



## Common Questions

### **Q: How is the elevator compensated for managing the grain?**

A: 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. In the typical case, management fees are filed with warehousing authorities as “special tariffs” and annual fees cover an “in and out” charge, quality assurance, insurance, taxes and other related expenses. These fees are often pegged as a percent of normal storage tariff and fall in the range of 5 to 10 cents per bushel.

### **Q: What if the farmer doesn't need the storage in any given year?**

A: In most cases the elevator will lease back the condo storage if it needs storage capacity for its owned grain. Under these provisions, the farmer may lease the storage capacity back to the elevator at an agreed upon rate. However, if the farmer wishes, they may lease it to another farmer (subject to approval of the elevator) at any rate.

### **Q: Who pays the management fee in this case?**

A: The farmer is ultimately responsible for the management fee, regardless of whether 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 parties agree.

### **Q: What makes condo storage alternatives unique from on-farm storage?**

A: Condo storage is similar to on-farm storage in many ways. A farmer decides how much storage is needed and the ability to make a financial commitment. 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.

Different from on-farm storage, condo storage addresses the likelihood of excess capacity in the system. In periods of high demand for grain storage, elevators added storage at the same time

farmers built on-farm storage, resulting in excess storage capacity in the system. Elevators were at greater risk of under utilizing their assets, which is costly. Under condominium programs, the elevator no longer assumes the financial risk of unintentionally creating excess capacity.

### **Q: Why would a farmer choose to purchase or lease condo storage?**

A: 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. Also, with condo arrangements, producers can eliminate grain quality management risks they otherwise face storing grain on-farm.

For landlords or tenants who do not wish to make investments in added on-farm storage, condo storage offers a viable and economic alternative. Because their storage can be subleased, tenants who risk losing leased acres and the need for additional storage are protected. Also, landlords who may want to cash rent their land benefit from the added flexibility to sublease if they no longer need the storage capacity.

Finally, condo storage at a grain marketing elevator means less grain handling. The grain can be delivered to the condo storage at the elevator in the fall rather than placed in storage 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 and help maintain grain quality. The grain is also then in position for marketing when strong bid opportunities are present, even if roads are not suitable for hauling or spring work makes hauling inconvenient.

### **Q: Why would an elevator offer a condo storage program?**

A: Condo storage programs allow elevators to provide merchandising and management services to customers with less capital and leverage on its own balance sheet. Elevators do not want to invest in assets without customer commitments to utilize them, and condo storage mitigates this risk. 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.

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. 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.

### Summary

Condominium storage arrangements offer a number of advantages to producers and elevators compared to building on-farm storage or warehouse storage.

#### Condo advantages for farmers:

- **Flexibility:** Units may be temporarily subleased or sold if they are not needed
- **Quality:** Quality is guaranteed by the elevator
- **Control:** Space is owned and controlled by farmers
- **Risk:** Land renters can access storage without building on someone else's property
- **Costs:** Double handling, dual elevation, and trucking costs can sometimes be eliminated for grain that is normally stored on-farm and hauled to the elevator later in the year
- **Marketing:** Grain is in position for sale to capture favorable bids, when road conditions are bad, and during busy seasons when moving grain to the elevator is not convenient

#### Condo advantages for elevators:

- **Flexibility:** Can respond to storage demand without building excess capacity
- **Quality:** Grain quality may be improved due to reduced handling of grain
- **Control:** Grain is more likely to be merchandised through the elevator
- **Risk:** Storage has a customer commitment
- **Costs:** Merchandising and management of grain is provided with a lower capital investment compared with elevator-owned storage
- **Marketing:** Elevators benefit when their customers take advantage of market opportunities for higher bids even when farm deliveries are inconvenient or impossible