

2016

ASSESSMENT METHODOLOGY

INDUSTRIAL LAND

A summary of the methods used by the City of Edmonton in determining the value of industrial land properties in Edmonton for assessment purposes.

edmonton.ca/assessment

Edmonton

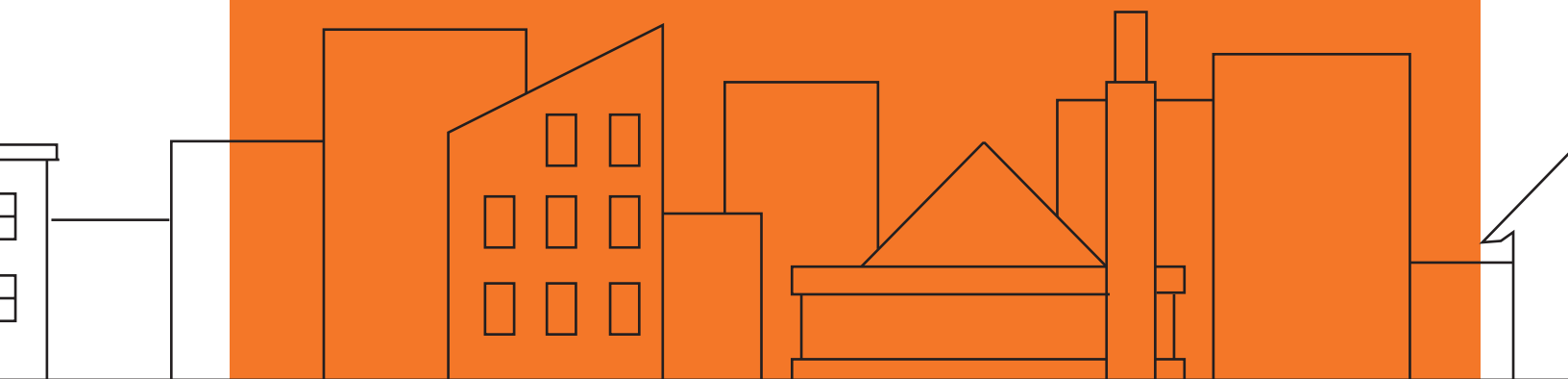



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Scope

This guide is an aid in explaining how properties are valued for assessment purposes. It sets out the valuation method and procedure to derive market values. The information presented in this guide is aimed at deriving values for a group of properties with similar property characteristics. In some circumstances, not every property's valuation parameters will be covered.

The guide is intended as a tool; it is not intended to replace the assessor's judgment in the valuation process.

This icon  signifies when legislation is quoted.

Introduction

The Alberta assessment and taxation system is based on the laws outlined in the *Municipal Government Act*, RSA 2000, cM-26 [MGA], and all associated regulations, including, for example *Matters Relating to Assessment and Taxation Regulation*, Alta Reg 220/04 [MRAT].

The MGA requires the assessment of property be prepared using mass appraisal. Properties are valued based on a valuation date of July 1, 2015 and the property's condition of December 31, 2015. Many of these terms are defined in the legislation.



s.284(1)(r) “**property**” means

- (i) a parcel of land
- (ii) an improvement, or
- (iii) a parcel of land and the improvements to it

MGA s.284(1)(r)

s.1(n) “**regulated property**” means

- (i) land in respect of which the valuation standard is agricultural use value,
- (ii) a railway,
- (iii) linear property, or
- (iv) machinery and equipment

MRAT s.1(1)(n)

s.6(1) the **valuation standard** for the land and improvements is market value unless subsection (2)... applies

MRAT s.6(1)

s.1(1)(n) “**market value**” means the amount that a property, as defined in section 284(1)(r), might be expected to realize if it is sold on the open market by a willing seller to a willing buyer

MGA s.1(1)(n)

s.2 An assessment of property based on **market value**

- (a) must be prepared using mass appraisal,
- (b) must be an estimate of the value of the fee simple estate in the property, and
- (c) must reflect typical market conditions for properties similar to that property

MRAT s.2

s.289(2) Each assessment must reflect

- (a) the characteristics and physical condition of the property on **December 31** of the year prior to the year in which a tax is imposed

MGA s.289(2)(a)

s.3 Any assessment prepared in accordance with the Act must be an estimate of the value of a property on **July 1** of the assessment year

MRAT s.3

s.1(k) “**mass appraisal**” means the process of preparing assessments for a group of properties using standard methods and common data and allowing for statistical testing

MRAT s.1(k)

While there are many forms of ownership, the legislation requires the City of Edmonton to assess the fee simple estate. The fee simple estate is unencumbered by any other interest or estate, and subject only to the limitations of government.

fee simple – in land ownership, complete interest in a property subject only to governmental powers

Glossary for Property Appraisal and Assessment, p. 56

In summary, a property assessment is:

- an estimate of the property's market value on July 1, 2015
- prepared using mass appraisal
- an estimate of the value of the fee simple estate in the property
- a reflection of the property's condition on December 31, 2015
- prepared assuming typical market conditions on the open market by a willing seller to a willing buyer

Mass Appraisal

Mass appraisal is the legislated methodology used by the City of Edmonton for valuing individual properties, and involves the following process:

- properties are stratified into groups of comparable property
- common property characteristics are identified for the properties in each group
- a uniform valuation model is created for each property group

property characteristic: A feature that helps to identify, tell apart, or describe recognizably, a distinguishing mark or trait

www.thefreedictionary.com



27.1(c) ***“valuation model”*** means the representation of the relationship between property characteristics and their value in the real estate marketplace using a mass appraisal process

MRAT s.27.1(c)

The following two quotations indicate how the International Association of Assessing Officers distinguishes between mass appraisal and single-property appraisal:

... “single-property appraisal is the valuation of a particular property as of a given date; mass appraisal is the valuation of many properties as of a given date, using standard procedures and statistical testing.”

... “Also, mass appraisal requires standardized procedures across many properties. Thus, valuation models developed for mass appraisal purposes must represent supply and demand patterns for groups of properties rather than a single property.”

Property Appraisal and Assessment Administration, pg.88-89.

For both mass appraisal and single-property appraisal, the process consists of the following stages:

| | Mass Appraisal | Single Appraisal |
|------------------------|---|---|
| Definition and Purpose | Mass appraisal is used to determine the assessment base for property taxation in accordance with legislative requirements | The client specifies the nature of the value to be estimated, including rights to be valued, effective date of valuation, and any limiting conditions |
| Data Collection | Mass appraisal requires a continuing program to maintain a current database of property characteristics and market information. | The extent of data collection is specific to each assignment and depends on the nature of the client's requirements |
| Market Analysis | Mass appraisal is predicated on highest and best use | Market analysis includes the analysis of highest and best use |
| Valuation Model | Valuation procedures are predicated on groups of comparable properties | Subject property is the focus of the valuation. The analysis of comparable properties is generally six or less |
| Validation | The testing of acceptable analysis and objective criteria | The reliability of the value estimate is more subjective. Acceptability can be judged by the depth of research and analysis of comparable sales |

Valuation Models

A valuation model creates an equation of variables, factors and coefficients that explains the relationship between estimated market value and property characteristics.



s.27.1(a) **“coefficient”** means a number that represents the quantified relationship of each variable to the assessed value of a property when derived through a mass appraisal process

(b) **“factor”** means a property characteristic that contributes to a value of a property;

(d) **“variable”** means a quantitative or qualitative representation of a property characteristic used in a valuation model

MRAT, s.27.1 (a), (b) and (d)

s.27.3(1) ...information that is required to be provided...does not include coefficients

MRAT, s.27.3(1)

Valuation Model

- variables are created from property characteristics
- analysis of how variables effect market value
- factors and coefficients are determined
- the resulting valuation models are applied to property characteristics

Depending on the property type multiple regression analysis or other mass appraisal techniques are used to determine variables, factors and coefficients.

“Multiple Regression Analysis (MRA): a statistical technique used to analyze data to predict market value (dependent variable) from known values of property characteristics (independent variables)”

Property Appraisal and Assessment Administration, p. 653

An assessed value is calculated by applying the appropriate valuation model to individual properties within a group.

Approaches to Value

The most common approaches to determine market value are the direct comparison, income, and cost. Each emphasizes a particular kind of market evidence.

Direct Comparison Approach

Typical market value (or some other characteristic) is determined by referencing comparable sales and other market data. It is often used when sufficient sales or market data is available. It may also be referred to as the Sales Comparison Approach

Income Approach

This approach considers the typical actions of renters, buyers and sellers when purchasing income-producing properties. This approach estimates the typical market value of a property by determining the present value of the projected income stream. Often used to value rental or leased property

Cost Approach

Typical market value is calculated by adding the depreciated replacement cost of the improvements to the estimated value of land. It is often used for properties under construction or when there is limited market data available

Property Groups

The use of a property determines the property groupings and the valuation model applied.



use: *is the purpose or activity a property is designed, arranged, developed or intended for, or is occupied or maintained as*

Zoning Bylaw No. 12800, 2014, s. 6.1(108)

Industrial

There are a number of reasons why a given property is included in the industrial inventory. Zoning and highest and best use are key indicators in a property's classification. As well, based on the principles of urban economics, properties of similar use typically cluster together, and even when competing firms in the same sector cluster there may be advantages because the cluster attracts more suppliers and customers than a single firm could achieve alone.

Sub-Group

Some property groups have sub-groups based on property characteristics. This guide is for the Industrial Land sub-group.

Industrial Land For the 2016 tax year, vacant properties were included in the Industrial Land inventory based upon their effective zoning. Generally, properties included in the City of Edmonton Zoning Bylaw 12800 Industrial Zones, with the addition of the Industrial Reserve Zone, are included in the 2016

Industrial Land inventory. See the definition of zoning provided later in this brief for a complete list of Industrial Land zonings.

Direct Comparison Approach

For this property group, the assessment is determined using the direct comparison approach. It is the most appropriate method of valuation for Industrial Land properties in the City of Edmonton as it mirrors the actions of buyers and sellers in the market place. There is sufficient sale data to derive reliable market estimates.

Support for the Direct Comparison approach comes from several reputable sources, for example:

This approach is usually the preferred approach for estimating values for residential and other property types with adequate sales. (IAAO, 2013, sec. 4.3).

The Direct Comparison approach provides the most credible indication of value for owner-occupied commercial and industrial properties, i.e., properties that are not purchased primarily for their income-producing characteristics. These types of properties are amenable to direct comparison because similar properties are commonly bought and sold in the same market. (Appraisal Institute of Canada [AIC], 2010, p. 13.4).

Sales

The City of Edmonton validates all land title transactions (sales). The validation process can include site inspections, interviews with parties involved, a review of land title documents, corporate searches, third party information, and sale validation questionnaires.

The City of Edmonton used 225 sales occurring from July 1, 2009 to June 30, 2015 for 2016 valuation. Time adjustments are applied to sale prices to account for any market fluctuations based on the time trend occurring between the sale date and the legislated valuation date. Through the review of sales, the collective actions of buyers and sellers in the market place are analyzed to determine the contributory value of specific property characteristics that drive market value. Once these values have been determined through the mass appraisal process, they are applied to the inventory to derive the most probable selling price. Value estimates were calculated using multiple regression analysis, which replicates the forces of supply and demand in the market place.

See the appendix for a time adjustment chart.

Sale price reflects the condition of a property on the sale date and may not be equal to the assessment.

Zoning

The rules and regulations for land development within Edmonton are contained in the Zoning Bylaw, No. 12800.



*s.6.1(111) **zone:** is a specific group of listed use classes and development regulations which regulate the use and development of land within specific geographic areas of the City*

Zoning Bylaw No. 12800, 2014, s. 6.1(111)

An industrial zone summary is in the appendix.

Not all property conforms to the zoning use set out in the Zoning Bylaw. In these cases, an effective zoning is applied to reflect the current use of the property. The effective zoning may differ from the actual zoning when the current use differs from the Zoning Bylaw (e.g., a legal nonconforming use). Industrial Land properties are valued based on their effective zoning.



643(1) If a development permit has been issued on or before the day on which a land use bylaw or a land use amendment bylaw comes into force in a municipality and the bylaw would make the development in respect of which the permit was issued a non-conforming use or non-conforming building, the development permit continues in effect in spite of the coming into force of the bylaw

MGA, s. 643(111)

Variables

Below is the list of variables that affect the assessment value for 2016 [in the sequence of importance].

1 Lot Size

3 Servicing

2 Neighborhood Group

Lot Size: The area of a specific parcel determined through GIS and Alberta Land Titles.

Neighborhood Group: Industrial Land Neighborhood Groups are geographic areas defined using location boundaries and property characteristics. See enclosed maps entitled Industrial Study Areas. In sequence of desirability, the neighborhood groups are as follows:

| Name | Neighborhood Group |
|--------------------------------|--------------------|
| NE | 39 |
| Major Roads South | 12 |
| Yellowhead | 49 |
| Core South / Major Roads North | 18 / 2 |
| Core North | 17 |
| Summerside | 50 |
| Partially Serviced | 20 |
| Unserviced | 22 |
| Stony | 23 |

Neighborhood: Neighbourhoods are geographic areas delineated in the City's Neighborhood Maps found at: <http://maps.edmonton.ca/>.

Servicing: the following services have been analyzed for 2016 valuation purposes: street lightning, sanitary sewer, storm sewer, water, paving and sidewalk, curb & gutter.

If a property is entirely unserviced a total of -25% adjustment is applied to the account. Adjustments for lacking a specific service are presented in the table below:

| Services | Servicing Cost Adjustment |
|------------------------------|---------------------------|
| No Street Lighting | 0.50% |
| No Sanitary Sewer | 5.25% |
| No Storm Sewer Service | 9.50% |
| No Water Service | 5.25% |
| No Paving (to property line) | 3.00% |
| No Sidewalk, Curb & Gutter | 1.50 % |

Y (YES) indicates that a property has a specified service and N (NO) indicates that a property does not have a specified service.

Adjustments

Adjustments may be applied to properties with atypical influences on a site specific basis to recognize their effect on value.

Adjustments include but are not limited to:

Access/Egress: The ability to enter a property from an existing road or highway and to maneuver within the property.

Shape: An adjustment may be made if the shape of a property affects the functional utility of the property.

Topography: Topography refers to the surface features of a property and may include hills, swamps, gullies, ravines, etc. which may affect the functional utility of the property.

The following adjustments were made to the above characteristics, with the exception of Remnant Lot, Contamination, Land Market Adjustment and Oversized Lot Adjustment:

- **No Adjustment** (N or Blank)
- **Minor** - 5% negative adjustment
- **Moderate** - 10% negative adjustment
- **Major** - 15% negative adjustment
- **Extreme** - 20% negative adjustment

Contamination: Refer to the City of Edmonton Assessment Valuation Procedures in Relation to Contaminated Properties.

Land Market Adjustment (LMA) is applied to account for characteristics not common to many properties. This adjustment is used in rare circumstances where the influence on the property cannot be accounted for or described by the usual attributes such as topography or shape etc. A LMA ranges from 5 to 100%, either positive or negative, and changes in increments of 5%. A LMA may be indicated as follows:

- **No Adjustment (N)**
- **LMA Mi_nus_05 (this means a negative 5% adjustment has been applied)**
- **LMA Plus_05 (this means a positive 5% adjustment has been applied).**

Lot Location: Lot Location refers to the location of a property. Lot Location categories are: corner, interior, cul-de-sac, major road corner lot or major road interior lot.

For the 2016 valuation there was not significant information to apply a specific adjustment to most of these Lot Locations. Cul-de-sacs, however, was given a -15% adjustment.

Oversize Lot Adjustments are applied to properties that are 10 acres or more in size. Oversize Lot Adjustments are as follow:

- -5% is applied to properties that are between 10 and 38.99 acres;
- -18% is applied to properties that are over 39 acres and over.

Utility Lot: In relation to Industrial Land, a Utility Lot refers to a property that provides a system or works for public consumption, benefit, convenience or use, such as public transportation or utility lines, that are not otherwise covered by an easement or dedicated to the City and does not support independent development (the property may, for example, be used for parking or storage).

Utility Remnant Lot: A remnant lot is a property that is too small or oddly shaped to easily support independent development.

Traffic Influence: Traffic Influence refers to the number of vehicles that travel past a property on a daily basis and affects the Study Area to which a property is assigned. Traffic Influence is derived from the City's 2012 Traffic Flow Map
(See http://www.edmonton.ca/transportation/traffic_reports/aawdtreports-flow-maps.aspx).

Traffic Influence is identified as one of the following:

- No Traffic (0): Roads with traffic flow of 0-5,000 vehicles per day that do not have a bus route.
- Minor (1): Roads with traffic flow of 0-5,000 vehicles per day that have a bus route.
- Moderate (2): Roads with traffic flow of 5,001-15,000 vehicles per day.
- Major (3): Roads with traffic flow of 15,001-50,000 vehicles per day.
- Extreme (4): Roads with traffic flows of 50,000+ vehicles per day.
- Anthony Henday (6): Anthony Henday Drive ring road.

The Traffic influence variable does not directly affect the 2016 Industrial Land valuation. It is encompassed in Neighborhood group variable (eg Major Roads South).

Easement, as defined in Section 28 of the MGA, is an interest of right held by a municipality for the purpose of locating the system or works of a municipal public utility. In a practical sense, an easement is the right to use and/or enter onto the real property of another without possessing it.

Exposure: Exposure refers to the visibility of a property. For 2015, Exposure is accounted for under Access.

Restrictive Covenant: An agreement that restricts the use or occupancy of all or part of a property and that may be registered on the title to a property and runs with the land.

Land Use Code Definitions

Land Use Code (LUC): The Land Use Code categorizes the current use of a property. The amount of a property subject to any specific LUC will be expressed as a percentage for properties which have multiple uses. For 2015, the LUC did not affect the value of Industrial Land. Industrial Land may have the following LUCs:

- 900 – Undeveloped Land
- 258 – Fenced Storage
- 530 – Parking Lot Paved
- 531 – Parking Lot Unpaved
- 537 – Parking Lot Unpaved
- 835 – Farmland Subdivision Unit
- 855 – Farmland Water/Sewer

Provincial Quality Standards

For Industrial Land properties the City of Edmonton used the direct comparison approach to calculate the 2016 assessments. The assessment models, the process utilized, and the results are submitted annually to the Assessment Services Branch of the Department of Municipal Affairs for audit purposes. This audit is used to determine the accuracy of our predictions relative to the market place, and is a

direct reflection on the accuracy of our models. The results indicated that our assessments meet Provincial Quality Standards as set out in *MRAT*.

Properties are assessed using an Industrial Land model that adjusts for characteristics which impact market value, in order to arrive at a typical market value for properties in this class. Each year a new model is created using any new sales from the current year and sales used in the previous model. Each year the decision is made whether or not to include the oldest sales, based on the number of sales available, indicated time adjustments and valuation judgment.

The resulting assessments were tested both internally and at the Provincial level. The 2016 Industrial Land model met Provincial Quality Standards as set out in *MRAT*.

*Sales data files should reflect the physical characteristics of the property when sold. **For ratio studies, if significant physical changes have occurred to the property between the date of sale and the appraisal date, the sale should not be included.** The sale may still be valid for mass appraisal modeling by matching the sale price to characteristics that existed on the date of sale. (IAAO, 2010, section 5.10).*

A valid Assessment to Sale Ratio (ASR) includes the entire industrial inventory, not simply a handful of sample sales. Section 10 of *MRAT* requires that non-residential properties be valued by Mass Appraisal and have an overall median ASR of .95 to 1.05, and the City has met this legal requirement. Individual sales which fall outside of the median ASR range for the entire population are not incorrect if the value falls within an acceptable range indicated by a Coefficient of Dispersion (COD) of 0.20 or less. It is important to note once again that the 2016 Industrial Warehouse model has met these standards.

Part of a ratio study requires the matching of the assessment and the sale price, or other indicator of market value, for a property. Both the assessment and the sale price must reflect the same property in the same physical condition. If a property has changed in some physical way between the time of the assessment and the time of sale, the sale should be excluded from the ratio study unless appropriate adjustments can be made where the property assessed corresponds to the property sold. (Government of Alberta, 2010, p. 52).

An audit, as considered under the legislation, looks at all the sales in each stratum of property and not at small subgroups of sales within that stratum. Small subsets of the market data are insufficient to make meaningful statements about ASR analysis. The board in *Gateway Real Estate Equities Inc, AEC Property Tax Solutions v. The City of Edmonton*, 2014 ECARB 00559 stated:

The board finds that applying some ASR values from one end of the spectrum to a property at a different point in the spectrum would cause fresh, undesirable inequities. The Board is satisfied that the entire strata of properties must be processed together to produce statistically reliable results and a small sub-set of values cannot be relied upon to provide a correct indication of the subject property's market value.

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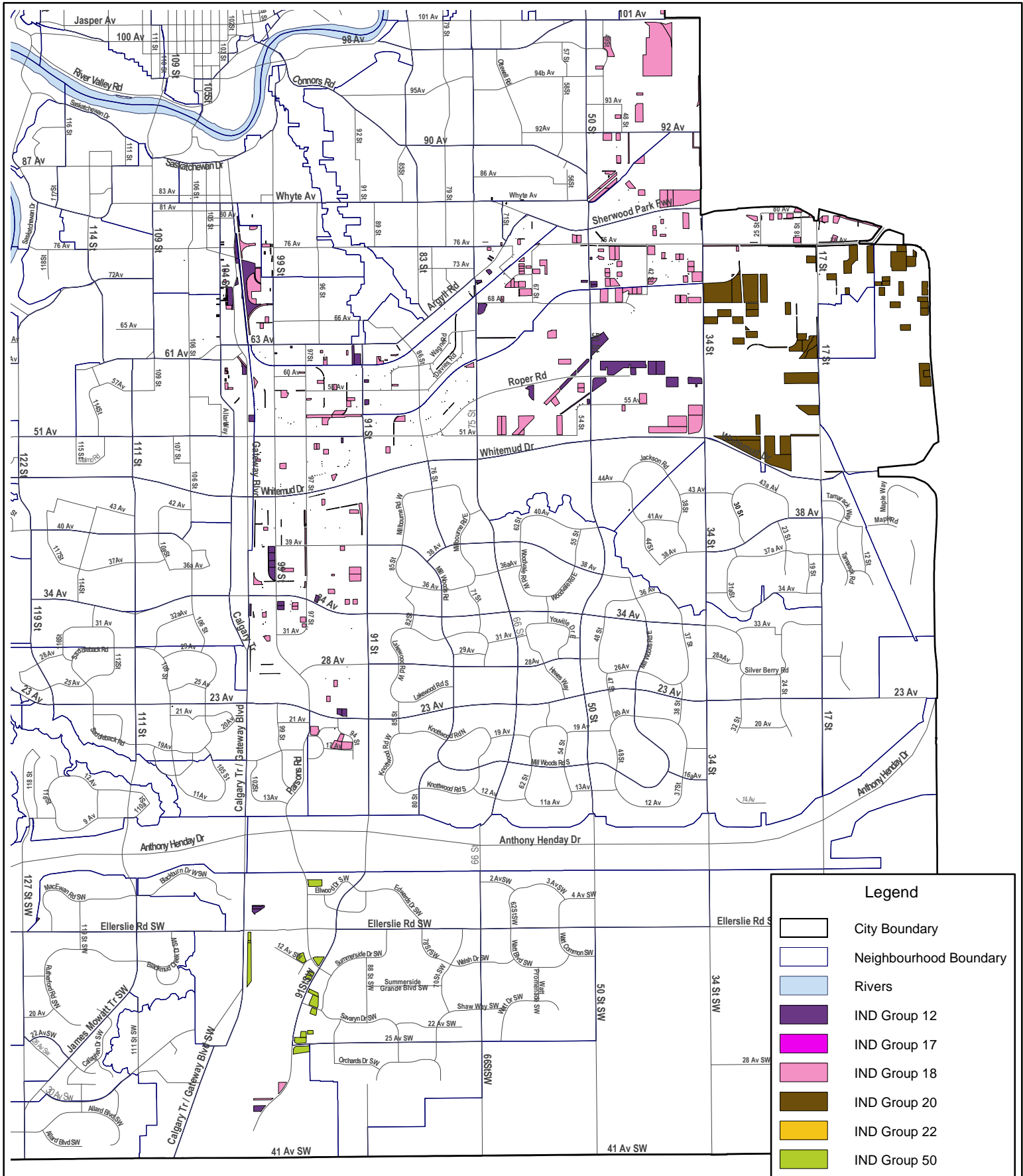
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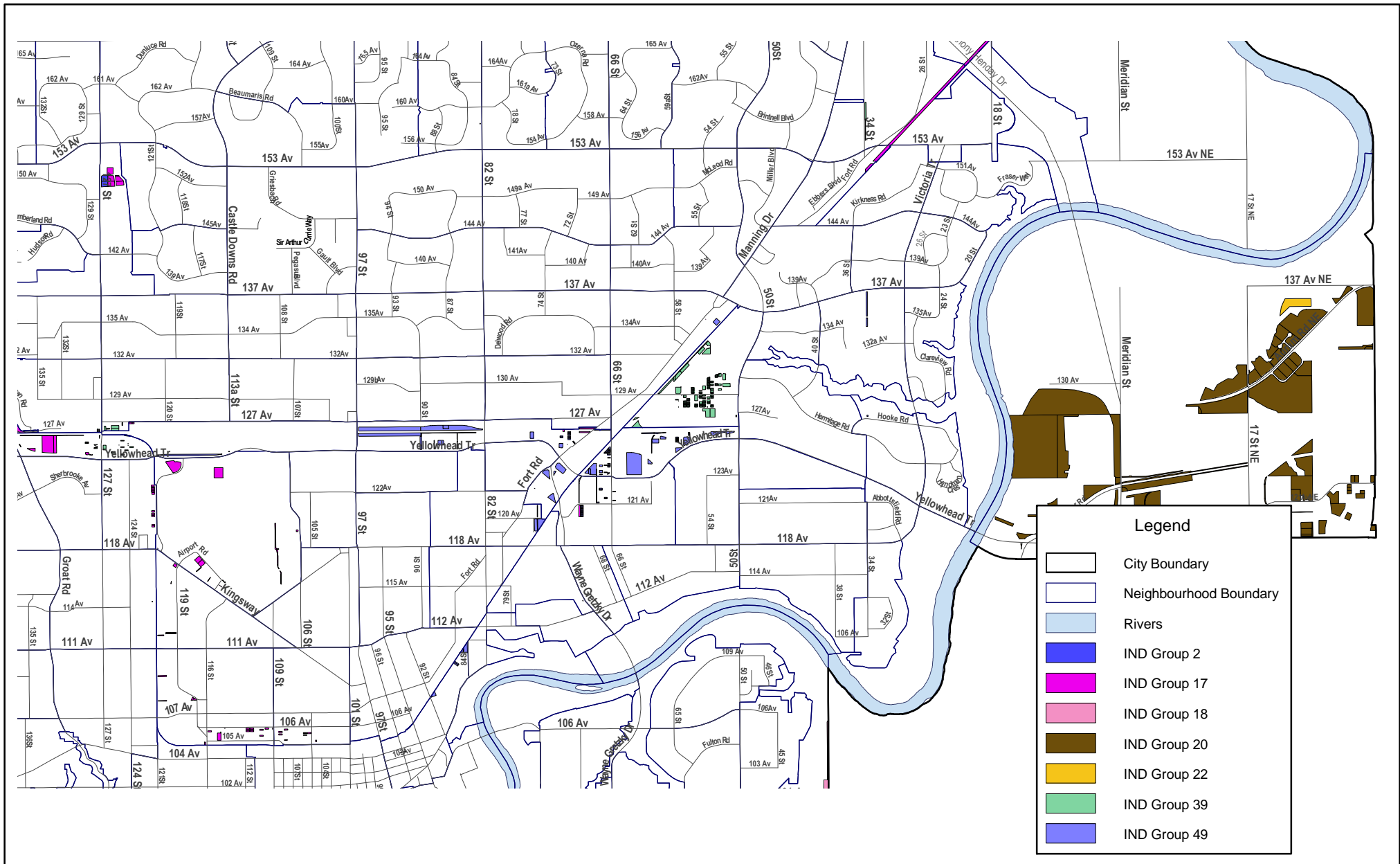
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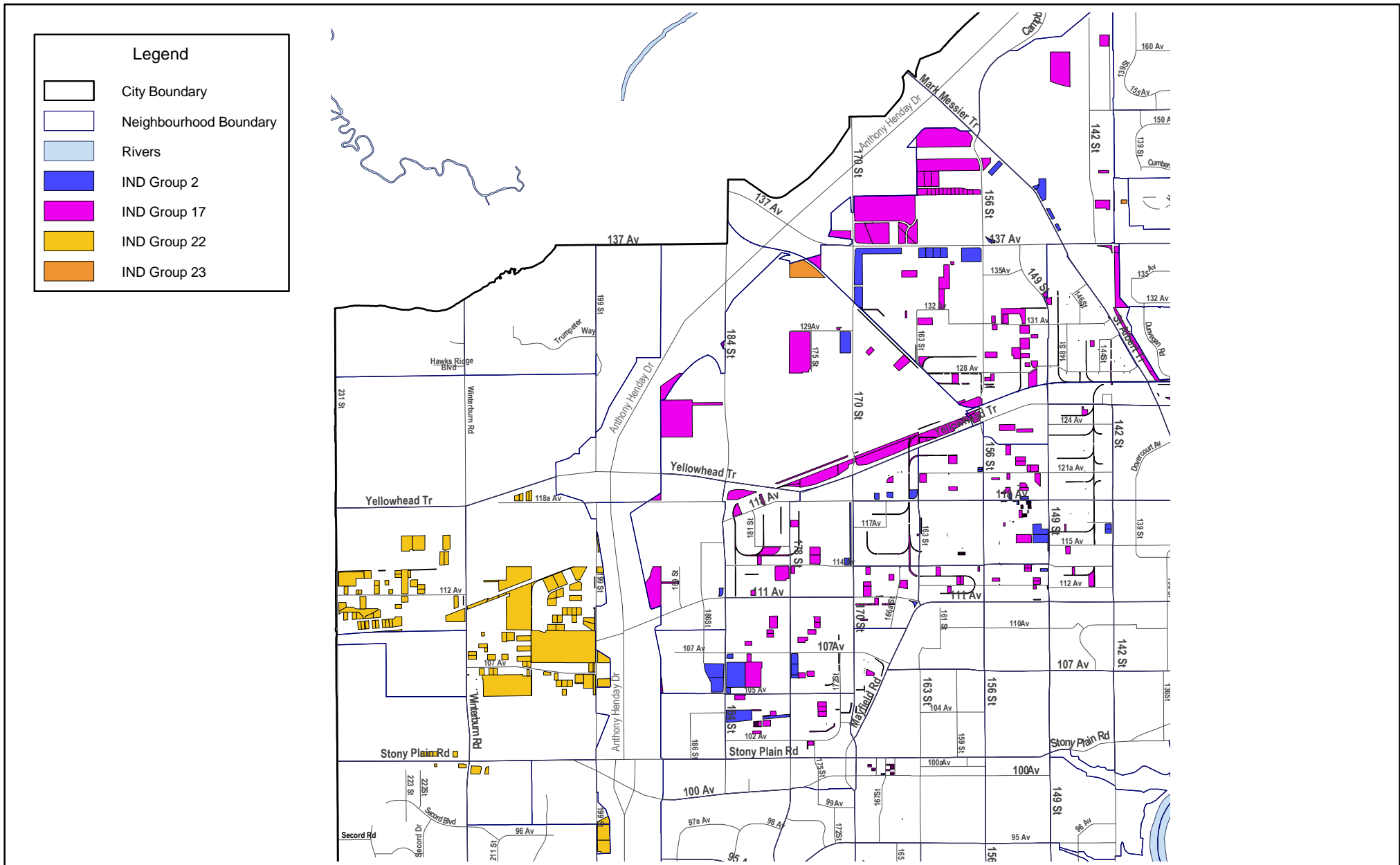
2016 Vacant Industrial Land Study Area - South



2016 Vacant Industrial Land Study Area Groupings - Northeast



2016 Vacant Industrial Land Study Area Groupings - Northwest



Time Adjustments

| 2016 Time Adjustments for Industrial Land | | | | | | |
|---|-------|------------|--|------|-------|------------|
| YEAR | MONTH | ADJUSTMENT | | YEAR | MONTH | ADJUSTMENT |
| 2009 | JUL | 1.4967 | | 2012 | JUL | 1.2198 |
| 2009 | AUG | 1.4967 | | 2012 | AUG | 1.2127 |
| 2009 | SEP | 1.488 | | 2012 | SEP | 1.2056 |
| 2009 | OCT | 1.4793 | | 2012 | OCT | 1.1986 |
| 2009 | NOV | 1.4707 | | 2012 | NOV | 1.1916 |
| 2009 | DEC | 1.4621 | | 2012 | DEC | 1.1847 |
| 2010 | JAN | 1.4536 | | 2013 | JAN | 1.1778 |
| 2010 | FEB | 1.4451 | | 2013 | FEB | 1.1709 |
| 2010 | MAR | 1.4283 | | 2013 | MAR | 1.1641 |
| 2010 | APR | 1.4283 | | 2013 | APR | 1.1573 |
| 2010 | MAY | 1.42 | | 2013 | MAY | 1.1506 |
| 2010 | JUN | 1.4117 | | 2013 | JUN | 1.1439 |
| 2010 | JUL | 1.4035 | | 2013 | JUL | 1.1372 |
| 2010 | AUG | 1.3953 | | 2013 | AUG | 1.1306 |
| 2010 | SEP | 1.3791 | | 2013 | SEP | 1.124 |
| 2010 | OCT | 1.3791 | | 2013 | OCT | 1.1174 |
| 2010 | NOV | 1.3711 | | 2013 | NOV | 1.1109 |
| 2010 | DEC | 1.3631 | | 2013 | DEC | 1.1045 |
| 2011 | JAN | 1.3551 | | 2014 | JAN | 1.098 |
| 2011 | FEB | 1.3394 | | 2014 | FEB | 1.0916 |
| 2011 | MAR | 1.3394 | | 2014 | MAR | 1.0853 |
| 2011 | APR | 1.3316 | | 2014 | APR | 1.0789 |
| 2011 | MAY | 1.3238 | | 2014 | MAY | 1.0726 |
| 2011 | JUN | 1.3161 | | 2014 | JUN | 1.0664 |
| 2011 | JUL | 1.3084 | | 2014 | JUL | 1.0602 |
| 2011 | AUG | 1.2932 | | 2014 | AUG | 1.054 |
| 2011 | SEP | 1.2932 | | 2014 | SEP | 1.0479 |
| 2011 | OCT | 1.2857 | | 2014 | OCT | 1.0418 |
| 2011 | NOV | 1.2782 | | 2014 | NOV | 1.0357 |
| 2011 | DEC | 1.2708 | | 2014 | DEC | 1.0237 |
| 2012 | JAN | 1.2634 | | 2015 | JAN | 1.0237 |
| 2012 | FEB | 1.256 | | 2015 | FEB | 1.0059 |
| 2012 | MAR | 1.2487 | | 2015 | MAR | 1.0059 |
| 2012 | APR | 1.2414 | | 2015 | APR | 1.0059 |
| 2012 | MAY | 1.2342 | | 2015 | MAY | 1 |
| 2012 | JUN | 1.227 | | 2015 | JUN | 1 |

Zone Summary

Industrial (s.400)

IB

Industrial Business Zone (s.400) is for industrial businesses that carry out their operations such that no nuisance is apparent outside an enclosed building

IL

Light Industrial Zone (s.410) provides for high quality, light industrial developments, that operate with no nuisance factor apparent outside an enclosed building, limited outdoor activities

IM

Medium Industrial Zone (s.420) provides for manufacturing, processing, assembly, distribution, services and repair uses that carry out a portion of their operations outdoors, any nuisance should not generally extend beyond the boundaries of the site

IH

Heavy Industrial Zone (s.430) provides for industrial uses that, due to their appearance, noise, odour, risk of toxic emissions, or fire and explosion hazards are incompatible with residential, commercial, and other land uses. Normally located on the interior of industrial or agricultural areas.

Direct Control Provisions (s.700)

DC1

Direct Development Control (s.710) is to provide for detailed, sensitive control of the use, development, siting and design of buildings and disturbance of land where this is necessary to establish, preserve or enhance:

- a. areas of unique character or special environmental concern
- b. areas or sites of special historical, cultural, paleontological, archaeological, prehistorical, natural, scientific or aesthetic interest

DC2

Site Specific Development Control (s.720) is to provide for direct control over a specific proposed development where any other Zone would be inappropriate or inadequate.

Agriculture and Reserve Zones (s.630)

AGI

Industrial Reserve Zone (s.630) is to allow for agricultural and rural land use activities that do not prejudice future use when the lands are required for industrial use

| Special Area: Ellerslie Industrial (s.930) | |
|--|---|
| EIB EIM | Ellerslie Industrial Business (s.930.4) Ellerslie Medium Industrial Zone (930.5) |

For additional zone detail, please refer to the Zoning Bylaw.