

How is the elevator compensated for managing the grain?

Typically there is a per bushel management fee levied against the capacity owned by each farmer. In nearly all cases, it is levied whether or not that capacity is filled.

Management fees are usually filed with warehousing authorities as “special tariffs.” Annual fees usually cover an “in and out” charge, quality assurance, insurance, taxes and other such expenses. These fees are sometimes pegged as a percent of normal storage tariff and usually fall in the range of 5 to 10 cents per bushel.

What if the farmer doesn’t need the storage in any given year?

In most cases the elevator will lease back the condo storage if it needs added storage capacity. Under these provisions, the farmer may lease the storage capacity back to the elevator at an agreed upon rate. However, if the farmer wishes, he or she may lease it to another farmer (subject to approval of the elevator) at any rate he or she may negotiate.

Who pays the management fee in this case?

The farmer is ultimately responsible for the management fee, regardless of whether or not the storage is subleased. The farmer may, however, price the storage to be subleased so that the fee is included in the lease price. Alternatively, the farmer may explicitly negotiate for payment of the fee directly from the lessee to the elevator if all three parties agree.

What is different about condo facilities?

Condo storage is similar to on-farm storage. The farmer decides how much storage will be built and is willing to make a financial commitment to it. Like on-farm storage, the farmer will incur fixed costs whether or not it is filled. Likewise, the farmer has assured access to the storage and may refill it later in the season with another crop.

Storage is less likely to be overbuilt when farmers decide how much storage they are willing to use

and finance. In the past, elevators have sometimes added storage at the same time farmers were adding on-farm storage resulting in excess storage capacity. Under condominium programs, the elevator no longer assumes the financial risk of unintentionally creating excess capacity.

Why would farmers want to purchase condo storage?

The condominium approach offers a number of advantages to farmers. Condo storage is more marketable and, in many cases, lower cost than on-farm storage. Producers can eliminate quality risk and management problems associated with grain storage.

For landlords or tenants who do not wish to make investments in added on-farm storage, condo storage offers a viable alternative that many farmers believe is valuable. The ability to sublease provides some protection for tenants who could lose some of their acres. Landlords who may wish to consider cash leases in the future also benefit from the added flexibility to sublease if the capacity is no longer needed.

It is possible to handle the grain one less time if grain can be delivered to the elevator location in the fall rather than binned on the farm and moved to the elevator later in the year. This not only helps reduce handling and trucking costs later in the year, it can also reduce the time required to fill bins, dry, and manage the flow of grain at harvest time. Finally, the grain is already in position for marketing when strong bid opportunities occur, even if roads are not suitable for hauling or spring work makes hauling inconvenient.

Condo advantages for farmers:

- Space is owned and controlled by farmers
- Quality is guaranteed by elevator
- Renters can have storage without building on someone else’s property
- Units may be temporarily subleased or sold if they are not needed

- Double handling, dual bins, and trucking costs can sometimes be eliminated for grain that is normally stored on-farm and hauled to the elevator later in the year
- Grain is in position for sale when road conditions are bad or during busy seasons when trucking to the elevator is not convenient

Why would elevators want to offer a condo storage program?

Condo storage permits elevators to provide merchandising and management services to customers with less capital and leverage on its balance sheet. Grain quality tends to be better because it does not need to be handled as much. This reduces broken corn, foreign material, and other deadweight costs.

Furthermore the elevator is not in a position of building storage without the customer having a commitment to use it. While grain does not have to be merchandised through the elevator, the fact that it is on site makes it more likely to be sold there.

Finally the fact that the grain is stored on site makes it possible for the elevator to provide good bid opportunities to its customers at times when farmers may not want to haul the grain to the elevator. Grain is in position for sale even if road conditions or planting activities make trucking grain to the elevator unattractive to farmers.

Condo advantages for elevators:

- Merchandising and management can be provided without as much capital investment
 - Grain quality may be better because the number of handlings is reduced
 - Needed customer storage can be provided without creating duplicate bins and excess capacity
 - Storage has a customer commitment behind it
 - Grain is more likely to be merchandised through the elevator
 - Customers can take advantage of market opportunities for higher bids even when they may find it hard to deliver because roads are bad or spring planting makes delivery inconvenient.
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