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REASONABLE EXPOSURE TIME REVISITED

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Over the past several years, exposure time has consistently ranked as one of the most frequent USPAP deficiencies found by the KREAB in real property appraisal reports expressing market value opinions. In discussing these omissions with appraisers, most individuals confuse exposure time with marketing time and presume that statements made regarding the latter have satisfied any necessary reporting requirements.

However, this problem goes much deeper than simply a reporting issue. While the two opinions are derived from much of the same information, there are significant conceptual differences between the two.

Statement 6 (SMT-6) of USPAP defines exposure time as follows:

“The estimated length of time the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal; a retrospective opinion based on an analysis of past events assuming a competitive and open market.”

The obligation for appraisers to develop an opinion of exposure time for real property and personal property assignments appears in the Comment to Standards Rules 1-2(c) and 7-2(c) where it states:

“When the purpose of an assignment is to develop an opinion of market value, the appraiser must also develop an opinion of reasonable exposure time linked to the value opinion.”

The requirement for appraisers to communicate or report exposure time is later addressed in the Comment to Standards Rule 2-2(a)(v) and (b)(v). The footnote referring to Statement 6 (SMT-6) explains exposure time should be reported as follows:

“The discussion of reasonable exposure time should appear in an appropriate section of the appraisal report, one that presents the discussion and analysis of market conditions, and also be referenced at the statement of the value definition and at the value conclusion.”

Disclosing exposure time is as important to most market value opinions as disclosing the term component (n) of a time value of money equation. In effect, the appraiser is telling the intended user(s), “In order for your real property interest to have a market value of X on the effective date of this appraisal, it would have been exposed for Y days (or weeks, months, etc.) on the open market.”

Bear in mind that there is no requirement that exposure time must be stated as a specific amount. Thus, it may be expressed as a range, (i.e. 30-90 days, 3-6 months, etc.)

Since real property and personal property rights are, to varying degrees, non-homogenous and ill liquid, it is important for the intended user to be informed of the exposure period inherent within the concluded market value opinion. Exposure time is different for various types of property and under various market conditions.

Statement 6 (SMT-6) explains exposure time can be based on one or more of the following:

- # statistical information about days on market;
- # information gathered through sales verification; and
- # interviews of market participants.

Most private and some public comparable sale data sources include information about days on market providing an appraiser valuable data for analysis. It is also usually easy to discuss events leading up to the eventual sale of a property interest with those parties involved when verifying sale data.

Interviews with local market participants actively involved in the immediate area can provide additional insight. For instance, for an appraisal of a residential property one might ask a knowledgeable real estate broker: “In your opinion, what would be a reasonable period of time to market a 1,500 s.f., 1.5-story dwelling that was reasonably priced in the \$200,000 to \$225,000 range in ABC neighborhood?”

In contrast to exposure time, an opinion of marketing time is not required by USPAP, though it may be required through supplemental standards. For instance, the *Fannie Mae Single Family Selling Guide, Part XI: Property and Appraisal Guidelines* states that when marketing time is greater than six months, the appraiser must comment on the reason for the extended marketing period and its effect on the value of the property.

Advisory Opinion 7 (AO-7) defines marketing time as follows:

“An opinion of the amount of time it might take to sell a real or personal property interest at the concluded market value level during the period immediately after the effective date of an appraisal.”

Marketing time can be based on one or more of the same elements used in determining the opinion of exposure time with the addition of one component: anticipated changes in market conditions.

Anticipated changes in market conditions account for fluctuations in the cost and availability of funds, materials, labor, as well as other supply and demand characteristics.

Marketing time and exposure time opinions often can be equal; particularly when no immediate changes in market conditions are anticipated. However, appraisers are cautioned to avoid “standard comments” that equate the two opinions without serious consideration of the underlying concepts in each assignment.

Marketing time is not intended to be a prediction of a date of sale and it may be inappropriate to assume that market value remains stable during the marketing period.

In summary, appraisers are obligated to develop and report an opinion of exposure time; but not marketing time unless required by a supplemental standard or by agreement with a client. Exposure time exists before the effective date of the appraisal, whereas marketing time exists immediately after the effective date. While exposure time and marketing time are garnered through similar sources and many times yield like results, their distinct meanings and implications should carefully be considered by appraisers and users of their services.