewa Avenue to the south, Mitcham Road to the West and Park Road to the north which have transacted before, during and post construction between 2000 and 2018 shown grey in Figure 6 to the left.

#### Sale price investigation

- ▶ Individual house sale prices between 2000 and 2018 is plotted in Graph 3 overleaf.
- ▶ The plot shows no obvious difference when comparing properties over the EastLink tunnels with surrounding properties.

#### Median house price investigation

- ▶ Annual median house price between 2000 and 2018 is plotted in Graph 4 overleaf.
- ▶ Prices within the affected area very closely track those in the control area, suggesting property price is not impacted by being above the tunnels.



# 4 Case Studies EastLink

- Dashboard
- 1 Executive Summary
- 2 Introduction
- 3 Methodology to Determin ...
- 4 Case Studies**
- 5 Transactional Evidence

- 6 Matters Relevant to the ...
- 7 Appendices

**Graph 3. Sale price investigation**



Source: EY and CoreLogic 2018

**Graph 4. Median price investigation**



Source: EY and CoreLogic 2018

## EY Comment

The analysis on EastLink indicates that before, during and post construction between 2000 and 2018, properties situated above the Melba tunnel (marked yellow in the Graphs 3 and 4) have sold at prices both above and below actual and median price for the area, suggesting that being located above the Melba tunnel has no discernible impact on Market Value.

We have undertaken further statistical analysis overleaf to test this conclusion.



## 4 Case Studies

### EastLink

Dashboard
1 Executive Summary
2 Introduction
3 Methodology to Determin ...
<b>4 Case Studies</b>
5 Transactional Evidence

6 Matters Relevant to the ...
7 Appendices

**Table 2. Statistical model and results**

Variable	Coefficient	P-Value
Number of bedrooms	0.09	~0
Number of bathrooms	0.10	~0
<b>Tunnel location</b>	<b>0.03</b>	<b>0.585</b>
Year of sale post 2008	0.06	~0
Constant	12.6	~0

1. A coefficient is found to be statistically insignificant if a p-value is greater than 0.05. That is, if a p-value is greater than 0.05, the corresponding coefficient is assumed to be 0 and the variable is found to have no impact on house prices.

Source: EY 2018

### Key Findings

The acquisition of subterranean strata land for the EastLink tunnel project was undertaken via the publication of NOA's under the LAC Act.

The results indicate the existence of the tunnel is found to have no discernible impact upon the Market Value of affected properties when compared with the control area in the before, during and post construction between period between 2000 and 2018.

### Statistical investigation

For the statistical investigation, we have used a hedonic house price model to overcome issues with omitted variable bias that can affect median price analysis.

We accounted for the following house sale characteristics:

- ▶ Number of bedrooms - (*nbed*)
- ▶ Number of bathrooms - (*nbath*)
- ▶ Tunnel location (i.e. above tunnel) - (*tunnel*)
- ▶ Year of sale post 2008 - (*year*)

Only transactions in 2008 and after have been included to assess the impact of the tunnel of prices.

The results of the regression (Table 2) show that there is no statistical evidence of a price difference for properties over the tunnels compared to the surrounding area. They indicate that house prices are around 9% more expensive per bedroom, 10% per bathroom, and have grown by 6% per year after 2008.

### Statistical model and results

$$\ln(\text{Price}_{\text{house}}) = 0.09 * nbed + 0.10 * nbath \\ + 0.03 * tunnel + 0.06 * year \\ + 12.6 + error_{\text{house}}$$

**Tunnel location** is found to have **no discernible impact** on house prices. A coefficient of +0.03 was estimated for the impact of tunnel location, however given this result is statistically insignificant, we conclude that **tunnel location has no discernible impact on house prices**. In our opinion the project delivered limited indirect benefits to the Market Value of both the affected properties and those within the control area.

EY have mapped a sample of comparable transactions relative to affected properties within Section 5 of this Report. The EastLink Project provides sales activity during the post announcement, construction, and post completion phases of the project.



## 4 Case Studies Brisbane Airport Link

- Dashboard
- 1 Executive Summary
- 2 Introduction
- 3 Methodology to Determin ...
- 4 Case Studies**
- 5 Transactional Evidence

- 6 Matters Relevant to the ...
- 7 Appendices

**Figure 7. Brisbane Airport Link & Northern Busway Map**



Source: www.brisconnections.com.au

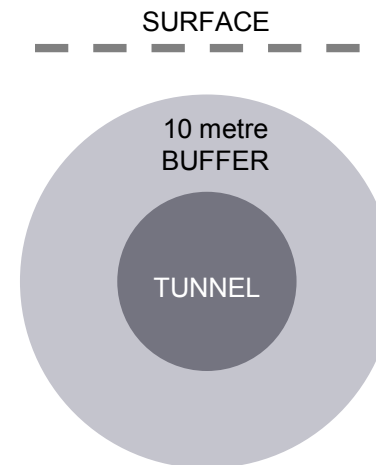
### Brisbane Airport Link

The Brisbane Airport Link, Northern Busway and Airport Roundabout projects comprise two tunnels and a new airport connection. The Airport Link is a 6.7 km toll road which is mainly underground and connects the Clem 7 tunnel, inner city Bypass and a local road network. Construction commenced on the Airport Link Project in 2008, and opened in July 2012.

### Acquisition Process

The Brisbane Airport Link and Northern Busway projects incorporated an additional buffer of subterranean land acquired for the projects. A sphere of land representing the tunnel construction area was acquired to facilitate the infrastructure works, with an additional ten (10) metres of land around that sphere being acquired as a buffer for the project. As a result the land acquisition is within close proximity to the surface of the earth in some locations, however the actual location of the tunnel is a further ten (10) metres below the uppermost limit of the acquired area (see Figure 8 below).

**Figure 8. Acquisition Area & Approach to Compensation<sup>1</sup>**



Source: EY, 2019

<sup>1</sup> This illustration is not to scale and has been provided for illustrative purposes only



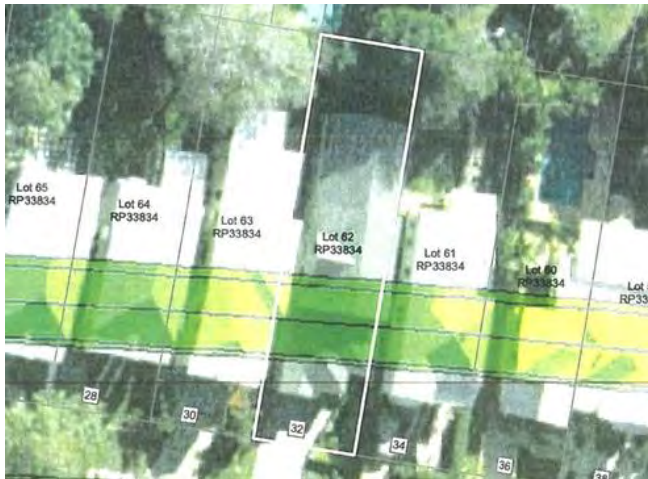


## 4 Case Studies Brisbane Airport Link

- Dashboard
- 1 Executive Summary
- 2 Introduction
- 3 Methodology to Determin ...
- 4 Case Studies**
- 5 Transactional Evidence

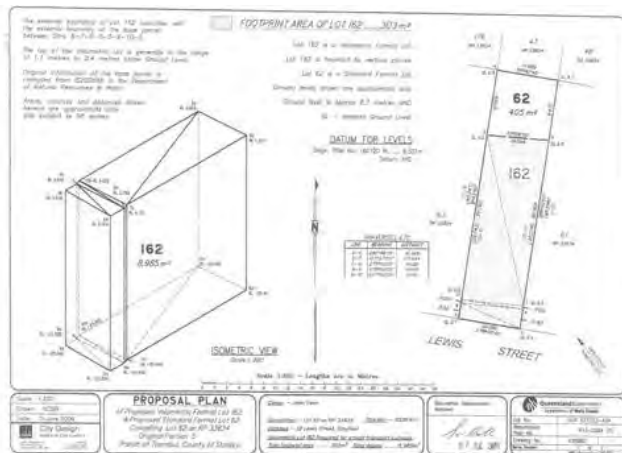
- 6 Matters Relevant to the ...
- 7 Appendices

**Figure 9. Aerial showing location of tunnel**



Source: Department of Transport and Main Roads Queensland

**Figure 10. Notation on Title**



Source: Department of Transport and Main Roads Queensland

Enquiries with the Department of Transport and Main Roads (“DTMRQ”) revealed compensation was assessed according to the depth of the acquisition, being categorised as either ‘shallow’, or ‘not shallow’. The measure of shallowness was determined by:

- ▶ Shallow acquisitions being land acquired to less than 5 metres below the surface of the earth; and
- ▶ Land that was not shallow being land acquired with a depth of greater than 5 metres from the surface of the earth (noting the tunnel is therefore located a further 10 metres below that level).

Compensation was then assessed as either a nominal payment for acquisitions that were considered “not shallow”, or a percentage of Market Value for “shallow” acquisitions. Importantly, the DTMRQ concluded no change in the “Before” and “After” Market Value for acquisitions that were deemed “not shallow”. The nominal payment was an arbitrary amount determined by the DTMRQ to acknowledge the inconvenience of the process upon the affected owners.

In contrast, compensation for “shallow” acquisitions related only to the impact on Market Value as a result of the land acquired. In so far as it related to Highest and Best use. Costs arising from damage to improvements were the responsibility of the construction contractor.

The resultant Certificates of Title for affected properties illustrated the location and depth of the subterranean strata land acquired, indicating an interest vested in the DTMRQ, as shown in the image left. However, upon completion of the project this notation on the Certificate of Title was removed such that future purchasers of impacted properties may now be unaware of the existence of the tunnels.

The aerial image (Figure 9) demonstrates the location of the tunnel traversing an impacted property (32 Lewis Street, Clayfield), which is also depicted in the Certificate of Title notation (shown in Figure 10).



## 4 Case Studies

### Brisbane Airport Link

- Dashboard
- 1 Executive Summary
- 2 Introduction
- 3 Methodology to Determin ...
- 4 Case Studies**
- 5 Transactional Evidence

- 6 Matters Relevant to the ...
- 7 Appendices

#### Key Findings

The Brisbane Airport Link Project underwent a different compulsory acquisition process to what is proposed to take place for the divestment of underground strata land under the MTPF Act.

The notation on title was complex during construction. However, upon completion of the project the notation removed such that future purchasers of impacted properties may be unaware of the existence of the tunnels.

Compensation was paid for an impact on Market Value where 'shallow' acquisitions occurred.

DTMRQ observed no discernible difference in the sales prices achieved for affected properties during the construction phase of the project.

Throughout the construction period, twenty-four (24) of the two-hundred and eighty-three (283) properties impacted by subterranean strata acquisition transacted. The DTMRQ undertook analysis to determine the impact upon Market Value as a result of the project during the construction phase. There was full disclosure of the tunnel throughout the marketing campaigns and at auction. The DTMRQ concluded there was no impact on value, with typical market forces dictating sales results.

EY have provided an overview highlighting the relative locations of a sample of comparable transactions which occurred relative to affected properties within Section 5 of this Report. Brisbane Airport Link offers sales activity during the construction phase of the project.

EY have mapped a sample of comparable transactions relative to affected properties within Section 5 of this Report. Brisbane Airport Link offers sales activity during the construction phase of the project.



# 4 Case Studies WestConnex

- Dashboard
- 1 Executive Summary
- 2 Introduction
- 3 Methodology to Determin ...
- 4 Case Studies**
- 5 Transactional Evidence

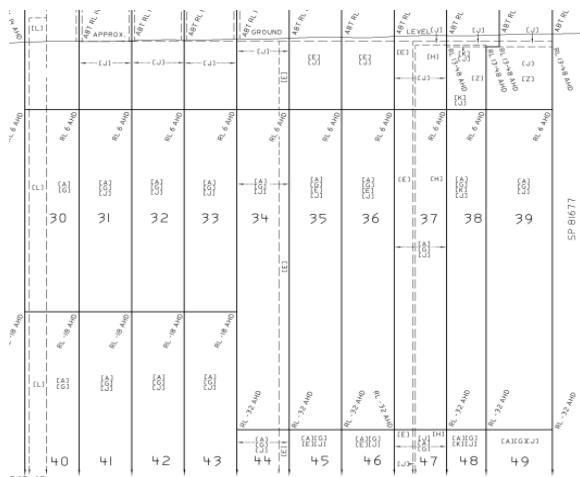
6 Matters Relevant to the ...  
7 Appendices

**Figure 11. WestConnex Map**



Source: <https://www.westconnex.com.au/map>

**Figure 12. Extract of notation on Title Plan**



Source: Equifax, 2019

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## WestConnex Tunnel

WestConnex is a thirty-three (33) kilometre predominately underground motorway currently under construction in Sydney, New South Wales (“NSW”), Australia. The project is a joint venture between the NSW state government and federal government, and comprises three stages including:

- ▶ Stage 1 - 2015 – 2017 - widen the M4 from Church Street at Parramatta to Homebush Bay Drive and extend the M4 via a tunnel east of Homebush Bay Drive, emerging near the Bunnings Warehouse on Parramatta Road or on Wattle Street, Haberfield.
- ▶ Stage 2 - 2016 – 2020 - deliver the New M5 to run from the existing M5 East corridor via tunnel to St Peters, as well as an upgrade of the King Georges Road Interchange.
- ▶ Stage 3 - 2019 – 2023 - join the M4 and M5 corridors via a motorway tunnel with three lanes in each direction.

In early 2017 approximately one-hundred and fifty (150) residential and thirty-nine (39) commercial properties in St Peters and Sydenham were issued with notices of acquisition, declaring the subterranean strata below the surface of their properties would be acquired for the purpose of the Project. However, NSW legislation does not provide for compensation in the event of subterranean strata acquisition where the surface of the property is not disturbed by the Project.

The resultant Title Plans for affected properties illustrate the location and depth of the subterranean strata land acquired, indicating an interest vests in the acquiring authority as shown in Figure 12.

EY have mapped a sample of comparable transactions relative to affected properties within Section 5 of this Report. WestConnex is a current project and offers sales activity during the construction phase of a project.

### Key Findings

NSW legislation does not provide for compensation in the event of subterranean strata acquisition where the surface of the property is not disturbed by the Project.

# 5

## Transactional Evidence

In this section	Page
Introduction	29
West Gate Tunnel Project – Detached Residential Dwelling Sales Evidence	30
CityLink - Detached Residential Dwelling Sales Evidence	31
EastLink - Detached Residential Dwelling Sales Evidence	32
Brisbane Airport Link - Detached Residential Dwelling Sales Evidence	33
Metro Tunnel Project – Mixed Use Development Sales Evidence	34
Metro Tunnel Project - Detached Residential Dwelling Sales Evidence	35
WestConnex - Detached Residential Dwelling Sales Evidence	36
Highest and Best Use – Case Study	40



## 5 Transactional Evidence

### Introduction

- Dashboard
- 1 Executive Summary
- 2 Introduction
- 3 Methodology to Determin ...
- 4 Case Studies
- 5 Transactional Evidence**

- 6 Matters Relevant to the ...
- 7 Appendices

In this section of the report we look at a sample of individual transactions and investigate how being located above a tunnel has potentially impacted on the Market Value of a property. The identification of the impact has been determined by comparing affected properties to the other nearby properties which are outside the tunnel alignment. **This analysis is not intended to provide an exhaustive investigation into all transactions which have occurred within the tunnel alignment of the projects considered.**

We have considered transactions from the following tunnel projects:

- ▶ West Gate Tunnel Project
- ▶ CityLink (Burnley Tunnel)
- ▶ EastLink (Melba Tunnel)
- ▶ Brisbane Airport Link
- ▶ Melbourne Metro Rail Project
- ▶ WestConnex (Sydney)
- ▶ Melbourne City Loop

For privacy reasons we have not disclosed the details of the affected and unaffected properties analysed. Rather, we have provided map imagery to depict the approximate location of each transaction.

We have also provided a Case Study highlighting the potential for Highest and Best Use to be impacted by underground strata land divestment for the purpose of tunnel infrastructure.

The findings from the analysis set out overleaf are:

1. From the individual transactions EY has analysed, there is no discernible difference to suggest that the sale price achieved is impacted where the tunnel is deep below the surface, and where the existing use of the land reflects its Highest and Best Use.
2. From the individual transactions EY has analysed, there is evidence to suggest that where the tunnel is shallow below the surface, there may be an impact on Market Value.
3. In circumstances where the divestment will impact on the Highest and Best Use of the land owing to the underground strata land being required to realise its Highest and Best Use potential (i.e. 308 Exhibition Street, Melbourne City Loop), there may be an impact on Market Value.
4. Where the proximity of the project infrastructure at surface level impacts the property, there may be an impact on Market Value.



# 5 Transactional Evidence

## West Gate Tunnel Project – Detached Residential Dwelling Sales Evidence

- Dashboard
- 1 Executive Summary
- 2 Introduction
- 3 Methodology to Determin ...
- 4 Case Studies
- 5 Transactional Evidence**

6 Matters Relevant to the ...  
7 Appendices

**Figure 13. Map showing comparable property transactions within the WGTP alignment and surrounds**



Source: CoreLogic Data 2018 & EY 2019

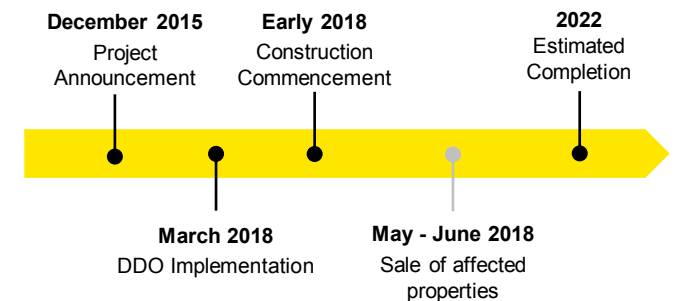
### EY Findings

The properties analysed comprise single residential cottages of comparable size, age and quality which transacted post project commencement. Yarraville provides a relatively homogenous sample of sales being predominately detached dwellings of a similar era. We have focused on comparable sales east of the project alignment removed from the industrial land uses of Hyde Street. Generally the existing land use of the sales analysed reflects Highest and Best Use.

When analysed on a \$/m<sup>2</sup> of land area basis the affected properties exhibit very similar \$ value rates to the comparable sales which exist outside of the project alignment.

We observed no discernible difference to suggest that the sale price achieved by properties within the project alignment are impacted by the tunnel.

### West Gate Tunnel Project Timeline





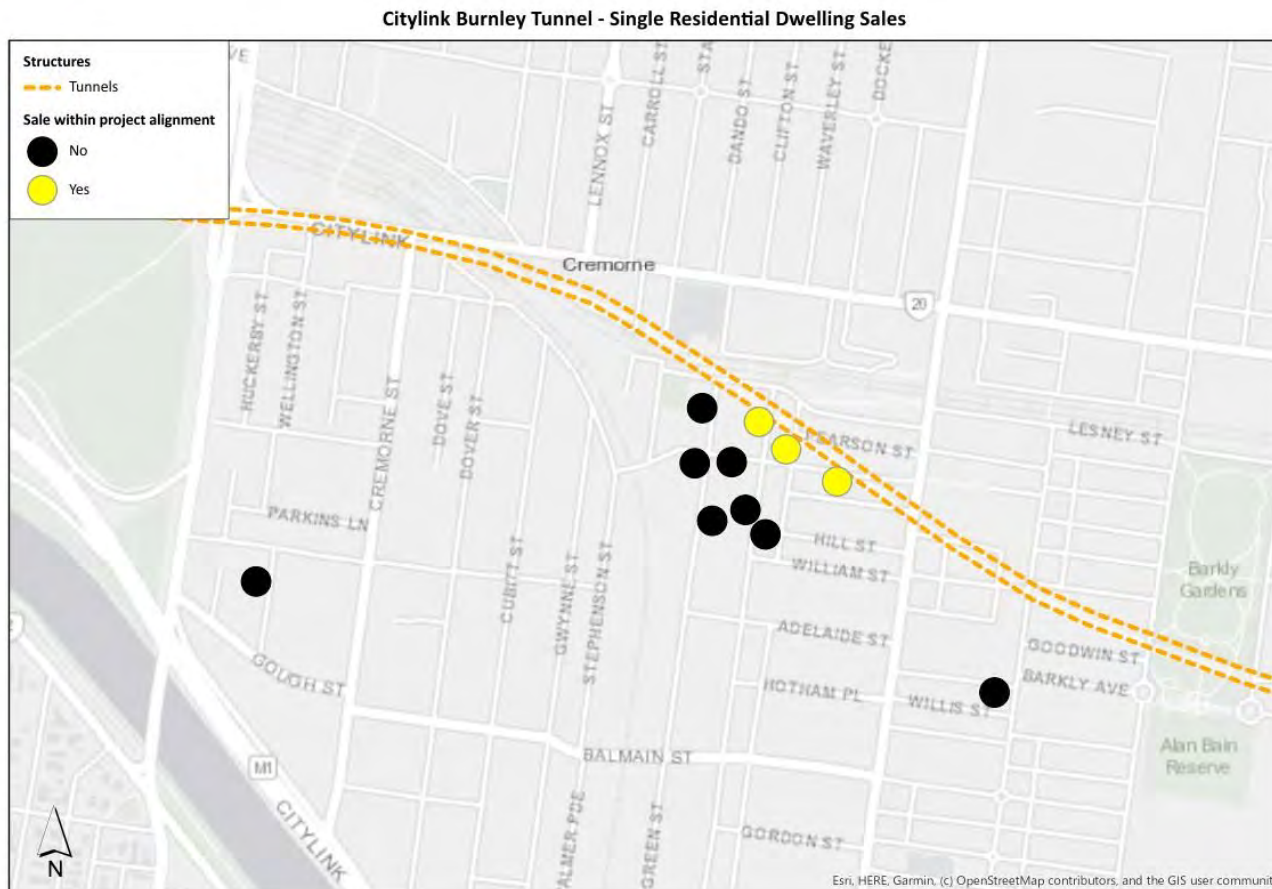
# 5 Transactional Evidence

## CityLink - Detached Residential Dwelling Sales Evidence

- Dashboard
- 1 Executive Summary
- 2 Introduction
- 3 Methodology to Determin ...
- 4 Case Studies
- 5 Transactional Evidence**

- 6 Matters Relevant to the ...
- 7 Appendices

**Figure 14. Map showing comparable property transactions within the CityLink project alignment and surrounds**



Source: CoreLogic Data 2018 & EY 2019

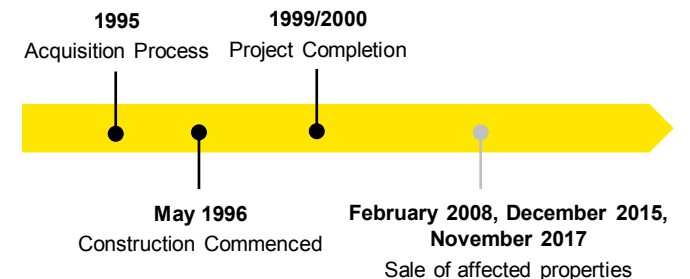
### EY Findings

The properties analysed comprise single residential cottages of comparable size, age and quality which transacted post the completion of the Project. We have focused on a small locality within Cremorne to remove as many market variables as possible. Generally the existing land use of the sales analysed reflects Highest and Best Use, and the tunnel exists more than 15 metres beneath the surface.

When analysed on a \$/m<sup>2</sup> of land area basis the affected properties exhibit very similar \$ value rates to the comparable sales which exist outside of the project alignment.

We observed no discernible difference to suggest that the sale price achieved by properties within the project alignment are impacted by the tunnel.

### CityLink Project Timeline





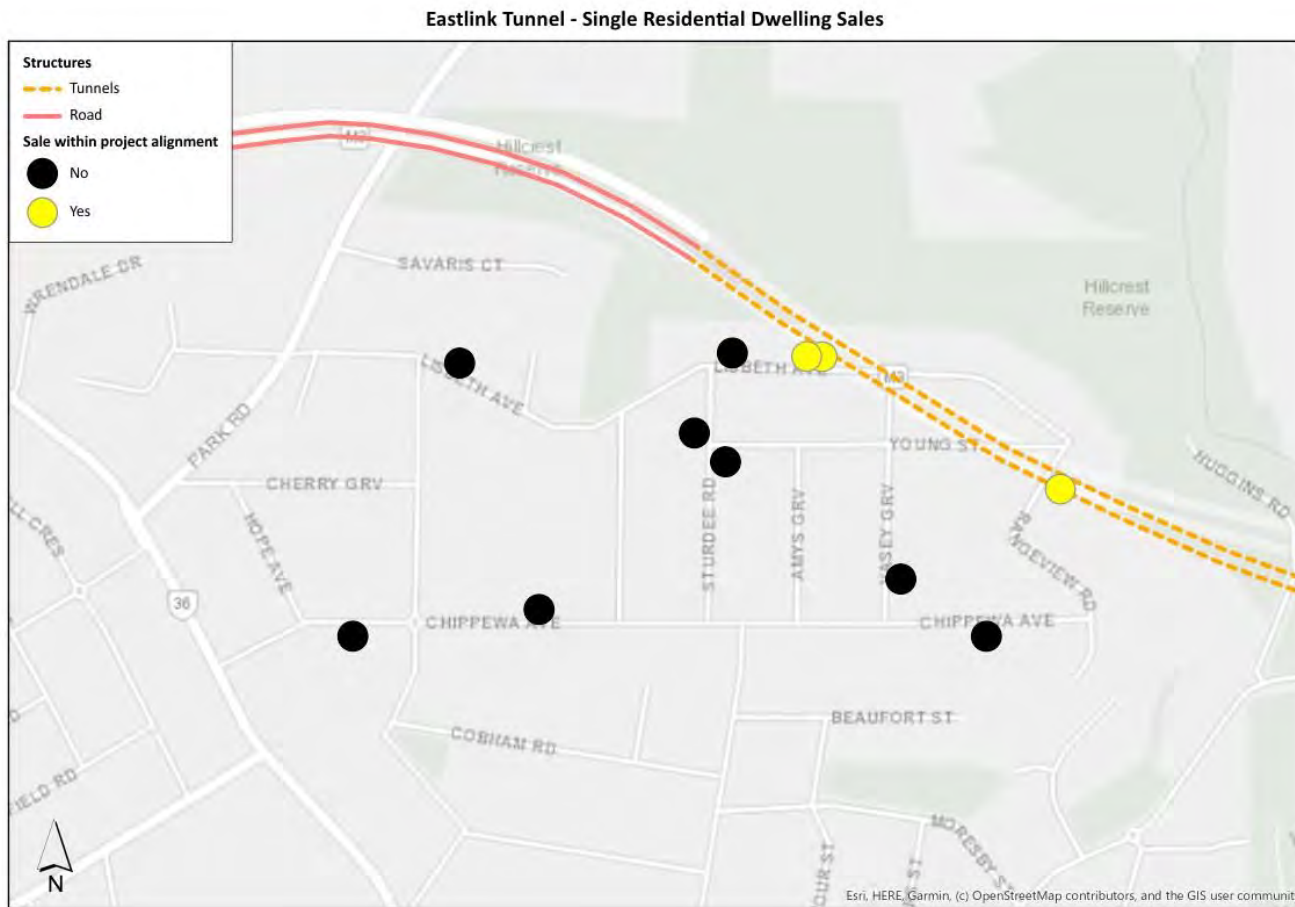
# 5 Transactional Evidence

## EastLink - Detached Residential Dwelling Sales Evidence

- Dashboard
- 1 Executive Summary
- 2 Introduction
- 3 Methodology to Determin ...
- 4 Case Studies
- 5 Transactional Evidence**

- 6 Matters Relevant to the ...
- 7 Appendices

**Figure 15. Map showing comparable property transactions within the EastLink project alignment and surrounds**



Source: CoreLogic Data 2018 & EY 2019

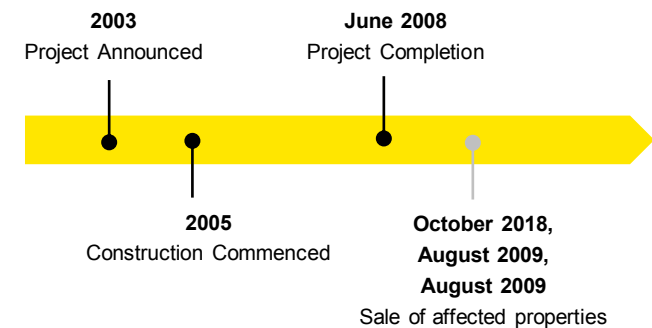
### EY Findings

The properties analysed comprise single residential dwellings of comparable size, age and quality which transacted post the completion of the Project. We have analysed sales from within the same estate south-east of the project alignment in Donvale. The tunnel depth ranges from 8 to 17 metres beneath the surface of the sales within the project alignment. Generally the existing land use of the sales analysed reflects Highest and Best Use.

When analysed on a \$/m<sup>2</sup> of land area basis the affected properties exhibit very similar \$ value rates to the comparable sales which exist outside of the project alignment.

We observed no discernible difference to suggest that the sale price achieved by properties within the project alignment are impacted by the tunnel.

### EastLink Project Timeline







# 5 Transactional Evidence

## Brisbane Airport Link - Detached Residential Dwelling Sales Evidence

- Dashboard
- 1 Executive Summary
- 2 Introduction
- 3 Methodology to Determin ...
- 4 Case Studies
- 5 Transactional Evidence**

6 Matters Relevant to the ...  
7 Appendices

**Figure 16. Map showing comparable property transactions within the Brisbane Airport Link project alignment and surrounds**



Source: CoreLogic Data 2018 & EY 2019

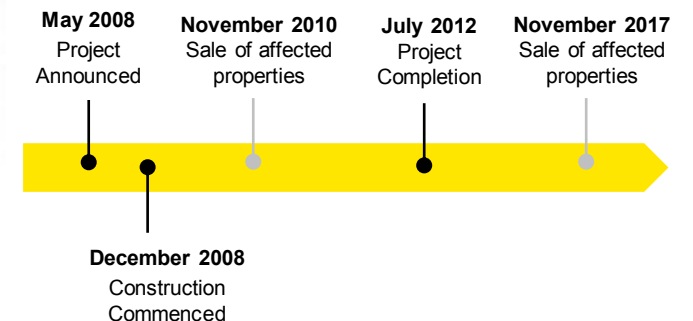
### EY Findings

The properties analysed comprise two storey weatherboard dwellings of comparable size, age and quality which transacted both during construction and post the completion of the project. We have considered sales which are removed from portal entrances. Generally the existing land use of the sales analysed reflects Highest and Best Use, and the divestments ranged between 11.5 and 21.6 metres beneath the surface.

When analysed on a \$/m<sup>2</sup> of land area basis the affected properties exhibit very similar \$ value rates to the comparable sales which exist outside of the project alignment.

We observed no discernible difference to suggest that the sale price achieved by properties within the project alignment are impacted by the tunnel.

### Brisbane Airport Link Project Timeline





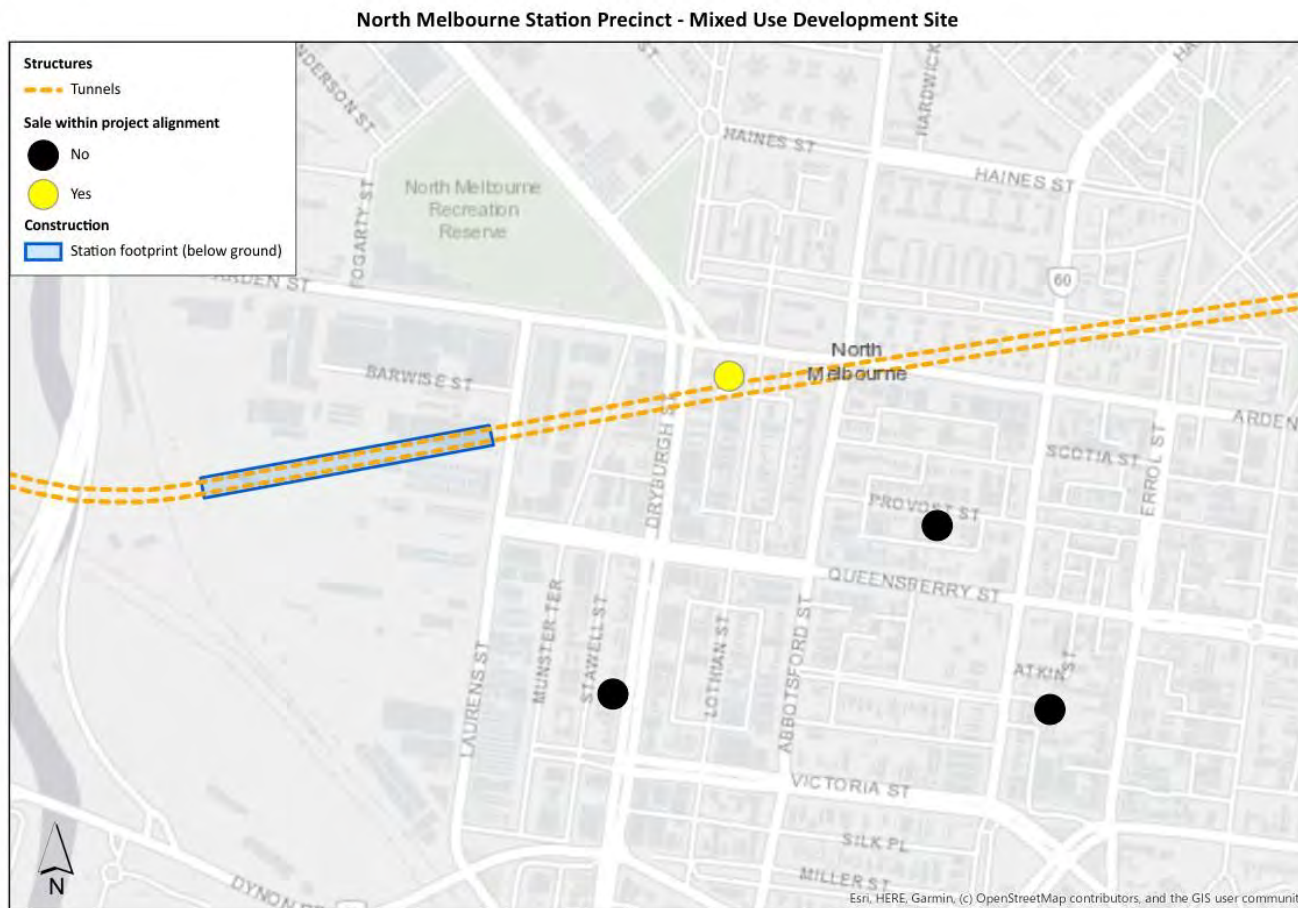
# 5 Transactional Evidence

## Metro Tunnel Project – Mixed Use Development Sales Evidence

- Dashboard
- 1 Executive Summary
- 2 Introduction
- 3 Methodology to Determin ...
- 4 Case Studies
- 5 Transactional Evidence**

- 6 Matters Relevant to the ...
- 7 Appendices

**Figure 17. Map showing comparable property transactions within the MTP alignment and surrounds**



Source: CoreLogic Data 2018 & EY 2019

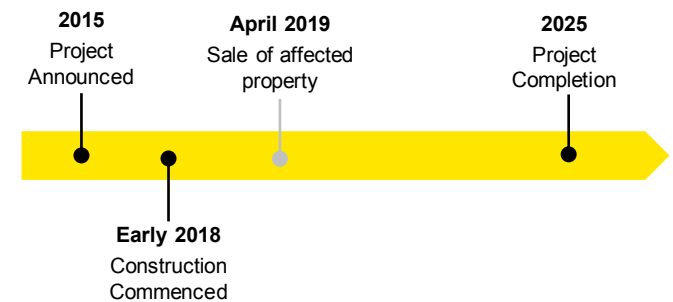
### EY Findings

The properties analysed comprise land zoned for redevelopment with improvements that do not reflect Highest and Best Use as at the sale date. The property within the project alignment transacted during the construction phase of the project and the divestment is expected approximately 9 metres beneath the surface. Divestment of underground strata land had not occurred at the date of sale.

When analysed on a \$/m<sup>2</sup> of land area basis the affected properties exhibit very similar \$ value rates to the comparable sales which exist outside of the project alignment.

We observed no discernible difference to suggest that the sale price achieved by properties within the project alignment are impacted by the tunnel.

### Melbourne Metro Rail Project Timeline





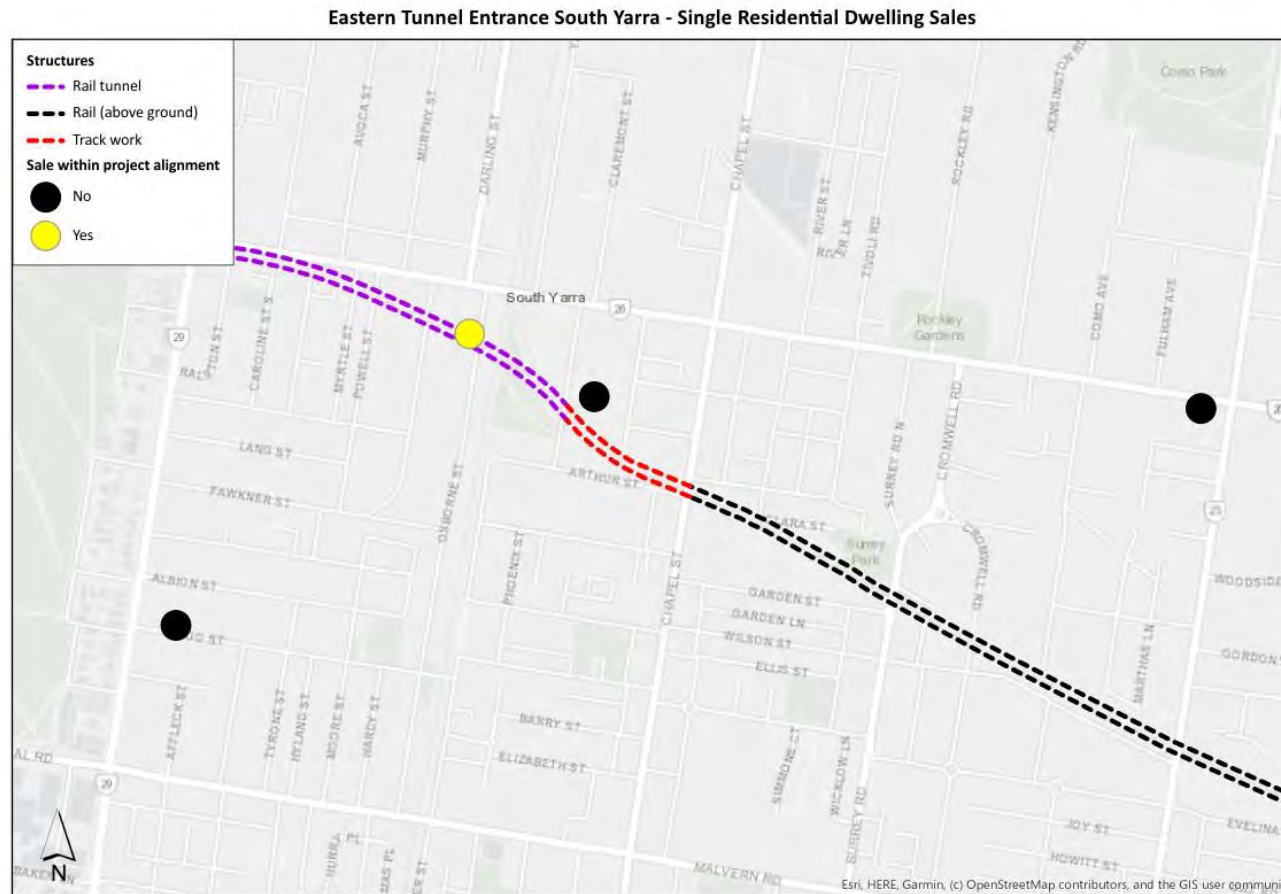
# 5 Transactional Evidence

## Metro Tunnel Project - Detached Residential Dwelling Sales Evidence

- Dashboard
- 1 Executive Summary
- 2 Introduction
- 3 Methodology to Determin ...
- 4 Case Studies
- 5 Transactional Evidence**

6 Matters Relevant to the ...  
7 Appendices

**Figure 18. Map showing comparable property transactions within the MTP alignment and surrounds**



Source: CoreLogic Data 2018 & EY 2019

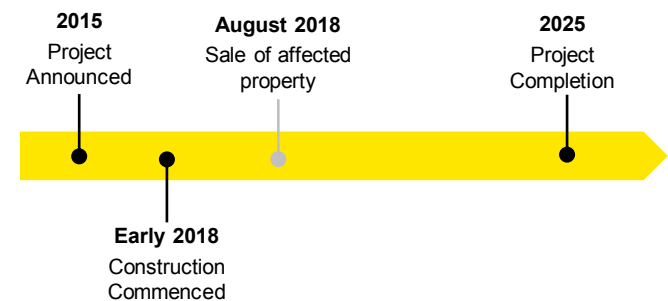
### EY Findings

The properties analysed comprise strata titled residential apartments and townhouses of comparable size, age and quality which transacted during the construction phase of the Project. Generally the existing land use of the sales analysed reflects Highest and Best Use given they are held in strata. The divestment is expected approximately 3 metres beneath the surface of the property within the project alignment. Divestment of underground strata land had not occurred at the date of sale.

When analysed on a \$/m<sup>2</sup> of land area basis the affected properties exhibit very similar \$ value rates to the comparable sales which exist outside of the project alignment.

We observed no discernible difference to suggest that the sale price achieved by properties within the project alignment are impacted by the tunnel.

### Melbourne Metro Rail Project Timeline





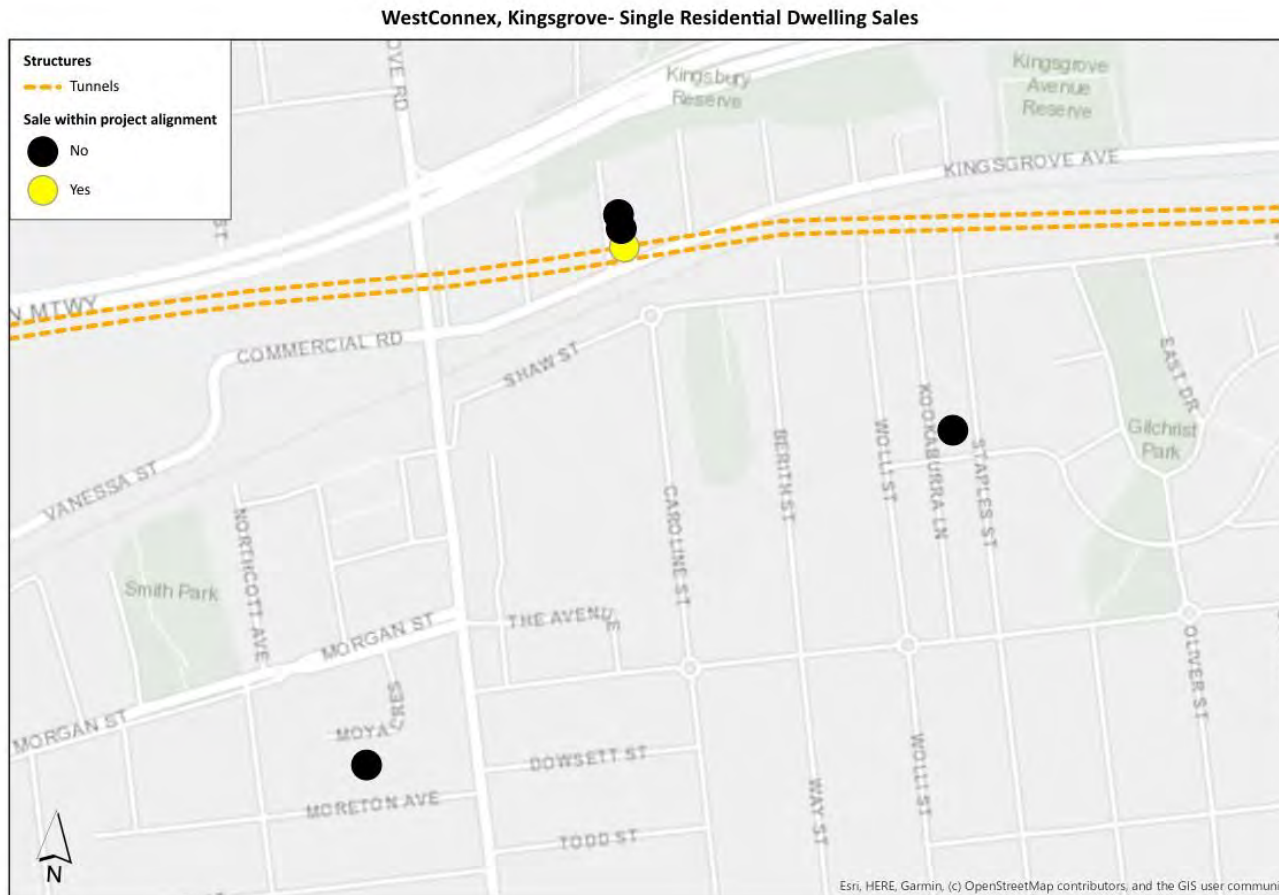
# 5 Transactional Evidence

## WestConnex - Detached Residential Dwelling Sales Evidence

- Dashboard
- 1 Executive Summary
- 2 Introduction
- 3 Methodology to Determin ...
- 4 Case Studies
- 5 Transactional Evidence**

6 Matters Relevant to the ...  
7 Appendices

**Figure 19. Map showing comparable property transactions within the WestConnex project alignment and surrounds**



Source: CoreLogic Data 2018 & EY 2019

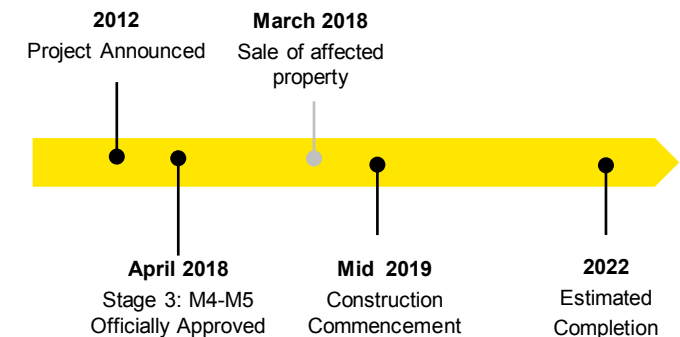
### EY Findings

The properties analysed comprise single detached residential cottages of comparable size, age and quality which transacted post project announcement. The divestment occurred approximately 25 metres beneath the surface. We have considered comparable sales within the vicinity of the project alignment. Generally the existing land use of the sales analysed reflects Highest and Best Use.

When analysed on a \$/m<sup>2</sup> of land area basis the affected properties exhibit very similar \$ value rates to the comparable sales which exist outside of the project alignment.

We observed no discernible difference to suggest that the sale price achieved by properties within the project alignment are impacted by the tunnel.

### WestConnex (M4-M5 Link) Project Timeline





# 5 Transactional Evidence

## WestConnex - Detached Residential Dwelling Sales Evidence

- Dashboard
- 1 Executive Summary
- 2 Introduction
- 3 Methodology to Determin ...
- 4 Case Studies
- 5 Transactional Evidence**

6 Matters Relevant to the ...  
7 Appendices

**Figure 20. Map showing comparable property transactions within the WestConnex project alignment and surrounds**



Source: CoreLogic Data 2018 & EY 2019

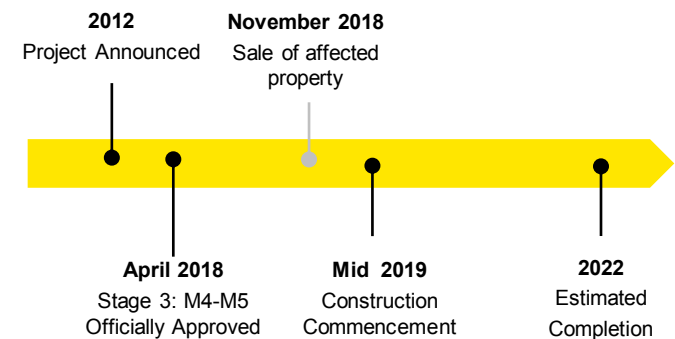
### EY Findings

The properties analysed comprise single detached residential cottages of comparable size, age and quality which transacted post project announcement. The divestment occurred approximately 36 metres beneath the surface. We have considered comparable sales within the vicinity of the project alignment. Generally the existing land use of the sales analysed reflects Highest and Best Use.

When analysed on a \$/m<sup>2</sup> of land area basis the affected properties exhibit very similar \$ value rates to the comparable sales which exist outside of the project alignment.

We observed no discernible difference to suggest that the sale price achieved by properties within the project alignment are impacted by the tunnel.

### WestConnex (M4-M5 Link) Project Timeline





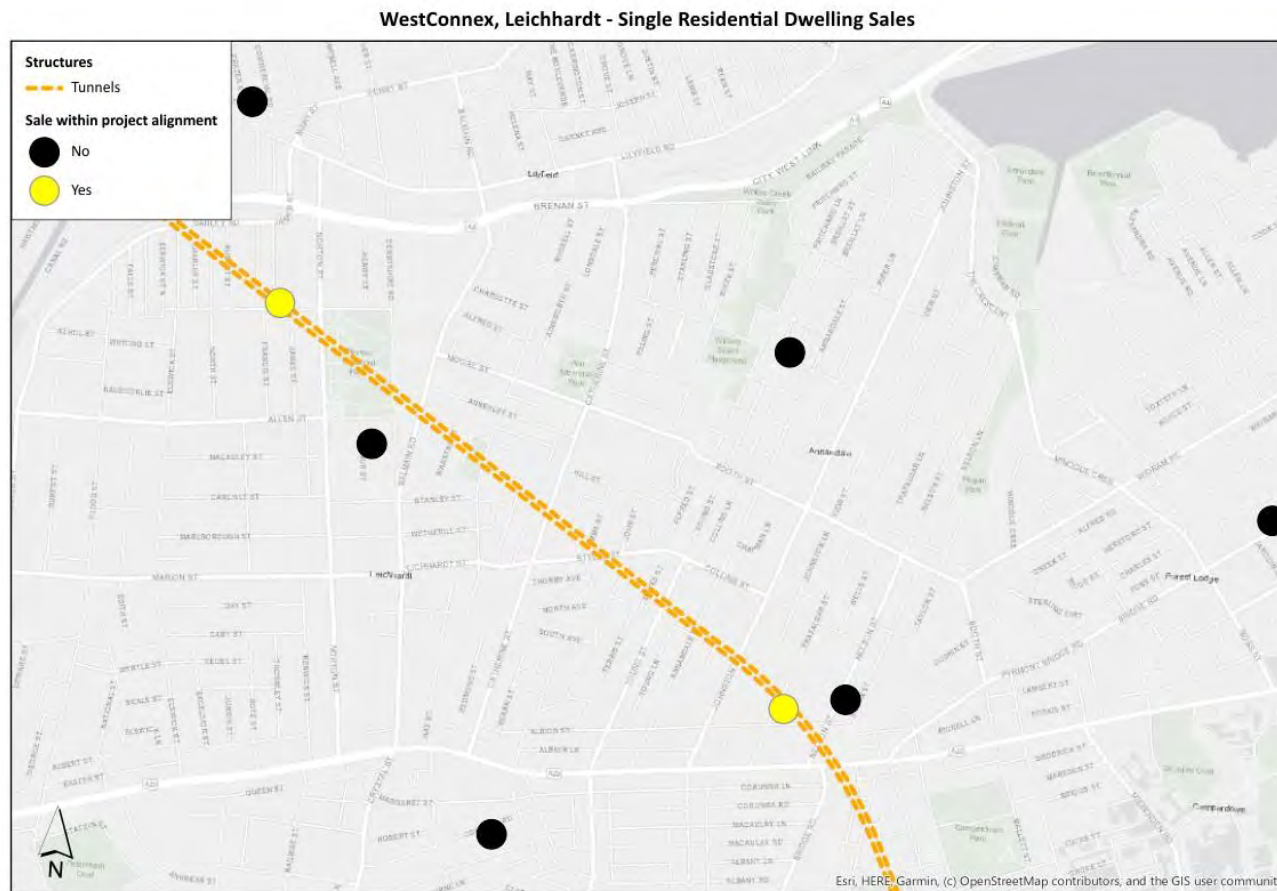
# 5 Transactional Evidence

## WestConnex - Detached Residential Dwelling Sales Evidence

- Dashboard
- 1 Executive Summary
- 2 Introduction
- 3 Methodology to Determin ...
- 4 Case Studies
- 5 Transactional Evidence**

6 Matters Relevant to the ...  
7 Appendices

**Figure 21. Map showing comparable property transactions within the WestConnex project alignment and surrounds**



Source: CoreLogic Data 2018 & EY 2019

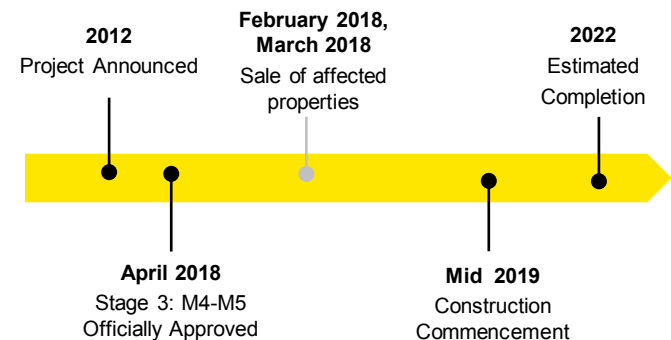
### EY Findings

The properties analysed comprise single residential cottages of comparable size, age and quality which transacted post project announcement. The divestments occurred between 26 and 30 metres beneath the surface. We have considered comparable sales within the vicinity of the project alignment. Generally the existing land use of the sales analysed reflects Highest and Best Use.

When analysed on a \$/m<sup>2</sup> of land area basis the affected properties exhibit very similar \$ value rates to the comparable sales which exist outside of the project alignment.

We observed no discernible difference to suggest that the sale price achieved by properties within the project alignment are impacted by the tunnel.

### WestConnex (M4-M5 Link) Project Timeline





# 5 Transactional Evidence

## WestConnex - Detached Residential Dwelling Sales Evidence

- Dashboard
- 1 Executive Summary
- 2 Introduction
- 3 Methodology to Determin ...
- 4 Case Studies
- 5 Transactional Evidence**

6 Matters Relevant to the ...  
7 Appendices

**Figure 22. Map showing comparable property transactions within the WestConnex project alignment and surrounds**



Source: CoreLogic Data 2018 & EY 2019

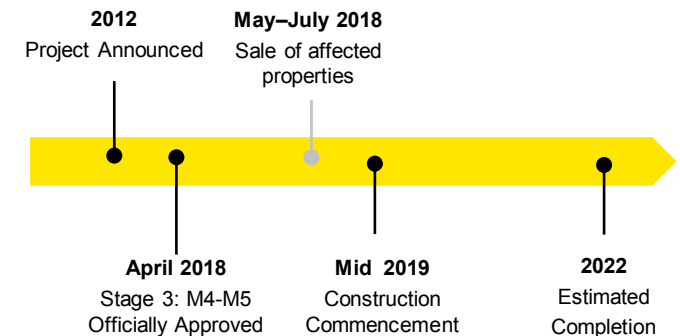
### EY Findings

The properties analysed comprise single residential cottages and attached townhouses of comparable size, age and quality which transacted post project announcement. The divestments occurred between 17 and 34 metres beneath the surface. We have considered comparable sales immediately adjoining the project alignment and also somewhat removed albeit within the vicinity. Generally the existing land use of the sales analysed reflects Highest and Best Use.

When analysed on a \$/m<sup>2</sup> of land area basis the affected properties exhibit very similar \$ value rates to the comparable sales which exist outside of the project alignment.

We observed no discernible difference to suggest that the sale price achieved by properties within the project alignment are impacted by the tunnel.

### WestConnex (M4-M5 Link) Project Timeline





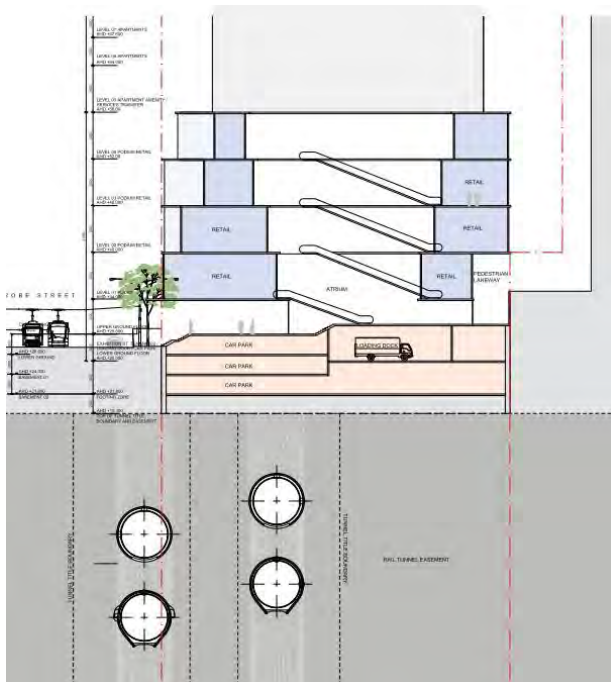
## 5 Transactional Evidence

### Highest and Best Use – Case Study

- Dashboard
- 1 Executive Summary
- 2 Introduction
- 3 Methodology to Determin ...
- 4 Case Studies
- 5 Transactional Evidence**

- 6 Matters Relevant to the ...
- 7 Appendices

**Figure 21. 308 Exhibition Street – Proposed Designs**



Source: CBRE EOI, EY

### Overview

308 Exhibition Street, Melbourne provides an example of a recently approved development of 64 levels (241 metres), comprising 318 apartments, 500 hotel rooms, 2,000 square metres of commercial office and 1,823 square metres of ground level retail. The site is zoned Capital City Zone 1 (CCZ1) and subject to Development Design Overlay - Schedules 10 and 1 (DDO10 & DDO1).

### Constraints

The site is located above the Melbourne Underground Rail Loop (“MURL”). The title is limited in depth as a result which has in turn imposed design limitations upon the potential above ground structures, as highlighted by the following statements from the Officer Assessment Report - Planning Permit Application No. PA1600142 dated 22 August 2016:

*“It is acknowledged that there are constraints regarding basement car parking due to the existing city loop trains located below the site...”*<sup>1</sup>, and; the ‘Report to the Future Melbourne (Planning) Committee’ dated 16 May 2017, *“Although normally discouraged, the three levels of podium parking is accepted in this context. The underground rail tunnels restrict the extent of basement to one level...”*<sup>2</sup>

According to the Proposed Design Plans (shown left) the at grade elevation to La Trobe Street is 27.70 AHD and the depth limitation / top of the title for the tunnel is 19.30 AHD (approximately 8.4 metres below the surface). The design solution for the depth limitation appears to result in one basement level with additional car parking incorporated into the podium levels.

<sup>1</sup> Extract of Officer Assessment Report - Planning Permit Application No. PA1600142 dated 22 August 2016

<sup>2</sup> Extract of Ministerial Referral: TPMR-2016-21 by Jane Birmingham, Practice Leader Land Use and Development' dated 16 May 2017

### EY Finding

308 Exhibition provides precedence for design restrictions imposed on development due to freehold title depth limitation in subterranean strata land. That is to say, there may be circumstances where underground strata land divestment may impact on the Highest and Best Use of affected properties.



# 6

## Matters Relevant to the Identification of Possible Impacts

In this section	Page
Highest and Best Use	42
Depreciation and Enhancement	46
Market Considerations	47



## 6 Matters Relevant to the Identification of Possible Impacts Highest and Best Use

Dashboard  
1 Executive Summary  
2 Introduction  
3 Methodology to Determin ...  
4 Case Studies  
5 Transactional Evidence

**6 Matters Relevant to the ...**  
7 Appendices

### Highest and Best Use as defined by the International Valuation Standards Council

*“The highest and best use is the use of an asset that maximises its potential and that is possible, legally permissible and financially feasible. The highest and best use may be for continuation of an asset’s existing use or for some alternative use. This is determined by the use that a market participant would have in mind for the asset when formulating the price that it would be willing to bid.”*

### Highest and Best Use

In our opinion there is a relationship between the Highest and Best Use of the site at surface level and the potential for Market Value impacts to arise as a result of the underground strata divestment of land required for the Projects.

Each property exhibits unique characteristics that are key to identifying the possibility of an impact. In our opinion these characteristics are:

#### Legally permissible:

*Current planning, zoning, schedules and overlays*

The planning provisions guide the land-use of the property, building height, density (plot ratio) and car parking requirements etc. These planning constraints heavily influence the legal permissible use of a property and in turn Highest and Best Use.

*Heritage controls*

Depending upon the type of heritage control, a property may be restricted from achieving its full development potential. Therefore, there is a need to consider the type of heritage controls with respect to individual properties to understand how that heritage control impacts on Highest and Best Use.

*Design and Development Overlay specific to the Projects*

DDO’s have been or will be introduced to protect the tunnel infrastructure. The DDO’s typically require an application for a Permit to be assessed by Council following referral to the relevant Project which has the status of a determining referral authority. In that capacity it can decide to refuse or condition any development application at its sole discretion.

The introduction of the DDO to protect the tunnel infrastructure does not necessarily give rise to an impact on Market Value. In our opinion to impact Market Value the DDO would have to impose conditions that would not otherwise be imposed were it not for the DDO and which impacts the Highest and Best Use of the land.

The need to consider the Highest and Best Use to which the land might reasonably be expected to be put is reinforced in Section 5A of the VL Act. This section states that inter alia matters to be considered in determining value include: *“(a) the use to which such land is being put at the relevant time, the highest and best use to which the land might reasonably be expected to be put at the relevant time and to any potential use”*



## 6 Matters Relevant to the Identification of Possible Impacts

### Highest and Best Use

- Dashboard
- 1 Executive Summary
- 2 Introduction
- 3 Methodology to Determin ...
- 4 Case Studies
- 5 Transactional Evidence

- 6 Matters Relevant to the ...**
- 7 Appendices

#### Determining value of land in accordance with Section 5A of the Valuation of Land Act 1960

*“(3)...when determining such value there shall, where it is relevant, be taken into account -*

*(a) the use to which such land is being put at the relevant time, the highest and best use to which the land might reasonably be expected to be put at the relevant time and to any potential use;*

*(b) the effect of any Act, regulation, local law, planning scheme or other such instrument which affects or may affect the use or development of such land;*

*(c) the shape size topography soil quality situation and aspect of the land;*

*(d) the situation of the land in respect to natural resources and to transport and other facilities and amenities;*

*(e) the extent condition and suitability of any improvements on the land; and*

*(f) the actual and potential capacity of the land to yield a monetary return.”*

We have concluded that where a DDO impacts or can be reasonably expected to impact the Highest and Best Use of the land, these properties should be classified within the ‘Possible Impact’ category. Examples include but may not be limited to, sites located within the Melbourne CBD with significant development potential and where significant excavation is common. Equally, where the determining referral authority imposes no conditions or conditions that do not restrict the Highest and Best Use, these properties should be classified within the ‘No Impact’ category.

#### *Title typology*

The subdivision of land which creates a volumetric title or Common Property is an important criterion in establishing Highest and Best Use and the categorisation of properties into ‘No Impact’ and ‘Possible Impact’.

In our opinion subdivision of land which creates properties such as:

- ▶ Land which is defined by volumetric title (aka strata or stratum titled allotments);
- ▶ Common Property used for walkways, stairs and driveways;

typically determines the Highest and Best Use and limits the future development potential of the property.

There may be exceptions to this, such as where all units are held in common ownership or amalgamation is possible, but the existing improvement would need to demonstrate an underdevelopment of the site.

This has led us to conclude that as most volumetric titled properties limit the Highest and Best Use to the existing use, these properties should be categorised as ‘No Impact’.

#### **Physically possible:**

##### *Size and shape of the land*

Where an allotment is small and irregular the land may not be capable of significant development, it is necessary to consider building and planning controls such as setbacks, overshadowing and height controls. The size and shape of land can affect its utility and in turn Highest and Best Use.

If a property is not developed to Highest and Best Use then it is the extent of the development potential which is relevant to determining the impact on Market Value. That is to say; larger development sites, in high value locations (such as CBD and CBD fringe) have the potential to experience a reduction in Highest and Best Use potential as a result of the underground strata land divestment. This is because larger, high value properties are more likely to be excavated for development at some time in the future.



## 6 Matters Relevant to the Identification of Possible Impacts Highest and Best Use

- Dashboard
- 1 Executive Summary
- 2 Introduction
- 3 Methodology to Determin ...
- 4 Case Studies
- 5 Transactional Evidence

- 6 Matters Relevant to the ...**
- 7 Appendices

Smaller development sites in suburban locations also have the potential to experience a reduction in Highest and Best Use potential as a result of the underground strata land divestment. However, this should be considered in the context of surrounding precedent development styles, planning controls and the feasibility of development.

Circumstances may arise whereby multiple properties are held in common ownership (as at the Relevant Date) that together form part of a larger property capable of redevelopment. The Highest and Best Use of these properties should be considered having regard to the amalgamation potential of that land.

### *Depth of the Strata Land Divestment*

EY's analysis indicates there is a relationship between the development potential of the site at surface level and the permanent freehold value of the underground strata land. That is to say that the deeper the strata land divestment exists beneath the surface the more likely it is that the underground strata land divestment will have 'No Impact' on Market Value.

There is limited transactional evidence upon which to rely with a high degree of certainty in defining the exact point at which "deep" and "shallow" divestment occurs for the purpose of establishing a 'No Impact' and 'Possible Impact' classification on Market Value.

Based on the transactional evidence available and our understanding of the relationship between Highest and Best Use and with the knowledge that all new crown grants are limited in depth to 15 metres (formerly 15.24 metres or 50 feet) it is our opinion that in most instances an underground strata land divestment beyond this depth would result in a 'No Impact' on Market Value.

Notwithstanding, there may be exceptions such as where a property exhibits significant development potential i.e. Capital City Zoned Land where deep basement excavation is likely (beyond 15 metres), or supporting infrastructure such as footings, pilings and lift overruns etc. may be required. This will have to be demonstrated by individual Highest and Best Use analysis on a case by case basis. Equally, if divestment occurs at depths of less than 15 metres, other factors may be relevant in understanding the possibility of an impact on Market Value as detailed within this Report.



## 6 Matters Relevant to the Identification of Possible Impacts Highest and Best Use

Dashboard  
1 Executive Summary  
2 Introduction  
3 Methodology to Determin ...  
4 Case Studies  
5 Transactional Evidence

6 Matters Relevant to the ...  
7 Appendices

### **Financially Feasible:**

*The Highest and Best Use of a property must be financially feasible*

The proposed use of a property must generate adequate revenue to justify the costs of construction plus a profit for the developer. In the case of an improved property, with obvious remaining economic life, the question of financial feasibility is somewhat irrelevant. In the case of an improved property with limited remaining economic life, the question of financial feasibility becomes a question of the most productive use of the site.

If the Market Value of the land as vacant exceeds the Market Value of the property as improved less reversion/demolition costs, then redevelopment of the site becomes the most productive use, and continuation of the existing use no longer represents the Highest and Best Use of the property.



## 6 Matters Relevant to the Identification of Possible Impacts

### Depreciation and Enhancement

- Dashboard
- 1 Executive Summary
- 2 Introduction
- 3 Methodology to Determin ...
- 4 Case Studies
- 5 Transactional Evidence

#### 6 Matters Relevant to the ...

7 Appendices

In accordance with Section 41 (1) (e) of the LAC Act the 'Before and After' approach should have regard to the potential for the Market Value of affected properties to be enhanced or depreciated by reason of the implementation of the purpose for which the land was acquired or divested.

These permanent impacts are Project specific and can only be understood on a case by case basis.

Such matters which may be perceived by the market to benefit affected properties (enhancement) may include but are not limited to;

- ▶ improved access to public transport;
- ▶ improved access to road networks;
- ▶ improved public realm; or
- ▶ diversion of heavy traffic away from local roads.

Permanent negative impacts (depreciation) may include but are not be limited to;

- ▶ Overshadowing;
- ▶ abutting infrastructure; and,
- ▶ excessive and permanent noise, light or vibration.

A new infrastructure project is likely to provide broad benefits and increase the Market Value of a property whereas negative impacts are likely to be limited to properties immediately adjoining or in close proximity to project infrastructure at the surface.

Therefore, we have concluded that properties which are immediately adjoining permanent project infrastructure at surface level should be classified as 'Possible Impact' but an assessment is required to fully understand the nature of the impact on a property by property basis.

With respect to potential enhancement further work needs to be undertaken to assess the broader benefits of each project before these properties can be classified as either 'No Impact' or 'Possible Impact', but we suspect that some properties over the alignment will be positively impacted in Market Value as the Projects will deliver significant benefits.



## 6 Matters Relevant to the Identification of Possible Impacts Market Considerations

Dashboard  
1 Executive Summary  
2 Introduction  
3 Methodology to Determin ...  
4 Case Studies  
5 Transactional Evidence

**6 Matters Relevant to the ...**  
7 Appendices

### **S162 of the Major Transport Projects Facilitation Act 2009, Acquisition of stratum of land below ground level**

*“The Governor in Council, by Order published in the Government Gazette, may declare that a stratum of land below ground level in a project area is project land (the underground land).”*

This is known as the Relevant Date for the purpose of this report.

### **Market as at the Relevant Date**

#### **Market Perception**

An informed and prudent purchaser would be expected to make the appropriate enquiries in order to understand the practical benefits and dis-benefits of a depth limited interest in land and how the Projects may impact future use. In order to understand how the market may perceive such factors we have drawn upon case study examples of comparable infrastructure projects where underground strata land has been acquired or limited in depth.

We have not observed any transactional evidence or statistical difference which supports the hypothesis that properties located above major transport infrastructure tunnels experience a negative impact on Market Value where underground strata land divestment occurs and the existing use reflects the Highest and Best Use of the land.

Our Case Study analysis is provided within sections 4 and 5 of this Report.

#### **Market Conditions**

The Relevant Date of the acquisition is the date at which compensation for any impact on Market Value is to be assessed. Accordingly, any impact upon Market Value as a result of the Project, should be considered in the context of the broader market conditions as at the Relevant Date.

# 7

## Appendices

In this section	Page
Appendix A: Abbreviations and Definitions	49
Appendix B: Letters of Instruction	51





## 7 Appendices

### Appendix A: Abbreviations and Definitions

Dashboard  
 1 Executive Summary  
 2 Introduction  
 3 Methodology to Determin ...  
 4 Case Studies  
 5 Transactional Evidence

6 Matters Relevant to the ...  
**7 Appendices**

### Abbreviations and Definitions

Term	Definition	Source
VGW	Valuer-General Victoria	Victorian State Government
DoT or the Secretary	Department of Transport	Victorian State Government
MTP	Metro Tunnel Project	Victorian State Government
NELP	North East Link Project	Victorian State Government
WGTP	West Gate Tunnel Project	Victorian State Government
LCRP	Level Crossing Removal Project	Victorian State Government
DTMRQ	Department of Main Road Queensland	Queensland State Government
LAC Act	Land Acquisition and Compensation Act 1986	Victorian State Government Legislation
MTPF Act	Major Transport Projects Facilitation Act 2009	Victorian State Government Legislation
VL Act	Valuation of Land Act 1960	Victorian State Government Legislation
MCL Act	Melbourne City Link Act 1995	Victorian State Government Legislation
Strata Land Divestment	Underground strata land divested of all existing interests and vested in the Crown pursuant to section 162 of the MTPF Act. The Underground Land has become project land that the Secretary may utilize to deliver the Project.	DoT
Affected Properties	Properties which exist above a tunnel infrastructure project that will have the underground strata land divested pursuant to section 162 of the MTPF Act.	DoT
No Impact	Properties which are situated above the proposed tunnel alignment, that may not experience an impact on their Market Value, as a result of the underground strata land divestment for the purpose of a tunnel infrastructure project, as measured by the 'Before and After' approach to valuation.	EY
Possible Impact	Properties, which are situated above the proposed tunnel alignment, that may experience an impact on their Market Value, as a result of the underground strata land divestment for the purpose of a tunnel infrastructure project, as measured by the 'Before and After' approach to valuation.	EY
Highest and Best Use	The highest and best use is the use of an asset that maximises its potential and that is possible, legally permissible and financially feasible. The highest and best use may be for continuation of an asset's existing use or for some alternative use. This is determined by the use that a market participant would have in mind for the asset when formulating the price that it would be willing to bid.	International Valuation Standards Council



## 7 Appendices

### Appendix A: Abbreviations and Definitions

Dashboard  
 1 Executive Summary  
 2 Introduction  
 3 Methodology to Determin ...  
 4 Case Studies  
 5 Transactional Evidence

6 Matters Relevant to the ...  
**7 Appendices**

#### Abbreviations and Definitions (continued.)

Term	Definition	Source
Severance	In relation to the acquisition of a claimant's interest in land, means the amount of any reduction in the market value of any other interest of the claimant in the acquired land or any interest of the claimant in other land used in conjunction with the acquired land which is caused by its severance from the acquired land.	LAC Act 1986
Market Value	In relation to any interest in land on a particular date, means the amount of money that would have been paid for that interest if it had been sold on that date by a willing but not anxious seller to a willing but not anxious purchaser.	LAC Act 1986
Enhancement or Depreciation	The enhancement or depreciation in value of the interest of the claimant, at the date of acquisition, in other land adjoining or severed from the acquired land by reason of the implementation of the purpose for which the land was acquired.	LAC Act 1986
Relevant Date	In relation to an interest in land acquired pursuant to the procedures contained in this Act, means the date on which a notice of acquisition in relation to that interest is published in the Government Gazette or, if an interest is acquired by agreement, the date on which the interest vests in the Authority pursuant to the agreement	LAC Act 1986
Design and Development Overlay (DDO)	In the context of this Report is the relevant planning control introduced to protect the tunnel infrastructure.	DELWP / EY / DoT
Median House Price	The median returns the middle number in a group of supplied numbers. The median house price is the midway point of all the houses/units sold over a set period (monthly, yearly, quarterly, etc.).	EY
CPV	Certified Practising Valuer	Australian Property Institute
AAPI	Associate of the Australian Property Institute	Australian Property Institute
FAPI	Fellow of the Australian Property Institute	Australian Property Institute
Control Area	The area surrounding the Affected Area which has been relied upon for the purpose of comparing sales evidence	EY
NOA	Notice of Acquisition	LAC Act 1986
NSW	New South Wales	-
MURL	Melbourne Underground Rail Loop	Victorian State Government
Affected Area	Properties which exist above the tunnel alignment and experienced underground strata land divestment, depth limitation or subterranean land acquisition owing to the relevant Project.	EY



# 7 Appendices

## Appendix B: Letters of Instruction

- Dashboard
- 1 Executive Summary
- 2 Introduction
- 3 Methodology to Determin ...
- 4 Case Studies
- 5 Transactional Evidence

- 6 Matters Relevant to the ...
- 7 Appendices**



Department of Environment,  
Land, Water and Planning

Valuer-General Victoria Reference: S136118/2

12 April 2019

Ernst & Young  
8 Exhibition Street  
MELBOURNE VIC 3000

Attention: Mr Richard Bowman

Dear

Further to recent discussions, you are instructed to provide an Expert report and valuation advice on behalf of Valuer-General Victoria (VGV), in accordance with your standing offer under your Services Contract.

VGW REF NO.	AUTHORITY	LOCATION
S136118/2	Department of Transport	Divestment of underground land required for Government Infrastructure Projects

The Expert report which is to consider the effect of a strata Divestment Order on the value of identified land required for infrastructure projects, is to be prepared by and

Please note that where appropriate, all sales evidence must state whether the price is GST inclusive or exclusive.

Where Underground Land is acquired for the relevant Projects, eligible landowners may make a claim for compensation. Such compensation is required to be assessed under the Land Acquisition and Compensation Act 1986 (LACA).

In light of potential claims for compensation to be made, your investigations and report is to explain:

- How it may be possible to assess the extent to which properties located above the proposed tunnel alignment are likely to suffer impacts on their market value (if at all).
- If there is potential for any impact to arise in these circumstances, the key factors which might influence the magnitude of such an impact.

MTIA and the Secretary are not seeking to identify or quantify the extent of any impact in relation to specific properties affected by the divestment of Underground Land. You are required to outline the rationale and methodology you would adopt to assess the impact of the divestment on the market value of affected properties.

Valuer-General Victoria  
Level 4, 1 Little Collins Street  
Melbourne Victoria 3000  
GPO Box 527  
Melbourne Victoria 3001  
Telephone: 03 7004 1491  
DX 250639  
www.delwp.vic.gov.au

The following tasks are to be completed:

1. Consider whether there are any comparable case studies which indicate the potential for the acquisition of subsurface land only (i.e. without any acquisition at surface level), to give rise to an impact on market value of the balance land.
2. Consider how it may be possible to assess the extent to which properties located above the proposed tunnel alignment are likely to suffer impacts on their market value (if at all) including a set of criteria that you consider will, based on your experience and expertise as a valuer, be appropriate to assess whether the market value of a property will experience 'no impact' or 'possible impact' as a result of the acquisition of subsurface land (e.g. Underground Land under a section 162 Order of the Governor in Council), where you:
  - a) identify the criteria or methodology for assessing any market value ascribed to the Underground Land in itself; and
  - b) have regard to the requirements which you would consider if you were valuing land for the purpose of an assessment of market value in accordance with LACA, including in particular section 41(3) of LACA and section 5A of the Valuation of Land Act 1960.
3. Prepare an expert report setting out your findings with respect to the above analysis.

Your report, (1 unbound original, 1 unbound copy, plus 1 electronic copy) together with all supporting documentation is to be completed in accordance with the requirements outlined in the Expression of Interest document and Services Contract forwarded to your organisation. Failure to include all details and calculations outlined in such documentation will result in the report and valuation being returned for upgrading to required standards.

You are reminded that at all times you must remain independent of the instructing agency and the land owner and/or his/her agent/valuer. You should not only be independent but be seen to be independent. This includes not travelling in the same vehicle to conferences or inspections with instructing agencies or owner's representatives.

Could you immediately advise if you have any conflict of interest in regard to providing this advice in the matter.

The completed valuation advice is to be returned in accordance with the agreed time frame, being 14 May 2019 or earlier if possible, and is to be addressed to the Valuer-General and under no circumstances is it to be provided direct to the requesting authority.

The Department concerned has been advised of these arrangements and should be contacted directly if any further information is required. The appropriate contact is on telephone

After your report has been completed, no disclosures to or discussions with the Authority are to be undertaken, until a properly convened Valuation Conference has been authorised by the Valuer-General or Manager, Government Valuations. Your fee structure as quoted to this Office must remain strictly confidential and any disclosure will see your firm bypassed of further instructions.

The following information must be included on all invoices.

DELWP REF	VGW REF	PO NUMBER	CONTACT
VGW HUB	S136118/2	549114	





## 7 Appendices

### Appendix B: Letters of Instruction

Dashboard	6 Matters Relevant to the ...
1 Executive Summary	<b>7 Appendices</b>
2 Introduction	
3 Methodology to Determin ...	
4 Case Studies	
5 Transactional Evidence	

All invoices are to be emailed to [ap.invoices@delwp.vic.gov.au](mailto:ap.invoices@delwp.vic.gov.au). Do not send invoice to VGV. Please ensure invoices are made out to Department of Environment, Land, Water & Planning.

In accordance with our business arrangement, you are reminded that the files (including computer files) associated with this valuation must be retained by your firm for a period of 7 years.

If you have any queries in regard to this matter, please contact Manager,  
Government Valuations on

Yours sincerely

Valuer-General

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Department of Transport

GPO Box 2392  
Melbourne, VIC 3001 Australia  
Telephone: +61 3 9651 9999  
[www.transport.vic.gov.au](http://www.transport.vic.gov.au)  
DX 201292

Ref: COR/19/162973

Manager, Government Valuations  
Valuer-General Victoria  
Lvl 4, 1 Lt Collins St  
Melbourne Vic 3000

Dear

#### Market Value Impact Assessments for Underground Land

As you are aware, Victoria is currently experiencing vast infrastructure growth with numerous road and rail projects being delivered by the Victorian Government.

The Major Transport Infrastructure Authority (MTIA) was established as an Administrative Office in relation to the Department of Transport from 1 January 2019 to oversee the major transport projects, including the Level Crossing Removal Project, the North East Link Project, the West Gate Tunnel Project, Major Road Projects Victoria and Rail Projects Victoria (Projects).

A number of these Projects are being, or are likely to be, delivered under the *Major Transport Projects Facilitation Act 2009 (MTPF Act)* with the Secretary to the Department of Transport (Secretary) as the project proponent for the relevant Project under the MTPF Act.

The delivery of these Projects will require land to be made available by the State, in some cases necessitating the compulsory acquisition of strata of land below ground level pursuant to section 162 of the MTPF Act (or other relevant legislation) (Underground Land).

To date:

- Orders of the Governor in Council have been published on 16 May and 29 May 2018 in respect of strata of land below ground level required for the West Gate Tunnel. At Attachment 1, we have included copies of these orders; and
- An order of the Governor in Council has been published on 18 October 2018 in respect of part of the strata of land below ground level required for the Metro Tunnel Project, relating to certain land located between the Western Portal and the future North Melbourne station. At Attachment 2, we include a copy of the order and the associated LEGL plan which describes the affected land.



## 7 Appendices

### Appendix B: Letters of Instruction

Dashboard	6 Matters Relevant to the
1 Executive Summary	<b>7 Appendices</b>
2 Introduction	
3 Methodology to Determin ...	
4 Case Studies	
5 Transactional Evidence	

#### Landowners have a right to claim Compensation

Where Underground Land is acquired for the relevant Projects, eligible landowners may make a claim for compensation. Such compensation is required to be assessed under the *Land Acquisition and Compensation Act 1986 (LAC Act)*.

In light of the potential for claims for compensation to be made, MTIA and the Secretary seek to understand:

- How it may be possible to assess the extent to which properties located above the proposed tunnel alignment are likely to suffer impacts on their market value (if at all); and
- If there is potential for any impact to arise in these circumstances, the key factors which might influence the magnitude of such impact.

We confirm that MTIA and the Secretary are not seeking to identify or quantify the extent of any impact in relation to specific properties affected by the divestment of Underground Land. Rather, MTIA and the Secretary require you to outline the rationale and methodology you would adopt to assess the impact of the divestment on the market value of affected properties.

#### Instructions

The following tasks are to be completed:

1. Consider whether there are any comparable case studies which indicate the potential for the acquisition of subsurface land only (i.e. without any acquisition at surface level), to give rise to an impact on market value of the balance land.
2. Consider how it may be possible to assess the extent to which properties located above the proposed tunnel alignment are likely to suffer impacts on their market value (if at all) including a set of criteria that you consider will, based on your experience and expertise as a valuer, be appropriate to assess whether the market value of a property will experience 'no impact' or 'possible impact' as a result of the acquisition of subsurface land (e.g. Underground Land under a section 162 Order of the Governor in Council), where you:
  - a. identify the criteria or methodology for assessing any market value ascribed to the Underground Land in itself; and
  - b. have regard to the requirements which you would consider if you were valuing land for the purpose of an assessment of market value in accordance with the LAC Act, including in particular section 41(3) of the LAC Act and section 5A of the *Valuation of Land Act 1960*.
3. Prepare an expert report setting out your findings with respect to the above analysis.

It is anticipated that the assessment may be undertaken by a panel member with suitable experience and resources. When providing us with a copy of the valuer's report, we would be grateful for your confirmation that the Valuer-General Victoria endorses the methodology and findings of the valuer as set out in the report and note that the contents of your report (or a version of that report) will be made publicly available in due course. The form of this report will be confirmed with you prior to publication.

Please let us know if there are any further documents which the valuer thinks should form part of his or her brief, and should you need to discuss any of the above, please do not hesitate to contact me on

Yours sincerely

Assistant Director  
Transport Property

15/3/2019