

Cornhusker Economics

Cooperative Extension

Institute of Agriculture & Natural Resources
Department of Agricultural Economics
University of Nebraska – Lincoln

Renting Grain Storage Facilities

Market Report	Yr Ago	4 Wks Ago	9/29/00
<u>Livestock and Products,</u>			
<u>Average Prices for Week Ending</u>			
Slaughter Steers, Ch. 204, 1100-1300 lb Omaha, cwt	\$66.25	\$64.52	\$65.92
Feeder Steers, Med. Frame, 600-650 lb Dodge City, KS, cwt	83.00	91.25	85.72
Feeder Steers, Med. Frame 600-650 lb, Nebraska Auction Wght. Avg	87.73	99.61	97.67
Carcass Price, Ch. 1-3, 550-700 lb Cent. US, Equiv. Index Value, cwt	104.24	99.42	102.16
Hogs, US 1-2, 220-230 lb Sioux Falls, SD, cwt	35.25	41.00	45.25
Feeder Pigs, US 1-2, 40-45 lb Sioux Falls, SD, hd	23.24	*	*
Vacuum Packed Pork Loins, Wholesale, 13-19 lb, 1/4" Trim, Cent. US, cwt	107.90	118.06	118.55
Slaughter Lambs, Ch. & Pr., 115-125 lb Sioux Falls, SD, cwt	68.93	72.75	68.80
Carcass Lambs, Ch. & Pr., 1-4, 55-65 lb FOB Midwest, cwt	161.00	168.00	158.00
<u>Crops,</u>			
<u>Cash Truck Prices for Date Shown</u>			
Wheat, No. 1, H.W. Omaha, bu	2.79	2.95	3.13
Corn, No. 2, Yellow Omaha, bu	1.64	1.53	1.63
Soybeans, No. 1, Yellow Omaha, bu	4.36	4.71	4.57
Grain Sorghum, No. 2, Yellow Kansas City, cwt	2.73	2.83	2.93
Oats, No. 2, Heavy Sioux City, IA, bu	1.12	1.18	1.15
<u>Hay,</u>			
<u>First Day of Week Pile Prices</u>			
Alfalfa, Sm. Square, RFV 150 or better Platte Valley, ton	92.50	107.50	120.00
Alfalfa, Lg. Round, Good Northeast Nebraska, ton	32.50	67.50	75.00
Prairie, Sm. Square, Good Northeast Nebraska, ton	*	82.50	82.50
* No market.			

Renting a grain bin from a neighbor may be the answer to a producer's grain storage needs. Retired farmers, those who have excess storage capacity, and those who have scaled back their operations may want to generate some income from renting out their bins. In most cases the parties involved want to know, "What is a fair rental rate?"

Several factors influence the determination of a rental rate. These are:

- Location of the bin
- Size of the bin
- Condition of the bin
- Ease of filling and unloading
- Whether it has aeration equipment
- Who pays for the utilities
- Who pays for the repairs
- Supply and demand

The final rate that is agreed upon will be the result of negotiations between the bin owner and the prospective tenant. The rate will reflect the above factors and the relative bargaining power of each party.

Each party needs to do their homework and consider their alternatives. This will help the bin owner determine the minimum rental rate that he/she can accept. Likewise, the prospective tenant needs to determine the maximum rate that he/she can afford to pay for that owner's bin. This will establish a bargaining range.

The Bin Owner

The bin owner's alternatives are to rent the bin to this prospective tenant, rent it to someone else or to let it sit empty. The owner needs to know his or her costs. The annual fixed costs (depreciation, interest, repairs, taxes and insurance) on a new bin costing \$1.30 per bushel of capacity will be about 18 cents/bu/year. Electricity for



aeration, repairs to equipment and management of stored grain will each cost approximately one cent/bu/year. If the owner furnishes any of these, the rental rate should be increased accordingly.

If the bin is paid for and depreciated out, the owner can afford to rent it for less than 18 cents per bushel. Also, if the bin is in a poor location, does not have unloading equipment, etc. the owner should not expect a rate comparable to that of a new bin. But, if the owner is not compensated for out of pocket costs and the possible inconvenience involved in renting the bin out, he/she would be better off to leave it empty.

The Prospective Tenant

The tenant's alternatives include selling grain at harvest, putting it in commercial storage, finding another bin to rent or constructing some type of temporary storage. Two key factors for the tenant's consideration are the length of the storage period and the use of the grain. If the grain is to be fed sometime during the next year, there may be an advantage to renting a bin close to the livestock operation. If the grain is to be sold at a specific elevator, and the storage period is only 3-4 months, storing it at that elevator may be the best alternative. Storage losses should be considered. Commercial storage assures the quantity and quality of the grain, while temporary storage may result in significant losses.

Determining A Rental Rate

If a tenant's alternative is to store grain for 3-4 months in commercial storage at 10 cents per bushel, and the bin owner feels that their cost is 15 cents per bushel, then the bargaining range is from 10 to 15 cents per bushel. The factors listed above, which affect the bargaining power of each party, will influence the final rate.

Survey data on bin rental rates is scarce. A 1991 Nebraska survey indicated an average rental rate for round bins of 11 cents/bu/year, with a range of 6 to 21. The rate for bins with equipment averaged 13 cents/bu/year, ranging from 8 to 24. An Iowa survey showed a range of 9 to 18 cents/bu/year.

It is advisable to state the final rental rate in terms of dollars per year for the bin. For example, if the parties agree on 12 cents/bu, and the bin capacity is 5,000 bu, the rent would be stated as \$600 per year for the bin. If the rental rate is stated in terms of cents per bushel per month, the tenant's grain may not be eligible for a government loan. If a producer plans to get a government loan on grain in a rented bin, it would be best to review the rental agreement with the local Farm Service Agency office.

Points to Consider

There are a number of items that need to be discussed when renting a bin. These need to be agreed upon, and the agreement should be written.

- Where is the bin? (Legal description and location).
- What is the time period? (In & out dates or term of lease).
- Who is responsible for checking the grain?
- Who is liable if the grain goes out of condition?
- Who is responsible for insurance? (Grain and building need to be insured separately by their respective owners).
- Are there restrictions on when the fans may be run?
- Is the facility accessible by large grain wagons or semi-trucks?
- Who provides augers for filling and unloading?
- Who is responsible for maintenance of the equipment?
- Who is responsible for rodent control?
- Who pays the utility and energy expenses?
- What are the conditions the bin and surrounding area need to be left in?
- What are the penalties if the grain is not removed by the termination date?
- What is the amount of the rental payment (or formula for calculating)?
- How will the payment be made? (Part in advance - final at termination)?

Renting a grain bin from a private individual can be beneficial to both parties involved. It is important that the parties trust each other, and arrive at mutually agreeable terms. Putting the agreement in writing will insure that the responsibilities, payment, etc., are understood by both parties.

Larry Bitney, (402) 472-2047
Extension Farm Management Specialist

Wade Nutzman, (402) 472-5740
Extension Farm Management Assistant