

IT'S ABOUT TIME – PART I

The agencies that regulate federally-chartered and federally-insured banks insist that appraisers develop and report opinions of “market value”. These agencies have developed their own definition of *market value*, and this definition has been adopted by lenders throughout the mortgage lending industry, even by many who are not federally regulated.

The concept of *market value* depends importantly on an inflexible set of assumptions that attend the value conclusion. Among these is the assumption that the property being valued was adequately exposed for sale in an appropriate market, and that it was exposed for a specified period of time preceding the effective date of value. This time period is not fixed, but is an estimate made by the appraiser of the amount of time it would have taken to sell the property for a price equal to the value named.

When the USPAP was first written, the Appraisal Standards Board recognized that every opinion of value is necessarily based on some concept of market exposure. And because sales data is available to support estimates of the period of market exposure before an effective date of value but no data is available to support an opinion of the market exposure period following an effective date of value, the board decided it was important that opinions of *market value* be based on historic “marketing time”. They also decided historic “marketing time” preceding the effective date of value could be distinguished from estimates of “marketing time” in the future by giving it a new name: The name they gave it was “exposure time”.

In the course of assigning clear meaning to the term *exposure time*, the term *marketing time* was necessarily redefined as well: Before the USPAP took up this subject, the ordinary language term “marketing time” was used to refer both to a period of market exposure before an effective date of value, as well as to a period of market exposure following an effective date of value. Once *exposure time* was identified as a time period preceding the effective date of value and linked to an opinion of market value, *marketing time* was redefined as a technical term to describe an estimate of a period time following an effective date of value.

Many appraisers include statements in their reports showing that they understand that the term *exposure time* refers to a marketing period preceding an effective date of value, and that the term *marketing time* refers to a marketing period directly following an effective date of value, but these terms are not as perfectly symmetrical as they first appear: Importantly, an estimate of *exposure time* is an *extraordinary assumption* upon which a value opinion is predicated, whereas by definition, opinions of *market value* may not be based on assumptions about *marketing time* that occur after the effective date of value.

The words “exposure time” do not come easily to appraisers. For many years, the term “marketing time” was used by appraisers in the same ambiguous manner as it was, and still today

is, used by other market participants: it was used to describe both retrospective and prospective estimates of the period of time it might take, or might have taken, to sell a property.

In the course of my review practice, I've discovered that many appraisers have given up trying to understand the terms “exposure time” and “marketing time”. Instead of employing these terms as they are used in the USPAP, these appraisers use these two terms interchangeably, or fabricate alternative terms, such as “exposure/marketing time”. In reports presented to me for review in the past year, I have found the numerous statements similar to the ones that appear below:

- This report is based on a market exposure time of six months.
- This appraisal is based on a marketing time of six months.
- This appraisal is based on a six-month exposure/marketing period.
- A six-month exposure period is projected in order to sell the subject property.
- This report is based on a projected exposure time of six months.

These statements betray uncertainty and confusion about the meaning and use of the terms *exposure time* and *marketing time* in the USPAP. Why is there so much confusion? One of the answers is simply “habit”. For decades appraisers have used the term *marketing time* without being forced to decide whether they were describing the past or the future. These appraisers in turn have trained new appraisers. And we all copy each others language, sometimes without understanding the precise meaning of the terms we employ.

What has happened to the words “marketing time” has a parallel within the USPAP. A few years back, when appraisers told their readers that a value conclusion was based on something they believed to be true, their language read like this:

*“The value conclusion of this report is based on the **assumption** that x is true”.*

And when appraisers told their reader's that for purposes of valuation they were assuming something to be true that they knew was false, [for example, the assumption that a proposed dwelling had already been constructed], they used exactly the same words:

*“The value conclusion of this report is based on the **assumption** that x is true”.*

Recognizing that appraisers were employing the same term, “*assumption*”, to describe conditions that the appraiser believed to be true as well as conditions that the appraiser knew to be false, the Appraisal Standards Board amended the USPAP, introducing the concepts of *extraordinary assumption* and *hypothetical condition*.

As defined in the USPAP, *extraordinary assumptions* are assumptions the appraiser has reasons to believe are probably true. In contrast, *hypothetical conditions* are assumptions that the appraiser is certain are false. By the introduction of these two terms, the USPAP was now

provided with language to help appraisers think and write so that they would not be misunderstood.

Similarly, the ordinary language term “marketing time” was split in two when the term “exposure time” was introduced into the USPAP. But in this instance, one of the new terms, “marketing time” retained the name of the original ordinary language term. As a result, whenever we see the words “marketing time” used by an appraiser, we need to consider whether she is talking about the generic ordinary English-language term (which does not differentiate between the time period before and after an effective date of value), or whether she is using the term as it now is more narrowly used* in the USPAP.

** N. B. Neither the term “marketing time” nor the term “exposure time” is included among the definitions that are part of the USPAP.*

By now the reader may be asking herself: “Is this important? What possible difference can it make in my appraisals? Even if I state in one of my reports that my value conclusion is based on my consideration of issues such as *marketing time* or *exposure time*, the reader knows pretty much what I mean”.

Perhaps. Many appraisers agree with this point of view. However, we should remember that one of the distinguishing features of every profession is the special terms and language it develops to communicate its professional findings. When members of any profession are unfamiliar with the meaning of that profession’s technical terms, or if they are careless in their use of them, they run the risk of confusing their readers, which diminishes trust.

In my daily practice I often meet real estate agents who have a pretty good eye for market values. When I ask for their opinions of value, these opinions often turn out to nicely match the conclusions I reach by laboriously following “the appraisal process”. Sometimes I go to Zillow.com, a web site that where I can find, in only a few seconds, the “value” of almost any residential property in United States. And for free. Often, Zillow’s value opinions turn out to be pretty reasonable as well.

The question then becomes this: Why would anyone pay an appraiser hundreds or thousands of dollars, and agree to wait for days or weeks, to learn her opinion of the *market value* of a property, if they can get an equally credible answer for free from Zillow or from the local real estate agent? The answer is this: Because they trust her more than they trust their real estate agent or Zillow.

Why should they trust her? Because before she tells them her opinion of market value, she takes the trouble to examine local market conditions, she determines the highest and best use of the property so she can select truly comparable properties for comparison, she develops more than

one approach to value as a cross check, and importantly, because she defines the assumptions underlying her value opinions.

One of those assumptions is always the amount of time it would have taken to sell the property in question at price equal to the opinion of value that she has named. In the chart that appears on the following page, I show another reason that the question of exposure time matters. This chart illustrates why a well-supported opinion of *exposure time* provides a sound basis for an opinion of *market value*, whereas an opinion of *marketing time* can not.

EXPOSURE TIME VS. MARKETING TIME

EFFECTIVE DATE OF VALUE V							
EXPOSURE TIME IN THE PAST				MARKETING TIME IN THE FUTURE			
EXPOSURE TIME ESTIMATE BASED ON MARKET SALES DATA				EXTRAORDINARY ASSUMPTIONS ABOUT FUTURE MARKET CONDITIONS NECESSARILY CONTAMINATE RELIABILITY			
MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER
				<p>----- SORRY, NO DATA AVAILABLE, YET. -----</p> <p>[DOES IT REALLY MAKE SENSE TO TRY TO ESTIMATE CONDITIONS IN THE FUTURE TO GET INFORMATION TO HELP YOU PREDICT THE PAST?]</p>			
HISTORIC DATA				NO DATA			

- L = Current Listings - Days on the Market – [This is the most up-to-date data available]
- P = Pending Sales - Days on the Market. [The exposure period ended for these sales on the date their sales contracts were perfected, even if escrow has not closed]
- S = Sold Properties - Days on the Market
- E = Expired Listings - Days on the Market [This valuable information is often ignored]

A careful reader will notice that examination of the listing history of closed sales, pending sales current listings, and expired listings provides the appraiser with a sound basis for an opinion regarding the number of days the subject property would have been exposed on the market in direct competition with these sales and listings. The estimate of the number of days the subject would have been on the market before its sale on the effective date of value at a price equal to the appraised value is an estimate of *exposure time* required to sell the property on that date.

(This is a simplified model based on the assumption that the effective date of value is the date of the report).

IT'S ABOUT TIME, PART II

When unfamiliar information is presented in a narrative format, it is sometimes confusing on a first reading. For this reason, the information discussed in part one of this paper has been expanded and amplified in the question-and-answer format presented below:

Q. Does the USPAP require the *development* of an opinion of exposure time?

A. Yes. “Whenever the purpose of the assignment is to develop an opinion of market value, the appraiser must also develop an opinion of reasonable *exposure time* linked to that value opinion.” [2008 USPAP, Lines 499-500]

Q. Does the USPAP require the appraiser to report an opinion of *exposure time* to the reader?

A. No. Not since July 1, 2006. The term “*exposure time*” does not appear in Standards Rule 2, the USPAP Reporting Standard. Until July 1, 2006, Statement on Appraisal Standards No. 6 contained the following language:

“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.”

N. B. Although this language was removed from the USPAP several years ago, it remains sound advice. The removal of this language is not explicable to many appraisers, and to date, the ASB has not reported a compelling reason for its decision to remove this language from the USPAP.

Q. If no requirement to report appears in Standards Rule 2 of the USPAP, does this omission mean we are not required by the USPAP to report an opinion of *exposure time* when we report market value?

A. You are not required by the USPAP to report the opinions of *exposure time* that are the bases of your *market value* opinions. But it is still a good idea to do so.

Q. I usually put an estimate of *exposure time* in my summary of salient facts. Does this practice conform to the USPAP requirement to cite an opinion of *exposure time*?

- A. The USPAP requires each opinion of *market value* to be based on the author's opinion of *exposure time*. If the opinion of *exposure time* does not appear as close as possible to the citation of the opinion of *market value*, there is a danger the reader will not understand that this value opinion is predicated on its own unique estimate of *exposure time*.

Q. Do you mean that in an appraisal that contains, say, four opinions of *market value*, the author must develop four opinions of *exposure time*?

A. Yes. That is what the USPAP says.

Q. What's the big deal with *exposure time*? I always show both *exposure time* and *marketing time* together at the beginning of my report. What's wrong with that?

A. The USPAP requires the appraiser to identify the opinion of *exposure time* upon which any opinion of *market value* is predicated. It specifically warns against the practice of confusing the reader by citing an opinion of *marketing time* in the course of the appraisal process. Advisory Opinion 7 contains the following language:

“Marketing time occurs after the effective date of the market value opinion, and the marketing time opinion is related to, yet apart from, the appraisal process. Therefore it is appropriate for the section of the appraisal report that discusses marketing time and its implications to appear toward the end of the report after the market value conclusion. The request to provide a reasonable marketing time opinion exceeds the normal information required for the appraisal process and should be treated separately from that process.” [Advisory Opinion 7, lines 34-38]

Q. Do you mean the USPAP says I should not include an opinion of *marketing time* in the argument leading to my value opinion?

A. That is exactly what Advisory Opinion says. But remember, Advisory Opinions are not USPAP requirements.

Q. Wait! Wait! Some of my clients are regulated depository institutions. They require that I tell them my opinion of *marketing time*. Isn't the citation of *marketing time* a FIRREA requirement?

A. The USPAP is clear on this point. If you are asked to cite an opinion of *marketing time* in your report, Advisory Opinion 7 advises that you delay your discussion of *marketing time* until after you have completed the appraisal process. Regulated depository institutions require opinions of *market value* that are predicated on opinions of *exposure time*, not on opinions of *marketing time*.

Q. Why is that?

A. So the reader will not be misled into the belief that your opinion of *market value* is predicated on your [or the market's] opinion of *marketing time* in the future. If you were to base your value opinion on your assumptions about events in the future, this would

introduce uncertainty. This erodes trust. You may remember, the purpose of the USPAP is to promote public trust in our work.

Q. You mean, if appraisers base their value opinions on their opinions of *exposure time*, their opinions will be more reliable [and more credible] than if they were to try to base their value opinions on their opinions of *marketing time*?

A. Exactly. And importantly, they will be understandable to the reader. If an appraiser were to attempt to base a current value opinion on her opinions regarding future market conditions, the description of her assumptions will necessarily be confusing to the reader. To begin with, she will have to defend herself against the

Q. Just to be safe, I always cite *exposure time* and *marketing time* together in every report. Does this practice conform to the USPAP?

A. No. The USPAP advises against confusing these two terms. One of the definitions of the word “confusing” is “mixing together”. You might not mistake the one for the other, but if you mix them together, many of your readers will. This causes confusion and diminishes trust.

Q. As I understand it, the difference between *exposure time* and *marketing time* is that *exposure time* precedes the effective date of valuation, whereas *marketing time* follows the effective date evaluation. Is that right?

A. You have described only one aspect of the difference between these two concepts, and you have not addressed some important considerations:

If the appraiser knows how long the comparable properties were exposed in the market [their *exposure times*], she can develop and describe a cogent argument in support of the opinion of the *exposure time* that is the basis of her market value opinion.

In contrast, opinions of *marketing time* are speculative: Most opinions of *marketing time* are based on the *extraordinary assumption* that market conditions will not change during the course of the *marketing time*. In every case, some *extraordinary assumption* regarding [future] market conditions has to be made if *marketing time* is reported.

These *extraordinary assumptions*, even if unspoken, diminish the confidence of the reader: Instead of a simple opinion of the present value, the reader is given an “if...then” opinion of value. Your reader is liable to be disappointed, and possibly confused. For example, doesn't a [hypothetical] sale take place at the end of the *marketing time*? If it does, why is the effective date at the beginning of the *marketing time*? Does that sale at the end of the *marketing time* have an *exposure time* preceding it? What if new market

data comes to light during the *marketing time*? Can the value opinion change during the *marketing time*? This sort of confusion diminishes trust.

Q. What about prospective value opinions? Is it possible to base a prospective value opinion on an opinion of exposure time?

A. The USPAP requirement to cite *exposure time* applies to opinions of prospective value as well as any other.

Your estimate of exposure time will be only one of the *extraordinary assumptions* you will be forced to make once you elect to report a prospective value opinion.

The language of the USPAP reflects a strong prejudice against the reporting of prospective value opinions: Whenever you name an opinion of prospective value, the USPAP requires that you tell the reader that you *cannot be held responsible for market conditions that may change after you complete your report* [but before the effective date of your value opinion.]

In short, you are required by the USPAP to warn the reader that the reliability of your value opinion is degraded by conjecture (*extraordinary assumptions*) regarding future market conditions.

Q. What would happen if I were to base my value opinion on my opinion of *marketing time*?

A. If a present opinion of value were to be based on an opinion of *marketing time*, in the minds of some readers, the presumed sale at the end of the *marketing time* would reflect a *prospective value opinion*.

Even if you believe you can conjure up a sound argument to dismiss this problem, (such as: “It is the *market’s present perception* of *marketing time*, not the appraiser’s opinion of *marketing time*, that is the basis of the value opinion...”), the perception that a value in the future (a prospective value) has been named will arise perennially in the minds of many readers, leading to confusion. This diminishes trust.

A far safer course: Base your value opinions on your opinion of *exposure time*, an opinion based on market data, and therefore an opinion for which you can muster an argument and a defense. The USPAP already requires you to do this.

Q. Does the USPAP require appraisers to explain all this to your reader?

A. No. The USPAP requires only that you do the following:

Link (read: predicate) your opinion of market value (on) to your opinion of exposure time. Standards Rule 1-2(b)

And;

Advisory Opinion 7 suggests that in order to keep from confusing the reader, the appraiser should refrain from citing marketing time in the course of the argument leading to any conclusion of market value.

Advisory Opinion 7

Q. So are you saying the USPAP is already clear regarding the subject of *exposure time*?

A. Not quite. Although the USPAP is consistent in its treatment of the subjects of *exposure time* and *marketing time*, appraisers remain confused about this important subject.

Q. If I complete a URAR form, have I met the USPAP requirement to cite *exposure time* ?

A. Because FNMA and FHLMC wanted to be sure every appraisal complies with the USPAP with regard to this issue, these agencies arranged for each appraisal to comply by equating the (mis-labeled) “marketing time” checkbox in the neighborhood description with the appraiser’s opinion of *exposure time* that is the basis of the opinion of the value of the subject property. I am not making this up. Read the fine print in form 439. An entire generation of appraisers has grown up using this form, which confuses the terms “marketing time” and “exposure time” and requires no appraiser participation in the naming of the appraiser’s own opinion of *exposure time*.

Q. Can you show me an example of a citation of *exposure time* that is consistent with USPAP language and concepts?

A. Sure. Here it is:

*Based on the analysis presented above, it is my opinion the market value of the fee simple interest in the property that is the subject of this report, **predicated on an estimated exposure time of three to six months,** on January 1, 2008, was \$1,000,000.*

Q. What about “relocation” appraisals. My clients ask me for “60-day” value opinions. They want to know the value of the property assuming a “marketing time” of 60 days following the date I inspect the property.

A. Under the Scope of Work Rule of the USPAP, an appraiser can comply with their request in two different ways:

An appraiser can develop a value opinion bearing a *current effective date* but based on an opinion of “marketing time” [in the future], but by definition this is not an opinion of *market value* as this term is defined in federal banking regulations. This approach is disorienting for appraisers who are used to working with the federal definition of market value. In this case, a different definition of value must be substituted for the concept of *market value*.

Alternatively, an appraiser can develop an opinion of prospective value. The USPAP’S distrust of all *opinions of prospective value* is reflected by this USPAP requirement to repudiate responsibility for all opinions of prospective value. The FIRREA’s antipathy toward all *opinions of prospective value* is reflected by the requirement to base all *opinions of market value* on *exposure time* in the past rather than on (necessarily speculative) *opinions of marketing time* in the future.

The development of relocation appraisals is a demanding and interesting area of specialization. The first thing a relocation appraiser needs to determine is whether her client has asked her for a *prospective value opinion* or for a *current value opinion*. If her client is interested in a *prospective market value opinion*, the appraiser and her reader must then assume the risk that market conditions may change during the *exposure period* preceding the effective anticipated date of sale in the future. If she has been asked to develop an opinion of *market value*, an opinion of *marketing time* has no place in her analysis.

Alternatively, if a relocation client asks an appraiser for a *present opinion of market value*, by definition that opinion must be based on her opinion regarding *exposure time* in the past rather than on any anticipated *marketing time* in the future.

However, If she is asked to do so, there is nothing in the USPAP that prevents an appraiser from telling her client how long [in the future] she believes it might take to sell the property. However, if she ties that opinion of anticipated *marketing time* to her present value opinion, her value opinion is, by definition, no longer an opinion of *market value*.

TEN MULTIPLE-CHOICE QUESTIONS:

- 1. Does the USPAP require the *development* of an opinion of exposure time when an opinion of market value is developed?**
 - A. Yes - So the reader will no how long it will take to sell the property.
 - B. Yes - So the reader will know how long it would have taken to sell the property at market value.
 - C. Yes - So that the appraiser will focus her attention on the time period in which the property would have been offered for sale.
 - D. No - The reporting of exposure time is a FIRREA requirement, not a USPAP requirement.

- 2. Does the USPAP require the appraiser to report an opinion of *exposure time* to the reader?**
 - A. Yes - So the reader will know how long it will take to sell the property.
 - B. Yes - So the reader will know how long it would have taken to sell the property at market value.
 - C. No.
 - D. No - The reporting of exposure time is a FIRREA requirement, not a USPAP requirement.

- 3. Does the USPAP require the appraiser to report an opinion of *marketing time* to the reader?**
 - A. Yes - So the reader will no how long it will take to sell the property.
 - B. Yes - So the reader will know how long it would have taken to sell the property at market value.
 - C. No - There is no USPAP or FIRREA requirement to report marketing time.
 - D. No - The reporting of marketing time is a FIRREA requirement, not a USPAP requirement.

4. **An appraiser has been asked to appraise a proposed dwelling. The report contains opinions of the market value of the property “as is” and at the completion of construction. What opinions of exposure time or marketing time are required to be developed?**
- A. Two –Only the marketing time at the completion of construction.
 - B. One – Only The exposure time of the property in its “as is” condition.
 - C. Two – The exposure time upon which each of the two opinions of value is based.
 - D. Two – The exposure time upon which each the “as-is” value is based, and the marketing time of the value in the future.
5. **I always show my opinions of both *exposure time* and *marketing time* together in my summary of salient facts. Does this practice meet the requirements of the USPAP?**
- A. Yes, you have met all regulatory requirements.
 - B. Yes. You do not have to report anything about this subject.
 - C. No, by mixing these two together you are likely confusing your reader.
 - D. Maybe. If you make sure the reader understands your opinion of marketing time has nothing to do with you value opinion, you have met USPAP requirements.
6. **Does the USPAP advise against the discussion of marketing time in the course of the argument leading to a conclusion of market value?**
- A. Yes, but in a non-binding Advisory Opinion.
 - B. Yes, in Statement 6 of the 2008 USPAP. Statements are binding requirement.
 - C. No. The USPAP is silent on this issue.
 - D. No. The admonition against discussing marketing time appears in FIRREA Rules.
7. **What about prospective value opinions? Is it possible to base a prospective market value opinion on an opinion of *marketing time* in the future?**
- A. Yes, of course. Your value opinion is already in the future.
 - B. Yes, but only if disclosed as required in FIRREA.
 - C. No. Opinions of market value, by definition, are based on opinions of exposure time.
 - D. No. Exposure time does not apply to values in the future, due to lack of data.

8. What about relocation appraisals. My client has asked me for a value opinion based on a “60-day marketing time”. Do I need to report *exposure time*?

- A. No. The USPAP does not apply to relocation appraisals.
- B. Yes, but only if disclosed as required in FIRREA.
- C. No. Opinions of value based on marketing time in the future are by definition not opinions of market value.
- D. No. Exposure time does not apply to market values in the future, due to lack of data.

9. If I use a URAR form to report an appraisal, do I have to develop an opinion of *exposure time* ?

- A. No. If you use a preprinted form, it is not your responsibility.
- B. No. The estimate of exposure time is already printed on the form.
- C. Yes. Each time an appraiser develops an opinion of market value, she must develop an opinion of the exposure time that is the basis of that value opinion.
- D. No, because the limiting conditions form that is part of the URAR appraisal form already states that the author’s estimate of neighborhood’s typical *marketing time* is already assumed to be equal to the author’s estimate of the subject’s *exposure time*.

10. What does the USPAP require and advise with respect to time estimates?

- A. The USPAP requires the development of an opinion of *exposure time* for each opinion of market value named.
- B. The USPAP advises no discussion of *marketing time* be included in the course of the development of an opinion of market value.
- C. The USPAP requires the development of an opinion of *marketing time* in each report prepare for a federally insured depository institution.
- D. Both A and B.

TEN MULTIPLE-CHOICE QUESTIONS:

1. **Does the USPAP require the *development* of an opinion of exposure time when an opinion of market value is developed?**

- A. Yes - So the reader will no how long it will take to sell the property.
- B. Yes - So the reader will know how long it would have taken to sell the property at market value.
- C. Yes - So that the appraiser will focus her attention on the time period in which the property would have been offered for sale.**
- D. No - The reporting of exposure time is a FIRREA requirement, not a USPAP requirement.

2. **Does the USPAP require the appraiser to report an opinion of *exposure time* to the reader?**

- A. Yes - So the reader will know how long it will take to sell the property.
- B. Yes - So the reader will know how long it would have taken to sell the property at market value.
- C. No.**
- D. No - The reporting of exposure time is a FIRREA requirement, not a USPAP requirement.

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5. I always show my opinions of both *exposure time* and *marketing time* together in my summary of salient facts. Does this practice meet the requirements of the USPAP?
- A. Yes, you have met all regulatory requirements.
 - B. Yes. You do not have to report anything about this subject.
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- A. Yes, of course. Your value opinion is already in the future.
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 - C. **No. Opinions of market value, by definition, are based on opinions of exposure time.**
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- C. Yes. Each time an appraiser develops an opinion of market value, she must develop an opinion of the exposure time that is the basis of that value opinion.**
- D. No, because the limiting conditions form that is part of the URAR appraisal form already states that the author’s estimate of neighborhood’s typical *marketing time* is already assumed to be equal to the author’s estimate of the subject’s *exposure time*.

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- C. The USPAP requires the development of an opinion of *marketing time* in each report prepare for a federally insured depository institution.
- D. Both A and B**

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John W. Hibbard is a Certified General Appraiser licensed by the State of California. Mr. Hibbard is the Senior Appraiser at The Meridian Valuation Group, a company that he established 22 years ago in San Jose, California.

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