ONE LIBERTY PROPERTIES INC
Form 10-K
March 13, 2008

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

x Annual Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of l934

For the fiscal year ended December 31, 2007

Or

o 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	13-3147497
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification number)

60 Cutter Mill Road, Great Neck, New York 11021
(Address of principal executive offices) (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 o No x

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

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 x No o

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. x

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 o   Accelerated filer x

Non-accelerated filer o (Do not check if a small reporting company)   Small reporting company o

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

As of June 29, 2007 (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 $178.7 million.

As of March 7, 2008, the registrant had 10,185,553 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement for the annual meeting of stockholders of One Liberty Properties, Inc., to be filed pursuant to Regulation 14A not later than April 29, 2008, are incorporated by reference into Part III of this 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, industrial, office, 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, 2007, we owned 65 properties, one of which is held for sale, held a 50% tenancy in common interest in one property, and participated in five joint ventures that own five properties (including one vacant property held for sale). Our properties and the properties owned by our joint ventures are located in 28 states and have an aggregate of approximately 5.9 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, 459,000 square feet of space at the property held for sale and approximately 1.6 million square feet of space at properties owned by the joint ventures in which we participate). We did not acquire any properties during the year ended December 31, 2007.

Under the terms of our current leases, our 2008 contractual rental income (rental income that is payable to us in 2008 under leases existing at December 31, 2007, excluding rental income from our property that is held for sale) will be approximately $35.9 million, including approximately $1.3 million of rental income payable to us on our tenancy in common interest. In 2008, we expect that our share of the rental income payable to our five joint ventures which own properties will be approximately $1.4 million, without taking into consideration any rent that we would receive if the vacant and held for sale property owned by a joint venture is rented. On December 31, 2007, the occupancy rate of properties owned by us was 100% based on square footage (including the property in which we own a tenancy in common interest) and the occupancy rate of properties owned by our joint ventures was 98.9% based on square footage. The weighted average remaining term of the leases in our portfolio, including our tenancy in common interest, is 10.3 years and 11.3 years for the leases at properties owned by our joint ventures.

Acquisition Strategies

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. Long-term leases also make 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 where 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 of our properties, we may dispose of a property following a lease termination or expiration or even during the term of a lease (i) if we regard the disposition of the property as an opportunity to realize the overall value of the property sooner or (ii) to avoid future risks by achieving a determinable return from the property. Although we investigated, analyzed and bid on several properties in 2007, due to a variety of factors, including increased competition and unfavorable prices, we did not acquire any properties in 2007.

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;
- 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 Objectives and Growth Strategy

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

- acquiring a diversified portfolio of net leased properties subject to long-term leases;
- obtaining mortgage indebtedness on favorable terms and increasing access to capital to finance property acquisitions; and
- managing assets effectively through property acquisitions, lease extensions and opportunistic property sales.

Our growth strategy includes the following elements:

- to maintain, renew and enter into new long-term leases that contain provisions for contractual rent increases;
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to acquire additional properties within the United States that are subject to long-term net leases and that satisfy our other investment criteria; and

- to acquire properties in market or industry sectors that we identify, from time to time, as offering superior risk-adjusted returns.

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 83% of our 2008 contractual rental income expire after 2013, and leases representing approximately 44% of our 2008 contractual rental income expire after 2017; and

· *Scheduled rent increases*. Leases representing approximately 94% of our 2008 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, 2007:

Type of Property	Number of Tenants	Number of Properties	2008 Contractual Rental Income (1)	Percentage of 2008 Contractual Rental Income
Retail - various (2)	32	32	$ 11,453,658	31.9%
Retail - furniture (3)	5	15	7,543,184	21.0
Industrial (4)	8	8	6,525,205	18.2
Office (5)	3	3	4,259,363	11.9
Flex	3	2	2,497,764	6.9
Health & fitness	3	3	1,757,091	4.9
Movie theater (6)	1	1	1,242,019	3.4
Residential	1	1	650,000	1.8
	56	65	$ 35,928,284	100.0%

(1) 2008 contractual rental income includes rental income that is payable to us during 2008 for properties owned by us at December 31, 2007, including rental income payable on our tenancy in common interest. Does not include rent on our property that is held for sale.

(2) Twenty of the retail properties are net leased to single tenants. Four properties are net leased to a total of 11 separate tenants pursuant to separate leases and 8 properties are net leased to one tenant pursuant to a master lease.

(3) Eleven properties are net leased to Haverty Furniture Companies, Inc. pursuant to a master lease covering all locations and 4 of the properties are net leased to single tenants.

(4) Does not include one property that is held for sale.

(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.

Although the main focus of our analysis is the intrinsic value of a property, we seek to acquire properties that we believe will provide attractive current returns from leases with tenants that operate profitably, even if our tenants are typically not rated or are rated below investment grade. We will acquire a property if we believe that the quality of the underlying real estate mitigates the risk that may be associated with any default by the tenant. Most of our retail tenants operate on a national basis and include, among others, Barnes & Noble, Inc., Walgreen Co., The Sports

Authority, Inc., Best Buy Co., Inc., TGI Friday's Inc., Party City Corporation, Circuit City Stores, Inc., Petco Animal Supplies, Inc. and CarMax Auto Superstores, Inc., and some of our tenants operate on a regional basis, including Haverty's Furniture Companies, Inc.

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 2007 rental revenues and are not expected to be a material part of our 2008 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, 2007:

Year of Lease Expiration (1)(2)	Number of Expiring Leases	Approximate Square Feet Subject to Expiring Leases	2008 Contractual Rental Income Under Expiring Leases (3)	% of 2008 Contractual Rental Income Represented by Expiring Leases
2008	1	51,351	$ 386,160	1.1%
2009	3	200,468	945,883	2.6
2010	3	19,038	349,825	1.0
2011	4	208,428	2,087,577	5.8
2012	2	19,000	475,903	1.3
2013	6	117,357	1,745,035	4.9
2014				