

V.I.M.COR  
BUY RECOMMENDATION

Crown American Realty                      CWN    \$ 9.14    Yield

52 WK PRICE RANGE	DIV	YIELD	EPS				AVERAGE DAILY VOLUME MILL \$
			FY 2001	LATEST 12 MO	FY 2002	FY 2003	
\$6.40-10.40	\$ 0.85	9.16 %	\$-0.32	\$ -0.18	\$ 1.36	\$ 1.43	\$
		P/E:	NA x	NA x	6.72 x	6.39x	
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EPS COMPOUND GROWTH RATE

VAL MODEL	P/E LEAST GROWTH RT	PAST 5 YRS.	LATEST QUARTER	THIS YEAR	NEXT YEAR	NEXT 5 YRS.
-10 %	NA x	-43 %	20 %	NA %	5.14 %	NA %

**BASIS OF RECOMMENDATION**

CWN owns and operates a diverse set of closed environment retail outlets (malls). Its malls have bucked the recent downturn in mall traffic, reporting a small up tick in traffic vs. the national down traffic trend. CWN boasts a high yield, and good FFO numbers to support the yield.

**POSITIVES**

- CWN owns a diversified set of middle market malls (26 different properties).
- Constituent mall traffic has bucked the national trend and reported an up tick vs. the downtrend noted nationally.
- Indications are that the company may be sold shortly. Target sale price is around \$12, a 30% increase from today's price.
- Company has a successful Internet sales operation for its mall stores.

**NEGATIVES**

- Malls are dependent on consumer spending. Although base rents give some floor to revenue, consumer-spending habits determines tenants fortunes.
- CWN just did a secondary offering to reduce debt. This has been good for the shares, but if repeated it could dilute available payout.
- Debt levels still above industry norm... EPS and FFO are not strong enough to reduce debt levels quickly.

ANALYST	DATE OF STOCK PRICE	SPX PRICE THAT DATE	DATE OF THIS REPORT
Gary Vassalotti FILE: E:\INVEST\CWN.DOC	10/01/02	\$ 815.28 (prior close)	10/01/02

# CROWN AMERICAN REALTY TRUST

CWN owns and operates more than 26 retail mall properties, with 2001 revenues of \$184,186mm. The company's malls are located east of the Mississippi river, and are concentrated in the PA area. In addition, most of the malls owned by CWN are aimed at mid-America and are the only game in town, reducing competition.

In the Altoona area CWN owns Logan Valley Mall, Nittany Mall, and the Galleria. Please see map below for mall locations.



In addition, CWN has completed the acquisition of Valley View Mall in Lacrosse Wisconsin on 9/27/02. CWN expects this mall to be additive to earnings from day one, but also has some changes planned in the administration of the mall that should increase earnings from this property in the future.

CWN paid \$50mm and financed \$37mm of the purchase price with a 6.15% fixed rate mortgage.

## ***REIT Accounting and Valuation***

When looking at REIT shares, it is a mistake to just look at Earnings per Share, since for the many REITS do not have earnings.

Many REITS have negative, or zero EPS because of the huge depreciation expense of the properties that they own. Some people dislike REITS that have EPS due to the tax consequences. Of course, at some point, EPS must turn positive.

REITS, therefore, are valued according to what is called FFO, or funds from operations. FFO is somewhat of a substitute for Cash Flow that is used in most securities. CWN has a FFO of about \$1.32 per share, more than enough to cover its dividend payout of \$0.84 per year.

CWN's peer group trades at about 8.83x FFO, while CWN trades at about 6.9x FFO, giving CWN room for a multiple expansion and resultant share price increase. Keep in mind that I do not expect these shares to increase substantially in price.... Most of the return that can be reasonably be expected from an investment in CWN is from the dividend yield.

Projected FFO for CWN is \$1.38 and \$1.44 for 2002 and 2003, respectively. This gives a project share price of \$9.52-\$12.14 in 2002 and \$9.93-\$12.67 in 2002 (based upon current price to FFO for CWN and the industry)

## Tenant Diversity

CWN's tenant base is very diversified, as shown by the chart below. The default of one tenant should not impact FFO too adversely in any given year. In addition, the AMES and K-Mart stores that are in their malls may have new tenants for their leases, or are still current on rent obligations.

### SUPPLEMENTAL FINANCIAL AND OPERATIONAL INFORMATION PACKAGE

#### CROWN AMERICAN REALTY TRUST

#### TOP 25 REVENUE-GENERATING TENANTS FOR THE TWELVE MONTHS ENDED JUNE 30, 2002

TENANT	NOTES	PERCENT OF TOTAL REVENUES	NUMBER OF OPEN STORES AT JUNE 30	TOTAL SQ FT OCCUPIED (14)
Sears, Roebuck and Co.		4.9%	22	2,243,192
The Limited Stores Inc.	(1)	3.9%	59	300,607
J.C. Penney Inc.	(2)	3.8%	24	1,945,888
The Gap	(3)	2.7%	27	309,072
The Bon-Ton	(4)	2.7%	17	1,212,922
Foot Locker Inc.	(5)	1.9%	39	153,826
Transworld Entertainment	(6)	1.9%	26	118,436
Fashion Bug	(7)	1.5%	26	202,899
Hallmark-Owned Stores		1.5%	27	104,224
Shoe Show of Rocky Mt. Inc.		1.5%	26	130,036
American Eagle Outfitters		1.4%	19	83,268
Borders	(8)	1.4%	23	101,265
Zales	(9)	1.3%	44	30,059
Sterling Jewelers	(10)	1.3%	26	34,533
KB Toys (Bain Capital)	(11)	1.2%	25	82,484
The Finish Line Inc.		1.1%	14	74,256
Regis Stores	(12)	1.0%	48	56,413
Payless Shoesource Inc.		1.0%	23	78,234
May Department Stores Co.	(13)	1.0%	14	1,524,226
Value City Department Stores		0.9%	5	372,713
Deb Shops Inc.		0.9%	16	96,715
Tandy Corporation	(14)	0.8%	25	63,801
K-Mart Corporation		0.8%	3	259,517
Cole National	(15)	0.8%	30	30,278
Wal-Mart Stores		0.7%	2	319,753
		<b>41.9%</b>		<b>9,928,617</b>

#### Notes:

- (1) Includes Limited Express, Lerner Shops, The Limited (core division), Bath & Body Works, Victoria's Secret and Structures.
- (2) Includes 21 J.C. Penney department stores and three Eckerd stores.
- (3) Includes Gap, Gap Kids, and Old Navy.
- (4) Includes fifteen department stores and two home stores. One department store is tenant owned and does not pay base or percentage rent and one department store is leased from a third party and is subleased to The Bon-Ton.
- (5) Includes Footlocker, Lady Footlocker, Champs, and Kids Footlocker.
- (6) Includes Camelot Music, Disc Jockey, and FYE Stores.
- (7) Includes Fashion Bug, Fashion Bug Plus, and Lane Bryant.
- (8) Operates as Borders and Waldenbooks.
- (9) Operates as Gemstone Jewelry, Piercing Pagoda, Plumb Gold, Gordons Jewelers, and Zales Jewelers.
- (10) Operates as Kay Jewelers, Belden Jewelers, J.B. Robinson Jewelers and Shaw Jewelers.
- (11) Operates as Kay-Bee Toys and KB Toys.
- (12) Operates as Master Cuts, Trade Secrets, Cost Cutters, Super Cuts, Mia & Maxx, Hair Plus and Regis Salons.
- (13) Includes eight Kaufmanns and five Hechts department stores and one Davids Bridal store. Nine of the department stores are tenant owned and do not pay base rent or percentage rent.
- (14) Operates as Radio Shack.
- (15) Operates as Things Remembered and Pearle Vision.

Many of the retailers are undergoing recoveries... such as Sears, which has been improving its earnings and sales in recent years.

## ***Debt Levels***

CWN carries a large debt load. Currently it is 7.1x equity vs. 2.05x for the industry as a whole. This number is being reduced with the proceeds from the secondary share offering, but is still high. Offsetting this high number is the fact that CWN properties have few competitors in their markets, making rents somewhat more stable.

However, this high debt level will make expansion a slow process, and does hamper future dividend increases. This also makes a stronger point for management to sell the company.

CWN has also been converting variable debt to fixed rate debt. Currently, variable rate debt makes up about 12% of the company's loan obligations. Management believes this to be among the lowest fixed rate percentage of the small mall REIT competition. This should give the company a better competitive advantage when rates do increase and competitors have to pay higher interest costs.

## ***Lease Expirations***

CWN has a large number of leases due to expire in 2003. Although this gives cause for uncertainty in leasing rates going forward, it should be noted that CWN has been able to increase leasing rates on leases that have expired during 2002 and 2001.

Therefore, these lease expirations could mean higher lease revenue going forward.

## SUPPLEMENTAL FINANCIAL AND OPERATIONAL INFORMATION PACKAGE

### CROWN AMERICAN REALTY TRUST LEASE EXPIRATION SUMMARY FOR 2002 TO 2011 MALL STORES AS OF JUNE 30, 2002

<b>YEAR</b>	<b>NUMBER OF LEASES EXPIRING</b>	<b>SQUARE FEET</b>	<b>AVG. BASE RENT PER SQUARE FOOT</b>
2002	97	207,276	\$16.88
2003	246	657,865	14.13
2004	215	521,871	17.98
2005	171	371,268	20.25
2006	179	418,343	19.95
2007	160	525,437	19.08
2008	142	507,336	19.92
2009	144	427,435	20.76
2010	138	412,058	22.13
2011	100	319,912	21.13
<b>TOTALS</b>	<b>1,592</b>	<b>4,368,801</b>	<b>\$19.22</b>

### ***Conclusion***

CWN offers some potential for share price appreciation, but most of the return will be in the form of dividend yield. In addition, there is the distinct possibility of a sale of the company to boost the share price.

Therefore, for accounts that require a very stable income component, I would be a buyer of the preferred shares, (cwn-a) which are currently yielding 9.9%. However, for other accounts, the common shares offer almost the same yield, and may benefit from the restructuring in debt and acquisitions should they add to EPS and FFO.

