

Repairs

Repairs are needed to maintain the building in a usable condition. To estimate repair costs use last year's repair bill and adjust it for any expected repair needs during the coming year. As an alternative, use a rate of 4 percent of the replacement value (not current value).

Utilities

Utilities are usually paid by the renter.

Table 1. What are the owner's costs?

	Item	Total Cost	Cash Cost
Current building value			
Replacement cost:	\$235,000		
Total useful life (years):	20		
Age (years):	7		
Remaining life (total life - age):	13		
Remaining percentage (remaining life / total life):	65%		
Current value (replacement cost x remaining percentage):	\$152,750		
Annual ownership costs (based on current value):			
Depreciation	7.7%	\$11,762	—
Return on investment	6.0%	9,165	—
Taxes & insurance	1.5%	2,291	2,291
Total ownership		\$23,218	\$2,291
Annual operating costs (if paid by owner) (based on replacement costs):			
Repairs	4%	\$9,400	\$9,400
Total operating		\$9,400	\$9,400
Total costs:			
Total building costs		\$32,618	\$11,691
Pigs finished per year *		3,018	3,018
Cost per pig finished		\$10.81	\$3.87

* 1,100 head capacity x 2.8 turns x .98 (2% death loss)

Calculating rent

An example of calculating the cost of owning a hog finishing building is shown in Table 1. The building is a 1,100 head swine finishing building that is seven years old and has a replacement cost of \$235,000.

The building owner would like to cover all ownership costs plus generate a profit. In the example, a rental rate of \$32,618 (\$10.81 per pig) will cover ownership costs and a rental rate above this will generate profit.

At a minimum, the owner wants to cover cash or out-of-pocket expenditures. This would consist of taxes, insurance and repairs. In the example, this is a rental rate of \$11,691 (\$3.87 per pig). If the owner will not receive enough rental income to cover cash expenditures, he/she should consider demolishing the building.

Table 2. How much can the renter afford?

Projected income	Per Head
Market hog (260 lb. x \$60 x .98) *	\$152.88
Projected expenses (less building ownership)	
Feeder pig (50 lb.)	\$60.00
Interest on feeder pig (4 mo. @ 7%)	1.40
Feed	61.00
Veterinary and medical	4.00
Marketing and miscellaneous	4.00
Other	6.00
Interest on feed and other costs (2 mo. @ 7%)	1.30
Labor (\$14.00 per hr.)	2.80
Fixed costs of machinery ownership	4.00
Total	\$144.50
Residual left for rent (per pig)	\$8.38
Pigs finished per year **	3,018
Residual left for rent (building)	\$25,291

* Assumes 2 percent death loss.

** 1,100 head capacity x 2.8 turns x .98 (2% death loss)

Tenant's residual

Another method is to calculate how much income the tenant has available for rent payments after subtracting the tenant's costs associated with raising the livestock. By subtracting all costs except the cost of the building from the projected income, the renter knows the maximum rent that can be paid to break-even.

The costs should include labor and fixed costs on machinery and other buildings. Machinery fixed costs include depreciation, return on investment, housing, and insurance.

At a minimum, the renter wants to break-even by covering all costs. If the rent is too high, the renter still could decide to rent it and receive less for labor or not completely cover other fixed costs. This may generate cash in the short-term but would not be profitable in the long-term.

An example of estimating how much rent the tenant can afford to pay is shown in Table 2. The same 1,100 head finishing building is used.

What other factors should be considered?

There are several other factors that influence building rental rates. Livestock facilities differ in many respects.

Size - Prospective tenants want facilities that are the right size for their livestock production process. If the building is too small, the renter must find additional facilities somewhere else. If the building is too large, the facilities may be underutilized.

Obsolescence - Many older livestock facilities represent outdated technology that may increase operating costs or reduce livestock performance.

Condition - Damaged insulation or drafts affect livestock performance and increase utility costs.

Needs - Does the livestock building fit the renter's needs? A large open-front pole building may be more desirable for swine gestation than for finishing.

Location - If several farmers want to rent the building, the rent may be higher than if only one farmer wants to rent the building. Also, the distance from the renter's headquarters is also important since travel involves additional cost and time.

Conclusion

Both parties should be prepared when negotiating rents. Building owners should have a clear understanding of their costs and prospective renters should have production records that will allow them to compute their income potential under various rental rates to determine how much they can afford to pay.

. . . and justice for all

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