



Is a flex lease for you?

IF YOU'RE ABOUT TO RENEGOTIATE WITH LANDOWNERS AND WANT TO MINIMIZE CASH OUTFLOW FOR RENT IN POOR INCOME YEARS, CONSIDER A FLEXIBLE CASH LEASE AS ONE OPTION

Ten of Mike Brelsford's 25 landowners expressed interest in a flexible cash lease going into the 2008 cropping season. That was enough for Brelsford to make the leap into a business arrangement he had never tried before.

In theory, a flexible lease is appealing, especially in times of extreme volatility. Landowners get more income in good years, and operators pay less rent in poor income years. And because risks are higher in farming today, a flex lease may be the best solution in many landlord-tenant agreements.

But theory isn't always enough to provoke real change. As discussions progressed, nine of those 10 landowners backed off, choosing to stay with cash leases at fixed rates. Some feared they wouldn't get enough in return for what they were giving up; others viewed the calculations as too cumbersome.

"I'll be able to provide a better assessment on how the one flexible cash lease is working out when we've settled up after harvest," says Brelsford, of Perry, Iowa.

NUMEROUS TYPES

Owners and operators can set up flexible leases in several ways. Some flexible cash leases provide for the landowner to get a fixed percentage of the crop. Others provide for a base cash rent with some sort of rent escalator or bonus. The rent would rise if yield or price tops a preset level. Some flexible leases vary the rent with both yield and price.

If you're about