

ONE LIBERTY PROPERTIES INC
Form 10-K
March 15, 2013

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-K

ý **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2012

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
(State or other jurisdiction of
Incorporation or Organization)

13-3147497
(I.R.S. employer
Identification No.)

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
Common Stock, par value \$1.00 per share

Name of exchange on which registered
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 ý

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 ý

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 ý No o

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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

Smaller 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 Act). Yes No

As of June 30, 2012 (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 \$217.6 million.

As of March 5, 2013, the registrant had 15,176,068 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement for the 2013 annual meeting of stockholders of One Liberty Properties, Inc., to be filed pursuant to Regulation 14A not later than April 30, 2013, are incorporated by reference into Part III of this Annual Report on Form 10-K.

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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 in Maryland on December 20, 1982. We acquire, own and manage a geographically diversified portfolio of retail, industrial, health and fitness, office, flex and other properties, a substantial portion of which are under long-term leases. Substantially all of our leases are "net leases" and ground leases under which the tenant is typically responsible for real estate taxes, insurance and ordinary maintenance and repairs. As of December 31, 2012, we owned 93 properties and participated in joint ventures that own seven properties. Our properties and the properties owned by our joint ventures are located in 29 states and have an aggregate of approximately 5.5 million square feet of space (including approximately 1.4 million square feet of space at properties owned by our joint ventures).

As of December 31, 2012:

our 2013 contractual rental income (as described below) is approximately \$45.8 million;

the occupancy rate of properties owned by us is approximately 98.4% based on square footage;

the occupancy rate of properties owned by our joint ventures is 100% based on square footage; and

the weighted average remaining term of the leases generating our 2013 contractual rental income and for the leases at properties owned by our joint ventures is 7.9 years and 5.9 years, respectively.

Our 2013 contractual rental income includes, after giving effect to any abatements, concessions or adjustments, rental income that is payable to us in 2013 under leases existing at December 31, 2012. Contractual rental income excludes approximately \$679,000 of straight-line rent, amortization of approximately \$6,000 of intangibles and our share of the rental income payable to our joint ventures, which, in 2013, will be approximately \$3.1 million.

2012 Highlights and Recent Developments

Our total revenues increased by \$2.95 million, or 7%, from 2011.

We acquired eleven properties for an aggregate of \$44.6 million. Four properties are in Georgia, two properties are in New Jersey and the other properties are in Kansas, Florida, Missouri, Texas and Ohio. The acquired properties account for approximately \$3.8 million, or 8.3%, of our 2013 contractual rental income.

We sold five properties for an aggregate of \$36.1 million and a net gain of \$19.41 million. The properties sold accounted for \$1.04 million of income from operations of discontinued operations in 2012.

We refinanced the approximately \$22.85 million of mortgage debt secured by the eleven properties leased to Haverty Furniture Companies, Inc. and bearing interest of 6.87% per year. The new mortgage debt, in the aggregate principal amount of \$25 million, matures September 1, 2032 (subject to the lender's option to call the debt for any reason on 90 days' notice at any time after September 1, 2022) and bears interest of 5.125% per year.

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We amended our credit facility to, among other things, reduce our interest rate floor from 5.5% to 4.75%, increase our permitted borrowings from \$55 million to \$75 million and extend the

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facility's maturity from March 31, 2013 to March 31, 2015. As of December 31, 2012 and March 13, 2013, no borrowings were outstanding thereunder.

In the first quarter of 2013, we elected not to participate in the redevelopment of a 6.2 acre joint venture property in Plano, Texas (the "Plano Property") proposed by our partner and thereafter, our partner exercised its right to purchase our 90% interest in the venture for approximately \$13.5 million. We anticipate that this transaction will be completed in 2013.

In the narrative portion of this report, information with respect to our consolidated joint ventures is generally described as if such ventures were our wholly owned subsidiaries and information with respect to unconsolidated joint ventures, which includes a tenant-in-common interest, is generally separately described. Except as otherwise expressly indicated, all references to joint ventures refer to unconsolidated 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 single-tenant properties that are subject to long-term net or ground leases that include periodic contractual rental increases or rent increases based on increases in the consumer price index. Periodic contractual rental increases provide reliable increases in future rent payments and 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. We may, however, 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. Although the acquisition of single-tenant properties subject to net and ground leases is the focus of our investment strategy, we will also consider investments in, among other things, (i) properties that can be re-positioned or re-developed, (ii) community shopping centers anchored by national or regional tenants and (iii) multi-tenant properties. We pay substantially all the operating expenses at community shopping centers, a significant portion of which are reimbursed by the tenants pursuant to their leases.

Generally, we 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 will dispose of a property 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 identify properties through the network of contacts of our senior management and our affiliates, which includes real estate brokers, private equity firms, banks and law firms. In addition, we attend industry conferences and engage in direct solicitations.

Our charter documents do not limit 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 the concentration of investments in any region 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.

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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, a ground lease or a community shopping center, will first be offered to us and may not be pursued by any of our affiliated entities unless we decline the opportunity.

Investment Evaluation

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

the ability of a tenant, if a net leased property, or major tenants, if a shopping center, to meet operational needs and lease obligations recognizing the current economic climate;

the current and projected cash flow of the property;

the estimated return on equity to us;

an evaluation of the property and improvements, given its location and use;

local demographics (population and rental trends);

the terms of tenant leases, including the relationship between current rents and market rents;

the projected residual value of the property;

the potential to finance or refinance the property;

potential for income and capital appreciation;

occupancy of and demand for similar properties in the market area; and

alternate uses or tenants for the property.

Our Business Objective

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

identifying opportunistic and strategic property acquisitions consistent with our portfolio and our acquisition strategies;

obtaining mortgage indebtedness on favorable terms and maintaining access to capital to finance property acquisitions;

monitoring and maintaining our portfolio, including tenant negotiations and lease amendments with tenants having financial difficulty; and

managing assets effectively, including lease extensions and opportunistic and strategic property sales.

Typical Property Attributes

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

Net or ground leases. Substantially all of the leases are net and ground leases under which the tenant is typically responsible for real estate taxes, insurance and ordinary maintenance and repairs. We believe that investments in net and ground leased properties offer more predictable returns than investments in properties that are not net or ground leased;

Long-term leases. Substantially all of our leases are long-term leases. Excluding leases relating to properties owned by our joint ventures, leases representing approximately 22.7% of our 2013

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contractual rental income expire between 2018 and 2021, and leases representing approximately 47.5% of our 2013 contractual rental income expire after 2021; and

Scheduled rent increases. Leases representing approximately 81.3% of our 2013 contractual rental income and leases representing 67.9% of our share of the rental income payable in 2013 with respect to properties owned by our joint ventures provide for either periodic contractual rent increases or a rent increase based on the consumer price index.

Our Tenants

The following table sets forth information about the diversification of our tenants by industry sector as of December 31, 2012:

Type of Property	Number of Tenants	Number of Properties	2013 Contractual Rental Income	Percentage of 2013 Contractual Rental Income
Retail various	65	51	\$ 19,331,200	42.2%
Industrial	8	10	6,426,121	14.0
Retail furniture(1)	3	13	5,510,828	12.0
Health & fitness	3	5	3,786,980	8.3
Retail office supply(2)	2	9	3,373,041	7.4
Office	2	2	3,324,901	7.3
Flex	2	2	2,623,637	5.7
Movie theater	1	1	1,401,846	3.1
	86	93	\$ 45,778,554	100%

(1) Eleven properties are net leased to Haverty Furniture pursuant to a master lease covering all such properties.

(2) Includes seven properties which are net leased to Office Depot pursuant to seven separate leases. Five of these leases contain cross-default provisions.

Most of our retail tenants (including franchisees of national chains) operate on a national basis and include, among others, Applebees, Barnes & Noble, Best Buy, Burlington Coat Factory, CarMax, CVS, Kohl's, Marshalls, Mens' Wearhouse, Office Depot, Office Max, Party City, PetSmart, The Sports Authority, Urban Outfitters, Walgreens, Wendy's and Whole Foods and some of our tenants operate on a regional basis, including hhgregg, Giant Food Stores and Haverty Furniture.

Our Leases

Substantially all of our leases are net or ground 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 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 and naming us an additional insured. 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 or for rent increases pursuant to a formula based on the consumer price index. Some of our leases provide for minimum rents supplemented by additional payments based on sales derived from

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the property subject to the lease. Such additional payments were not a material part of our 2012 rental revenues and are not expected to be a material part of our 2013 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 as of December 31, 2012:

Year of Lease Expiration(1)	Number of Expiring Leases	Approximate Square Footage Subject to Expiring Leases	2013 Contractual Rental Income Under Expiring Leases	Percent of 2013 Contractual Rental Income Represented by Expiring Leases
2013	8	120,086	\$ 1,164,086	2.5%
2014	13	675,961	5,813,066	12.7
2015	8	181,060	1,784,140	3.9
2016	13	356,731	3,116,726	6.8
2017	8	89,718	1,780,043	3.9
2018	13	259,784	4,486,578	9.8
2019	3	66,322	906,333	2.0
2020	6	167,606	4,044,929	8.8
2021	5	108,012	941,235	2.1
2022 and Thereafter	26	1,948,753	21,741,418	47.5
	103	3,974,033	\$ 45,778,554	100%

(1) Lease expirations assume tenants do not exercise existing renewal options.

Financing, Re-Renting and Disposition of Our Properties

Our charter documents do not limit the level of debt we may incur. Our revolving credit facility matures on March 31, 2015 and, among other things, limits total debt that we may incur to 70% of the value of our properties (as determined pursuant to the credit agreement). We borrow funds on a secured and unsecured basis and intend to continue to do so in the future.

We also mortgage specific properties on a non-recourse basis subject to the standard carve-outs described under "Item 2. Properties Mortgage Debt", to enhance the return on our investment in a specific property. The proceeds of mortgage loans may be used for property acquisitions, investments in joint ventures or other entities that own real property, to reduce bank debt and for working capital purposes. The proceeds of our credit facility may be used to payoff existing mortgages, fund the acquisition of additional properties, and to a more limited extent, invest in joint ventures and for working capital. Net proceeds received from the sale, financing or refinancing of properties are generally required to be used to repay amounts outstanding under our credit facility.

With respect to properties we acquire on a free and clear basis, we usually seek to obtain long-term fixed-rate mortgage financing, when available at acceptable terms, shortly after the acquisition of such property to avoid the risk of movement of interest rates and fluctuating supply and demand in the mortgage markets. We also will acquire a property that is subject to (and will assume) a fixed-rate mortgage. Substantially all of our mortgages provide for amortization of part of the principal balance during the term, thereby reducing the refinancing risk at maturity. Some of our properties may be financed on a cross-defaulted or cross-collateralized basis, and we may collateralize a single financing with more than one property.

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After termination or expiration of any lease relating to any of our properties, we will seek to re-rent or sell such property in a manner that will maximize the return to us, considering, among other factors, the income potential and market value of such property. We acquire properties for long-term investment for income purposes and do not typically engage in the turnover of investments. We will consider the sale of a property if a sale appears advantageous in view of our investment objectives. We may take back a purchase money mortgage as partial payment in lieu of cash in connection with any sale and may consider local custom and prevailing market conditions in negotiating the terms of repayment. If there is a substantial tax gain, we may seek to enter into a tax deferred transaction and reinvest the proceeds in another property. It is our policy to use any cash realized from the sale of properties, net of any distributions to stockholders, to pay down amounts due under our credit facility, if any, and for the acquisition of additional properties.

Our Joint Ventures

As of December 31, 2012, we participated in seven joint ventures that own an aggregate of seven properties, with approximately 1.4 million rentable square feet of space. Five of the properties are retail properties, one is an office property, and one is an industrial property. We own 50% of the equity interest in six of these joint ventures and subject to the sale to be completed in 2013, a 90% equity interest in a joint venture that owns the Plano Property. At December 31, 2012, our investment in joint ventures was approximately \$19.5 million.

Based on the leases in effect at December 31, 2012, we anticipate that our share of rental income payable to our joint ventures in 2013 will be approximately \$3.1 million. The leases for three properties are expected to contribute 87.6% of the aggregate projected rental income payable to all of our joint ventures in 2013 and expire in 2017, 2021 and 2022.

Competition

We face competition for the acquisition of properties from a variety of investors, including domestic and foreign corporations and real estate companies, financial institutions, insurance companies, pension funds, investment funds, other REITs and individuals, some of which have significant advantages over us, including a larger, more diverse group of properties and greater financial and other resources than we have.

Our Structure

Seven employees, including Patrick J. Callan, Jr., our president and chief executive officer, Lawrence G. Ricketts, Jr., our executive vice president and chief operating officer, Justin Clair, our assistant vice-president and four others, devote substantially all of their business time to our company. Our other executive, administrative, legal, accounting and clerical personnel share their services on a part-time basis with us and other affiliated entities that share our executive offices.

We entered into a compensation and services agreement with Majestic Property Management Corp., effective as of January 1, 2007. Majestic Property is wholly-owned by our chairman of the board and it provides compensation to certain of our executive officers. Pursuant to this agreement, we pay an annual fee to Majestic Property and Majestic Property assumed our obligations under a shared services agreement, and provides us with the services of all affiliated executive, administrative, legal, accounting and clerical personnel that we use on a part time basis, as well as certain property management services, property acquisition, sales and leasing and mortgage brokerage services. The annual fees we pay to Majestic Property are negotiated each year by us and Majestic Property and are approved by our audit committee and independent directors.

In 2012, pursuant to the compensation and services agreement, we paid Majestic Property a fee of approximately \$2.725 million and \$175,000 for our share of all direct office expenses, including, among

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other expenses, rent, telephone, postage, computer services and internet usage. See Note 10 to our consolidated financial statements for information regarding equity awards to individuals performing services on our behalf.

We believe that the compensation and services agreement allows us to benefit from access to, and from the services of, a group of senior executives with significant knowledge and experience in the real estate industry and our company and its activities. If not for this agreement, we believe that a company of our size would not have access to the skills and expertise of these executives at the cost that we have incurred and will incur in the future. For a description of the background of our management, please see the information under the heading "Executive Officers" in Part I of this Annual Report.

Available Information

Our Internet address is www.onelibertyproperties.com. On the Investor Information page of our web site, we post the following filings as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission (the "SEC"): our annual report on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended. All such filings on our Investor Information Web page, which also includes Forms 3, 4 and 5 filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, as amended, are available to be viewed free of charge.

On the Corporate Governance page of our web site, we post the following charters and guidelines: Audit Committee Charter, Compensation Committee Charter, Nominating and Corporate Governance Committee Charter, Corporate Governance Guidelines and Code of Business Conduct and Ethics, as amended and restated. All such documents on our Corporate Governance Web page are available to be viewed free of charge.

Information contained on our web site is not part of, and is not incorporated by reference into, this Annual Report on Form 10-K or our other filings with the SEC. A copy of this Annual Report on Form 10-K and those items disclosed on our Investor Information Web page and our Corporate Governance Web page are available without charge upon written request to: One Liberty Properties, Inc., 60 Cutter Mill Road, Suite 303, Great Neck, New York 11021, Attention: Secretary.

Forward-Looking Statements

This Annual Report on Form 10-K, together with other statements and information publicly disseminated by us, contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We intend such forward-looking statements to be covered by the safe harbor provision for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 and include this statement for purposes of complying with these safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe our future plans, strategies and expectations, are generally identifiable by use of the words "may," "will," "could," "believe," "expect," "intend," "anticipate," "estimate," "project," or similar expressions or variations thereof. You should not rely on forward-looking statements since they involve known and unknown risks, uncertainties and other factors which are, in some cases, beyond our control and which could materially affect actual results, performance or achievements. Factors which may cause actual results to differ materially from current expectations include, but are not limited to:

the financial condition of our tenants and the performance of their lease obligations;

general economic and business conditions, including those currently affecting our nation's economy and real estate markets;

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the availability of and costs associated with sources of liquidity;

accessibility of debt and equity capital markets;

general and local real estate conditions, including any changes in the value of our real estate;

compliance with credit facility covenants;

more competition for leasing of vacant space due to current economic conditions;

changes in governmental laws and regulations relating to real estate and related investments;

the level and volatility of interest rates;

competition in our industry; and

the other risks described under "Risks Related to Our Business" and "Risks Related to the REIT Industry."

Any or all of our forward-looking statements in this report and in any other public statements we make may turn out to be incorrect. Actual results may differ from our forward looking statements because of inaccurate assumptions we might make or because of the occurrence of known or unknown risks and uncertainties. Many factors mentioned in the discussion below will be important in determining future results. Consequently, no forward-looking statement can be guaranteed and you are cautioned not to place undue reliance on these forward- looking statements. Actual future results may vary materially.

Except as may be required under the United States federal securities laws, we undertake no obligation to publicly update our forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosures we make in our reports that are filed with or furnished to the SEC.

Item 1A. Risk Factors.

Set forth below is a discussion of certain risks affecting our business. The categorization of risks set forth below is meant to help you better understand the risks facing our business and is not intended to limit your consideration of the possible effects of these risks to the listed categories. Any adverse effects arising from the realization of any of the risks discussed, including our financial condition and results of operation, may, and likely will, adversely affect many aspects of our business.

In addition to the other information contained or incorporated by reference in this Form 10-K, readers should carefully consider the following risk factors:

Risks Related to Our Business

If we are unable to re-rent properties upon the expiration of our leases or if our tenants default, our revenues will be reduced and we would incur additional costs.

Substantially all of our revenues are derived from rental income paid by our tenants. From 2013 through 2015, leases with respect to 27 tenants that account for 18.9% of our 2012 rental revenue and 19.1% of our 2013 contractual rental income, expire. One tenant, whose lease expires in 2014, accounts for 3.9% of our 2012 rental revenue and 4.3% of 2013 contractual rental income. If our tenants, and in particular, our significant tenants, (i) do not renew their leases upon the expiration of same, (ii) default on their obligations or (iii) seek rent relief, lease

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renegotiation or other accommodations, our revenues could decline. At the same time, we would remain responsible for the payment of the mortgage obligations with respect to the related properties and would become responsible for the operating expenses related to these properties, including, among other things, real estate taxes, maintenance and insurance. In addition, we may incur expenses in enforcing our rights as landlord. Even if we find

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replacement tenants or renegotiate leases with current tenants, the terms of the new or renegotiated leases, including the cost of required renovations or concessions to tenants, or the expense of the reconfiguration of a single tenancy property for use by multiple tenants, may be less favorable than current lease terms and could reduce the amount of cash available to meet expenses and pay distributions.

Approximately 64% of our 2012 rental revenue and 61.6% of our 2013 contractual rental income is derived from tenants operating in the retail industry and the inability of those tenants to pay rent would significantly reduce our revenues.

Approximately 64% of our rental revenues for 2012 was derived from retail tenants and approximately 61.6% of our 2013 contractual rental income is expected to be derived from retail tenants, including 12% and 7.4%, from tenants engaged in retail furniture and office supply operations, respectively.

Difficult economic conditions could cause our retail tenants to fail to meet their lease obligations, including rental payment delinquencies, which would have an adverse effect on our results of operations, liquidity and financial condition, including making it more difficult for us to satisfy our operating and debt service requirements, make capital expenditures and make distributions to our stockholders.

Approximately 31.6% of our 2012 revenues and 32.1% of our 2013 contractual rental income is derived from five tenants. The default, financial distress or failure of any of these tenants could significantly reduce our revenues.

Haverty Furniture, Office Depot, DSM Nutritional Products, Inc., Ferguson Enterprises, Inc., and LA Fitness International LLC, accounted for approximately 10.8%, 6.0%, 5.4%, 5.3% and 4.1%, respectively, of our rental revenues for 2012, and account for 10.0%, 5.7%, 4.8%, 5.4% and 6.2%, respectively, of our 2013 contractual rental income. The default, financial distress or bankruptcy of any of these tenants could cause interruptions in the receipt of, or the loss of, a significant amount of rental revenues and would require us to pay operating expenses currently paid by the tenant. This could also result in the vacancy of the property or properties occupied by the defaulting tenant, which would significantly reduce our rental revenues and net income until the re-rental of the property or properties, and could decrease the ultimate sale value of the property.

Declines in the value of our properties could result in impairment charges.

If we are presented with indications of an impairment in the value of a particular property or group of properties, we will be required to evaluate any such property or properties. If we determine that any of our properties at which indicators of impairment exist have a value which is below the net book value of such property, we may be required to recognize an impairment charge for the difference between the fair value and the book value during the quarter in which we make such determination. In addition, we may incur losses from time to time if we dispose of properties for sales prices that are less than our book value.

Competition that traditional retail tenants face from on-line retail sales could adversely affect our business.

Our retail tenants face increasing competition from online retailers. Online retailers may be able to provide customers with better pricing and the ease and comfort of shopping from their home or office. Internet sales have been obtaining an increasing percentage of retail sales over the past few years and this trend is expected to continue. The continued growth of online sales could decrease the need for traditional retail outlets and reduce retailers' space and property requirements. This could adversely impact our ability to rent space at our retail properties and increase competition for retail

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tenants thereby reducing the rent we would receive at these properties and adversely affecting our results of operations and financial condition.

If we are unable to refinance our mortgage loans at maturity, we may be forced to sell properties at disadvantageous terms, which would result in the loss of revenues and in a decline in the value of our portfolio.

We had, as of December 31, 2012, \$226 million in mortgage debt outstanding, all of which is non-recourse (subject to standard carve-outs) and our ratio of mortgage debt to total assets was 47%. Our joint ventures had \$25.9 million in total mortgage indebtedness (all of which is non-recourse, subject to standard carve-outs). The risks associated with our mortgage debt and the mortgage debt of our joint ventures include the risk that cash flow from properties securing the indebtedness and our available cash and cash equivalents and short-term investments will be insufficient to meet required payments of principal and interest.

Generally, only a small portion of the principal of our mortgage indebtedness will be repaid prior to maturity and we do not plan to retain sufficient cash to repay such indebtedness at maturity. Accordingly, to meet these obligations if they cannot be refinanced at maturity, we will have to use funds available under our credit facility, if any, and our available cash and cash equivalents to pay our mortgage debt or seek to raise funds through the financing of unencumbered properties, sale of properties or the issuance of additional equity. From 2013 through 2017, approximately \$132.9 million of our mortgage debt matures specifically, \$8 million, \$37.4 million, \$13.2 million, \$31.2 million and \$43.1 million in 2013, 2014, 2015, 2016 and 2017, respectively. With respect to our joint ventures, approximately \$22.44 million of mortgage debt matures from 2013 through 2017 specifically, \$940,000, \$1 million, \$20.3 million, \$95,000 and \$101,000 in 2013, 2014, 2015, 2016 and 2017, respectively. If we (or our joint ventures) are not successful in refinancing or extending existing mortgage indebtedness or financing unencumbered properties, selling properties on favorable terms or raising additional equity, our cash flow (or the cash flow of a joint venture) will not be sufficient to repay all maturing mortgage debt when payments become due, and we (or a joint venture) may be forced to dispose of properties on disadvantageous terms or convey properties secured by mortgages to the mortgagees, which would lower our revenues and the value of our portfolio.

Additionally, we may find that the value of a property could be less than the mortgage secured by such property. In such instance, we may seek to renegotiate the terms of the mortgage, or to the extent that our loan is non-recourse and the terms of the mortgage cannot be satisfactorily renegotiated, forfeit the property by conveying it to the mortgagee and writing off our investment.

If our borrowings increase, the risk of default on our repayment obligations and our debt service requirements will also increase.

The terms of our revolving credit facility limit our ability to incur indebtedness, including limiting the total indebtedness that we may incur to an amount equal to 70% of the value (as defined in the credit agreement) of our properties. Increased leverage could result in increased risk of default on our payment obligations related to borrowings and in an increase in debt service requirements, which could reduce our net income and the amount of cash available to meet expenses and to make distributions to our stockholders.

If a significant number of our tenants default or fail to renew expiring leases, or we take impairment charges against our properties, a breach of our revolving credit facility could occur.

Our revolving credit facility includes financial covenants that require us to maintain certain financial ratios and requirements. If our tenants default under their leases with us or fail to renew expiring leases, generally accepted accounting principles may require us to recognize impairment

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charges against our properties, and our financial position could be adversely affected causing us to be in breach of the financial covenants contained in our credit facility.

Failure to meet interest and other payment obligations under our revolving credit facility or a breach by us of the covenants to maintain the financial ratios would place us in default under our credit facility, and, if the banks called a default and required us to repay the full amount outstanding under the credit facility, we might be required to rapidly dispose of our properties, which could have an adverse impact on the amounts we receive on such disposition. If we are unable to dispose of our properties in a timely fashion to the satisfaction of the banks, the banks could foreclose on that portion of our collateral pledged to the banks, which could result in the disposition of our properties at below market values. The disposition of our properties at below our carrying value would adversely affect our net income, reduce our stockholders' equity and adversely affect our ability to pay distributions to our stockholders.

Impairment charges against owned real estate may not be adequate to cover actual losses.

Impairment charges are based on an evaluation of known risks and economic factors. The determination of an appropriate level of impairment charges is an inherently difficult process and is based on numerous assumptions. The amount of impairment charges of real estate is susceptible to changes in economic, operating and other conditions that are largely beyond our control. Any impairment charges that we may take may not be adequate to cover actual losses and we may need to take additional impairment charges in the future. Actual losses and additional impairment charges in the future could materially affect our results of operations.

If credit markets tighten, it may be more difficult for us to secure financing, which may limit our ability to finance or refinance our real estate properties, reduce the number of properties we can acquire, and adversely affect your investment.

Reduced access to credit markets may make it difficult for us to secure mortgage debt, limiting the mortgage debt available on properties we wish to acquire and possibly limiting the properties we can acquire. Even in the event that we are able to secure mortgage debt on, or otherwise finance our real estate properties, due to increased costs associated with securing financing and other factors beyond our control, we may be unable to refinance the entire outstanding loan balance or be subject to unfavorable terms (such as higher loan fees, interest rates and periodic payments) if we do refinance the loan balance. Either of these results could reduce income from those properties and reduce cash available for distribution, which may adversely affect the investment goals of our stockholders.

Certain of our net leases and our ground leases require us to pay property related expenses that are not the obligations of our tenants.

Under the terms of substantially all of our net leases, in addition to satisfying their rent obligations, our tenants are responsible for the payment of real estate taxes, insurance and ordinary maintenance and repairs. However, under the provisions of certain net and ground leases, we are required to pay some expenses, such as the costs of environmental liabilities, roof and structural repairs, insurance, certain non-structural repairs and maintenance. If our properties incur significant expenses that must be paid by us under the terms of our leases, our business, financial condition and results of operations will be adversely affected and the amount of cash available to meet expenses and to make distributions to holders of our common stock may be reduced.

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Uninsured and underinsured losses may affect the revenues generated by, the value of, and the return from a property affected by a casualty or other claim.

Substantially all of our tenants obtain, for our benefit, comprehensive insurance covering our properties in amounts that are intended to be sufficient to provide for the replacement of the improvements at each property. However, the amount of insurance coverage maintained for any property may not be sufficient to pay the full replacement cost of the improvements at the property following a casualty event. In addition, the rent loss coverage under the policy may not extend for the full period of time that a tenant may be entitled to a rent abatement as a result of, or that may be required to complete restoration following, a casualty event. In addition, there are certain types of losses, such as those arising from earthquakes, floods, hurricanes and terrorist attacks, that may be uninsurable or that may not be economi