Producers in need of grain storage typically choose between warehouse (receipt) storage and investing in on-farm storage. A less commonly utilized option is condominium (condo) storage. The condo storage option was made more popular in the 1980s when high demand for grain storage outpaced existing storage assets on the farm and at elevators. Most commonly, condo arrangements are developed by grain marketing cooperatives to meet their members’ storage needs while at the same time allowing members flexibility in the timing of marketing crops. But condo storage arrangements can arise through a number of mechanisms, including private investments. Condo storage investment and use is cyclical: periodic market incentives to store grain lead to an increase in storage demand, and as other commercial storage alternatives tighten, producers look to condo storage options for the right to store their crop without building new on-farm storage. Importantly, condo storage includes grain quality management services. This article describes common condo storage arrangements, benefits to producers and elevators, and answers commonly asked questions about condominium storage arrangements.

Condo Storage through Limited Liability Company Formation

Condo storage may be structured in a number of ways depending on the preferences of the farmers and the elevator they work with, if any. The most common arrangement is storage that is owned by a limited liability company (LLC) formed by the farmers. In the LLC arrangement the producers’ grain inventories are managed by the involved elevator company or provisions are made for such; guarantees are made for grade and quality factors in the same fashion as for warehoused grain. In most cases, the managing elevator company merchandises the grain when the farmer chooses to sell. However, there are typically provisions for the producer to remove the grain for a modest charge – an “out charge” – to cover handling costs. Because grain in condo storage is commingled, it is incumbent upon the management agreement to clearly specify grade standards for grain going into and coming out of storage.

Most of the condo storage built around 2005 happened through farmer-owned LLCs. In the LLC case, farmers buy shares in the LLC that convey rights to store grain in proportion to the amount of capital they provide to the LLC. The monies raised through the share purchases effectively constitute the capital used to build the storage. The storage structure itself is owned by the LLC rather than individual farmers.

The LLC operates the storage assets at cost less depreciation. The assets are depreciated over time, and the depreciation is passed to the farmers in proportion to their ownership. The result is an annual net loss recorded by the LLC that is passed through to the investors (farmers). There is typically a board of directors elected to govern the LLC and make decisions concerning the assets it holds. The elevator 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 terminates 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.
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, s/he may lease it to another farmer (subject to approval of the elevator) at any rate s/he is able to negotiate.

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 therefore the need for 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 with building on-farm storage or warehouse storage.

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<thead>
<tr>
<th>Condo advantages for farmers:</th>
<th>Condo advantages for elevators:</th>
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<tbody>
<tr>
<td>• Flexibility: Units may be temporarily subleased or sold if they are not needed</td>
<td>• Flexibility: Can respond to storage demand without building excess capacity</td>
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<td>• Quality: Quality is guaranteed by the elevator</td>
<td>• Quality: Grain quality may be improved due to reduced handling of grain</td>
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<td>• Control: Space is owned and controlled by farmers</td>
<td>• Control: Grain is more likely to be merchandised through the elevator</td>
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<td>• Risk: Land renters can access storage without building on someone else’s property</td>
<td>• Risk: Storage has a customer commitment</td>
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<td>• 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</td>
<td>• Costs: Merchandising and management of grain is provided with a lower capital investment compared with elevator-owned storage</td>
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<td>• 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</td>
<td>• Marketing: Elevators benefit when their customers take advantage of market opportunities for higher bids even when farm deliveries are inconvenient or impossible</td>
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