Significant expansions in grain storage are being considered this year as a result of increased corn plantings. One of the less common alternatives farmers may want to consider is condominium (condo) storage. This option has been available for sometime, but with recent increases in storage demand it can be a good option for producers who want to own the right to store their crop, but don’t want to build new on-farm storage facilities or monitor grain quality themselves.

**Types of condo storage**

Condo storage may be structured in several different ways, depending on the preferences of the farmers and the elevator. The storage can be owned by a limited liability company (LLC) formed by the farmers. Alternatively, the storage can be built and owned by the elevator and leased back to the farmers for a specified period.

**Limited Liability Company**

Most of the condo storage built in the past several years has employed a farmer-owned LLC. The farmers buy shares in the limited liability company and receive rights to store in proportion to the amount of capital they provide to the LLC. The storage structure itself is owned by the LLC rather than individual farmers.

The LLC then depreciates the structure and passes the depreciation back to the farmers in proportion to their ownership. There is typically a board of directors elected to govern the LLC and make decisions concerning the assets it holds. The cooperative manages the operation of the facility and assumes the responsibility for grain quality and condition.

There is sometimes a limited time horizon for the life of the condo project. In other cases the life of the project is not specified and extends until the LLC board wishes to terminate it. For example, the LLC board may elect to disband at the point when the facility needs major repairs or added investment. Members of the LLC may sublet their capacity, but the election to sublet can be made only once a year and there is typically a September 1 deadline that coincides with the beginning of a new crop year.

**Long-term leasing**

A less commonly used condominium alternative is a long-term leasing program. Under this program the elevator assumes responsibility for construction, and the farmer signs a long-term agreement (for example, ten to fifteen years) to get guaranteed storage space at the elevator. A lease charge sufficient to re-capture construction costs in 4 to 6 years is levied. In years after the construction cost is paid, the farmer may store grain and pay only the management fee. After the specified period has expired control of the storage space will revert back to the elevator owner. The elevator takes the depreciation on the facility. This kind of arrangement was more common prior to an IRS ruling stating that the farmer could no longer deduct the lease cost as an expense. It may be attractive to elevators where the owner prefers to have title to all storage structures on the property.

In both types of arrangements the elevator manages the inventory for the producer, and guarantees grade and quality factors in the same way it guarantees these factors for stored grain. In most cases, the elevator also merchandises the grain when it is sold. However, there are nearly always provisions for the producer to remove the grain for a modest charge to cover costs of handling, usually called an “out charge”. Due to the fact that grain is commingled, it is essential for the management agreement to clearly specify grade standards for grain going into storage and coming out of storage.
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.