

ONE LIBERTY PROPERTIES INC
Form 10-K
March 13, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
ANNUAL REPORT
PURSUANT TO SECTIONS 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

☒ Annual Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2008

Or

☐ Transition Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Commission File Number 001-09279

ONE LIBERTY PROPERTIES, INC.
(Exact name of registrant as specified in its charter)

MARYLAND
(State or other jurisdiction of
incorporation or organization)

13-3147497
(I.R.S. employer
identification number)

60 Cutter Mill Road, Great Neck, New York
(Address of principal executive offices)

11021
(Zip Code)

Registrant's telephone number, including area code: (516) 466-3100

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of exchange on which registered
Common Stock, par value \$1.00 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

NONE

Indicate by check mark if the registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☒

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a small reporting company. See definitions of "large accelerated filer," "accelerated filer," and "small reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐

Small reporting company ☐

(Do not check if a small reporting company)

Indicate by check mark whether registrant is a shell company (defined in Rule 12b-2 of the Exchange Act).
Yes ☐ No ☒

As of June 30, 2008 (the last business day of the registrant's most recently completed second quarter), the aggregate market value of all common equity held by non-affiliates of the registrant, computed by reference to the price at which common equity was last sold on said date, was approximately \$129.4 million.

As of March 10, 2009, the registrant had 10,156,212 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement for the 2009 annual meeting of stockholders of One Liberty Properties, Inc., to be filed pursuant to Regulation 14A not later than April 30, 2009, are incorporated by reference into Part III of this Annual Report on Form 10-K.

PART I

Item 1. Business

General

We are a self-administered and self-managed real estate investment trust, also known as a REIT. We were incorporated under the laws of the State of Maryland on December 20, 1982. We acquire, own and manage a geographically diversified portfolio of retail (including furniture and office supply stores), industrial, office, flex, health and fitness and other properties, a substantial portion of which are under long-term leases. Substantially all of our leases are “net leases,” under which the tenant is typically responsible for real estate taxes, insurance and ordinary maintenance and repairs. As of December 31, 2008, we owned 79 properties, three of which are vacant, and one of which is a 50% tenancy in common interest, and participated in five joint ventures that own five properties, one of which is vacant. Our properties and the properties owned by our joint ventures are located in 29 states and have an aggregate of approximately 6.1 million square feet of space (including approximately 106,000 square feet of space at the property in which we own a tenancy in common interest and approximately 1.5 million square feet of space at properties owned by the joint ventures in which we participate).

As a result of a severe national economic recession during 2008, which is continuing into 2009, consumer confidence and retail spending have declined and may continue to decline. Approximately 55% of the rental income that is payable to us in 2009 under leases existing at December 31, 2008, including rental income payable on our tenancy in common interest and excluding any rental income from five properties formerly leased by Circuit City Stores, Inc. (hereinafter 2009 contractual rental income) will be derived from rent paid by retail tenants. If the financial problems of our retail tenants continue or deteriorate further, our revenues could decline significantly and our real estate expenses could increase. During the fourth quarter of 2008, we recorded an impairment charge of \$5.2 million relating to three properties that were leased to Circuit City Stores, Inc. (hereinafter Circuit City). Circuit City filed for protection under Federal bankruptcy laws in November 2008 and has rejected all of its leases on our properties. To the extent that our other retail tenants are adversely affected by the recession and reduced consumer spending, our portfolio may be further adversely effected.

Our 2009 contractual rental income will be approximately \$42 million. In 2009, we expect that our share of the rental income payable to our five joint ventures which own properties will be approximately \$1.4 million. On December 31, 2008, the occupancy rate of properties owned by us was 97.5% based on square footage (including the property in which we own a tenancy in common interest and the properties formerly leased to Circuit City and the occupancy rate of properties owned by our joint ventures was 99.5% based on square footage. The weighted average remaining term of the leases in our portfolio, including our tenancy in common interest (excluding the properties formerly leased to Circuit City), is 9.4 years and 10.7 years for the leases at properties owned by our joint ventures.

The Effect of the Current Economic Crisis on Us

During 2008, the national economic recession resulted in, among other things, increased unemployment, and caused a significant decline in consumer confidence, which has dramatically reduced consumer spending on retail goods. This affected us and our retail tenants in the following respects:

- Circuit City, a retail tenant which leased five of our properties, filed for protection under the Federal bankruptcy laws in November 2008, rejected leases for two of our properties in December 2008 and the remaining three properties in March 2009. The five properties formerly leased to Circuit City accounted for 2.3% of our 2008 annual rental revenues.

- We recorded an impairment charge of approximately \$6 million against four properties for the year ended December 31, 2008, including three properties formerly leased to Circuit City. The impairment charge for each affected property is equal to the difference between the net book value, including intangibles, and the present value of discounted cash flows of the properties based upon certain valuation assumptions. At December 31, 2008, we had a non-recourse mortgage with an outstanding balance of \$8.7 million secured by the five properties formerly leased to Circuit City. We have not made any payments on this mortgage since December 1, 2008 and have entered into negotiations with representatives of the mortgagee relating to possible modifications of the mortgage. After taking into account the impairment charge, our book value for these five properties is \$8.3 million;
- We wrote-off or recorded accelerated amortization on an aggregate of \$332,000 of unbilled “straight line” rent receivable for six retail properties, including five properties formerly leased by Circuit City, which resulted in a decrease in our rental revenues for the year ended December 31, 2008; and
- Our quarterly distribution was reduced by 39% from \$.36 in October 2008 to \$.22 in January 2009.

Our rental income from our retail tenants will account for 55% of our 2009 contractual rental revenues, including 19% which is from furniture stores and 14% from office supply stores. Two retail tenants in the office supply and furniture business represent an aggregate of 10.6% and 10.3%, respectively, of our 2009 contractual rental revenues.

If economic conditions in the United States do not stabilize in 2009, we will likely experience additional tenant defaults, delinquencies and delays in payments and lease renegotiations, which could cause a decline in our rental revenues and an increase in our real estate expenses. In addition, since the economy has also sustained a crisis in the commercial real estate market and in the commercial banking system, the value of properties that we hold or seek to sell could decline. As a result, we may recognize additional impairment charges and realize losses on property sales. Also, our operating expenses will increase as we maintain and improve vacant properties. Moreover, our ability to refinance existing indebtedness and to secure additional funds from unencumbered properties may also be limited due to the liquidity constraints in the credit markets.

Acquisition Strategies

We are carefully monitoring our cash needs, our liquidity and the status of our portfolio to preserve our cash and, until the economy stabilizes, we adopted a conservative acquisition strategy. Traditionally, we seek to acquire properties throughout the United States that have locations, demographics and other investment attributes that we believe to be attractive. We believe that long-term leases provide a predictable income stream over the term of the lease, making fluctuations in market rental rates and in real estate values less significant to achieving our overall investment objectives. Our goal is to acquire properties that are subject to long-term net leases that include periodic contractual rental increases. Periodic contractual rental increases provide reliable increases in future rent payments, while rent increases based on the consumer price index provide protection against inflation. Historically, long-term leases have made it easier for us to obtain longer-term, fixed-rate mortgage financing with principal amortization, thereby moderating the interest rate risk associated with financing or refinancing our property portfolio by reducing the outstanding principal balance over time. Although we regard long-term leases as an important element of our acquisition strategy, we may acquire a property that is subject to a short-term lease when we believe the property represents a good opportunity for recurring income and residual value.

Generally, we intend to hold the properties we acquire for an extended period of time. Our investment criteria are intended to identify properties from which increased asset value and overall return can be realized from an extended period of ownership. Although our investment criteria favor an extended period of ownership, we may dispose of a property following a lease termination or expiration, or even during the term of a lease if we regard the disposition of the property as an opportunity to realize the overall value of the property sooner or to avoid future risks by achieving a determinable return from the property.

We generally identify properties through the network of contacts of our senior management and our affiliates, which include real estate brokers, private equity firms, banks and law firms. In addition, we attend industry conferences and engage in direct solicitations.

There is no limit on the number of properties in which we may invest, the amount or percentage of our assets that may be invested in any specific property or property type, or on the concentration of investments in any geographic area in the United States. We do not intend to acquire properties located outside of the United States. We will continue to form entities to acquire interests in real properties, either alone or with other investors, and we may acquire interests in joint ventures or other entities that own real property.

It is our policy, and the policy of our affiliated entities, that any investment opportunity presented to us or to any of our affiliated entities that involves primarily the acquisition of a net leased property, will first be offered to us and may not be pursued by any of our affiliated entities unless and until we decline the opportunity.

Investment Evaluation

In evaluating potential net lease investments, we consider, among other criteria, the following:

- an evaluation of the property and improvements, given its location and use;
 - the current and projected cash flow of the property;
 - the estimated return on equity to us;
 - local demographics (population and rental trends);
- the ability of the tenant to meet operational needs and lease obligations recognizing the current economic climate;
 - the terms of tenant leases, including the relationship between current rents and market rents;
 - the projected residual value of the property;
 - potential for income and capital appreciation;
 - occupancy of and demand for similar properties in the market area; and
 - alternative use for the property at lease termination.

Our Business Objective

Our business objective is to maintain and increase the cash available for distribution to our stockholders by:

- monitoring and maintaining our portfolio;

- obtaining mortgage indebtedness on favorable terms and maintaining access to capital to finance property acquisitions; and
- managing assets effectively, including lease extensions and opportunistic property sales.

Typical Property Attributes

The properties in our portfolio and owned by our joint ventures typically have the following attributes:

- **Net leases.** Substantially all of the leases are net leases under which the tenant is typically responsible for real estate taxes, insurance and ordinary maintenance and repairs. We believe that investments in net leased properties offer more predictable returns than investments in properties that are not net leased;
- **Long-term leases.** The properties acquired are generally subject to long-term leases. Excluding leases relating to properties owned by our joint ventures, leases representing approximately 71% of our 2009 contractual rental income expire after 2014, and leases representing approximately 37% of our 2009 contractual rental income expire after 2018; and
- **Scheduled rent increases.** Leases representing approximately 95% of our 2009 contractual rental income provide for either scheduled rent increases or periodic contractual rent increases based on the consumer price index. None of the leases on properties owned by our joint ventures provide for scheduled rent increases.

Our Tenants

The following table sets forth information about the diversification of our tenants (excluding tenants of our joint ventures) by industry sector as of December 31, 2008:

Type of Property	Number of Tenants	Number of Properties	2009 Contractual Rental Income (1)	Percentage of 2009 Contractual Rental Income
Retail – various (2)	25	30	\$ 9,407,667	22.4%
Industrial	9	10	8,245,965	19.7
Retail – furniture (3)	6	16	7,923,919	18.9
Retail – office supply (4)	13	13	5,713,993	13.6
Office (5)	3	3	4,377,584	10.4
Flex	3	2	2,546,571	6.1
Health & fitness	3	3	1,783,128	4.3
Movie theater (6)	1	1	1,266,759	3.0
Residential	1	1	687,500	1.6
	64	79	\$ 41,953,086	100.0%

(1) Contractual 2009 rental income includes rental income that is payable to us during 2009 under leases existing at December 31, 2008, including rental income payable on our tenancy in common interest and excluding any rental income from five properties formerly leased by Circuit City.

(2) Thirteen of the retail properties are net leased to single tenants. Four properties are net leased to a total of eleven separate tenants pursuant to separate leases and eight properties are net leased to one tenant pursuant to a master lease. At December 31, 2008, three retail properties were leased to Circuit City. Circuit City rejected two of our leases prior to December 2008 and the remaining three in March 2009.

- (3) Eleven properties are net leased to Haverty Furniture Companies, Inc. pursuant to a master lease covering all locations. Five of the properties are net leased to single tenants, including a property where we assumed a sublease to a retail furniture store from Circuit City in December 2008.
- (4) Includes ten properties which are net leased to one tenant pursuant to ten separate leases. Eight of these leases contain cross-default provisions.
- (5) Includes a property in which we own a 50% tenancy in common interest.
- (6) We are the ground lessee of this property under a long-term lease and net lease the movie theater to an operator.

Most of our retail tenants operate on a national basis and include, among others, Barnes & Noble, Best Buy, CarMax, CVS, Office Depot, Office Max, Party City, Petco, The Sports Authority, and Walgreen, and some of our tenants operate on a regional basis, including Haverty Furniture Companies.

Our Leases

Substantially all of our leases are net leases (including the leases entered into by our joint ventures) under which the tenant, in addition to its rental obligation, typically is responsible for expenses attributable to the operation of the property, such as real estate taxes and assessments, water and sewer rents and other charges. The tenant is also generally responsible for maintaining the property, including non-structural repairs, and for restoration following a casualty or partial condemnation. The tenant is typically obligated to indemnify us for claims arising from the property and is responsible for maintaining insurance coverage for the property it leases. Under some net leases, we are responsible for structural repairs, including foundation and slab, roof repair or replacement and restoration following a casualty event, and at several properties we are responsible for certain expenses related to the operation and maintenance of the property.

Our typical lease provides for contractual rent increases periodically throughout the term of the lease. Some of our leases provide for rent increases pursuant to a formula based on the consumer price index and some of our leases provide for minimum rents supplemented by additional payments based on sales derived from the property subject to the lease. Such additional payments were not a material part of our 2008 rental revenues and are not expected to be a material part of our 2009 rental revenues.

Our policy has been to acquire properties that are subject to existing long-term leases or to enter into long-term leases with our tenants. Our leases generally provide the tenant with one or more renewal options.

The following table sets forth scheduled lease expirations of leases for our properties (excluding joint venture properties) as of December 31, 2008:

Year of Lease Expiration (1)	Number of Expiring Leases	Approximate Square Feet Subject to Rental Income Under	% of 2009 Contractual	
			2009 Contractual	Rental Income Represented by
Expiring Leases	Expiring Leases	Expiring Leases	Expiring Leases	Expiring Leases
2009	1(2)	193,496		