

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(MARK ONE)

(☒) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 1998

OR

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

For the transition period from ----- to -----
Commission file number 1-9321

UNIVERSAL HEALTH REALTY INCOME TRUST

(Exact name of registrant as specified in its charter)

MARYLAND

23-6858580

(State or other jurisdiction of
Incorporation or Organization)-----
(I. R. S. Employer
Identification No.)

UNIVERSAL CORPORATE CENTER

367 SOUTH GULPH ROAD

KING OF PRUSSIA, PENNSYLVANIA 19406

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (610) 265-0688

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 / /

Number of shares of common stock outstanding at April 30, 1998 - 8,954,840

UNIVERSAL HEALTH REALTY INCOME TRUST

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PART I. FINANCIAL INFORMATION
 UNIVERSAL HEALTH REALTY INCOME TRUST
 STATEMENTS OF INCOME
 (amounts in thousands, except per share amounts)
 (unaudited)

	THREE MONTHS ENDED MARCH 31,	
	1998	1997
Revenues (Note 2):		
Base rental - UHS facilities	\$3,433	\$3,433
Base rental - Non-related parties	1,576	1,290
Bonus rental	846	774
Interest	2	203
	-----	-----
	5,857	5,700
	-----	-----
EXPENSES:		
Depreciation & amortization	967	925
Interest expense	743	726
Advisory fees to UHS	273	269
Other operating expenses	453	334
	-----	-----
	2,436	2,254
	-----	-----
Income before equity in limited liability companies	3,421	3,446
Equity in income of limited liability companies	148	212
	-----	-----
NET INCOME	\$3,569	\$3,658
	=====	=====
NET INCOME PER SHARE - BASIC	\$ 0.40	\$ 0.41
	=====	=====
NET INCOME PER SHARE - DILUTED	\$ 0.40	\$ 0.41
	=====	=====
Weighted average number of shares outstanding - basic	8,952	8,952
Weighted average number of share equivalents	24	11
	-----	-----
Weighted average number of shares and equivalents outstanding - diluted	8,976	8,963
	=====	=====

The accompanying notes are an integral part of these financial statements.

UNIVERSAL HEALTH REALTY INCOME TRUST
Consolidated Balance Sheets
(amounts in thousands)

ASSETS:	MARCH 31, 1998 ----- (unaudited)	DECEMBER 31, 1997 -----
REAL ESTATE INVESTMENTS:		
Buildings & improvements	\$ 143,742	\$ 143,600
Accumulated depreciation	(31,242)	(30,280)
	-----	-----
	112,500	113,320
Land	20,255	20,255
Reserve for investment losses	(106)	(89)
	-----	-----
Net Real Estate Investments	132,649	133,486
OTHER ASSETS:		
Cash	494	1,238
Bonus rent receivable from UHS	728	653
Rent receivable from non-related parties	152	80
Investments in limited liability companies	23,697	11,075
Deferred charges and other assets, net	185	223
	-----	-----
	\$ 157,905	\$ 146,755
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY:		
LIABILITIES:		
Bank borrowings	\$ 52,500	\$ 41,200
Note payable to UHS	1,164	1,147
Accrued interest	195	217
Accrued expenses & other liabilities	1,133	1,130
Tenant reserves, escrows, deposits and prepaid rental	442	268
Minority interest	101	101
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Preferred shares of beneficial interest, \$.01 par value; 5,000,000 shares authorized; none outstanding	--	--
Common shares, \$.01 par value; 95,000,000 shares authorized; issued and outstanding: 1998 - 8,954,840 1997 - 8,954,840	90	90
Capital in excess of par value	128,653	128,650
Cumulative net income	115,690	112,121
Cumulative dividends	(142,063)	(138,169)
	-----	-----
Total Shareholders' Equity	102,370	102,692
	-----	-----
	\$ 157,905	\$ 146,755
	=====	=====

The accompanying notes are an integral part of these financial statements.

UNIVERSAL HEALTH REALTY INCOME TRUST
Condensed Statements of Cash Flows
(amounts in thousands, unaudited)

	THREE MONTHS ENDED MARCH 31,	
	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 3,569	\$ 3,658
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation & amortization	967	925
Amortization of interest rate cap	31	31
Provision for investment losses	75	40
Changes in assets and liabilities:		
Rent receivable	(147)	(133)
Accrued expenses & other liabilities	3	56
Tenant escrows, deposits & deferred rents	174	11
Mortgage loan interest receivable	--	(61)
Accrued interest	(22)	186
Deferred charges & other	(38)	(34)
NET CASH PROVIDED BY OPERATING ACTIVITIES	4,612	4,679
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investments in limited liability companies	(12,842)	--
Acquisition of real property	(142)	(7)
Cash distribution in excess of income from LLCs	222	--
Payments made for Construction in progress	--	(561)
Advances under construction note receivable	--	(344)
Repayments under mortgage note receivable	--	86
NET CASH USED IN INVESTING ACTIVITIES	(12,762)	(826)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Additional borrowings	11,300	--
Repayments of long-term debt	--	(100)
Dividends paid	(3,894)	(3,806)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	7,406	(3,906)
Decrease in cash	(744)	(53)
Cash, beginning of period	1,238	137
CASH, END OF PERIOD	\$ 494	\$ 84

Supplemental disclosures of cash flow information:

Interest paid	\$ 717	\$ 493
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See accompanying notes to these condensed financial statements.

UNIVERSAL HEALTH REALTY INCOME TRUST
NOTES TO CONDENSED FINANCIAL STATEMENTS
MARCH 31, 1998
(unaudited)

(1) GENERAL

The financial statements included herein have been prepared by the Trust, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission and reflect all adjustments which, in the opinion of the Trust, are necessary to fairly present results for the interim periods. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Trust believes that the accompanying disclosures are adequate to make the information presented not misleading. It is suggested that these financial statements be read in conjunction with the financial statements, accounting policies and the notes thereto included in the Trust's Annual Report on Form 10-K for the year ended December 31, 1997.

In February 1997, the Financial Accounts Standards Board issued Statement No. 128, "Earnings per Share" (SFAS 128). SFAS 128 establishes standards for computing and presenting earnings per share (EPS). Basic earnings per share are based on the weighted average number of common shares outstanding during the year. Diluted earnings per share are based on the weighted average number of common shares outstanding during the year adjusted to give effect to common stock equivalents. The per share amounts for the three months ended March 31, 1997 have been restated to conform to SFAS 128.

(2) RELATIONSHIP WITH UNIVERSAL HEALTH SERVICES, INC.

During the first three months of 1998 and 1997, approximately 71% and 72%, respectively, of the Trust's revenues were earned under the terms of the leases with wholly-owned subsidiaries of Universal Health Services, Inc. ("UHS"). UHS has unconditionally guaranteed the obligations of its subsidiaries under the leases. Below is the detailed listing of the revenues received from UHS and other non-related parties for the three months ended March 31, 1998 and 1997:

	THREE MONTHS ENDED MARCH 31,	
	1998	1997
Base rental - UHS facilities	\$3,433,000	\$3,433,000
Base rental - Non-related parties	1,576,000	1,290,000
Total base rental	5,009,000	4,723,000
Bonus rental - UHS facilities	734,000	662,000
Bonus rental - Non-related parties	112,000	112,000
Total bonus rental	846,000	774,000
Interest - Non-related parties	2,000	203,000
Total revenues	\$5,857,000	\$5,700,000

Certain of the Trust's facilities leased to subsidiaries of UHS have had earnings before interest, taxes, depreciation, amortization and lease and rental expense (EBITDAR) of less than 1.5 times the rent payable to the Trust. For the twelve months ended March 31, 1998, two of the UHS facilities did not generate sufficient EBITDAR to cover the annual rent expense payable to the Trust. The leases on these facilities, which mature in 2001, generated 22% of the Trust's rental income for the twelve months ended March 31, 1998. One additional UHS facility had EBITDAR for the twelve month period ended March 31, 1998 which was less than 1.5 times the annual rent payable to the Trust. The lease on this facility, which matures in 2000, generated 5% of the Trust's rental income for the twelve month period ended March 31, 1998. Management of the Trust cannot predict whether the leases with subsidiaries of UHS, which have renewal options at existing lease rates, or any of the Trust's other leases, will be renewed at the end of their initial lease terms. Representatives of UHS and the Trustees who are unaffiliated with UHS have commenced informal discussions regarding the terms under which UHS would be willing to extend the leases on those facilities with terms expiring in 1999 through 2003, some of which have had EBITDAR of less than 1.0 times the rent payable to the Trust. There is no assurance that an agreement will be reached or, if an agreement is reached, what terms will be agreed upon. If the leases are not renewed at their current rates, the Trust would be required to find other operators for those facilities and/or enter into leases on terms potentially less favorable to the Trust than the current leases.

UHS owned approximately 8% percent of the Trust's outstanding shares of beneficial interest as of March 31, 1998. The Trust has granted UHS an option to purchase Trust shares in the future at fair market value to enable UHS to maintain a 5% interest in the Trust. The Trust has no salaried employees and the Trust's officers are all employees of UHS and receive no cash compensation from the Trust. The Trust's officers and directors have received options to purchase shares of beneficial interest and associated dividend equivalent rights pursuant to the terms of a new plan which has been unanimously approved by the Trust's Board of Trustees and is contingent upon shareholder approval.

(3) DIVIDENDS

A dividend of \$.435 per share or \$3.9 million in the aggregate was declared by the Board of Trustees on March 5, 1998 and was paid on March 31, 1998 to shareholders of record as of March 16, 1998.

(4) ACQUISITIONS

During the first quarter of 1998 the Trust paid \$9 million to acquire a 99% interest in a limited liability company that owns the Desert Springs Medical Plaza located in Las Vegas, Nevada. The medical office building which is located on the campus of Desert Springs Hospital is master leased by the limited liability company which owns the hospital and is guaranteed by Quorum Health Group, Inc.

Also during the quarter, the Trust paid \$3.8 million for a 95% equity interest in a limited liability company that owns the Edwards Medical Plaza which is located in Phoenix, Arizona. This multi-tenant medical office building is located on the campus of the Good Samaritan Regional Medical Center.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

The Trust has investments in twenty-eight facilities located in thirteen states. The Trust invests in healthcare and human service related facilities including acute care hospitals, behavioral healthcare facilities, rehabilitation hospitals, sub-acute care facilities, surgery centers, child-care centers and medical office buildings.

The first quarter dividend of \$.435 per share or \$3.9 million in the aggregate was paid on March 31, 1998. For the quarters ended March 31, 1998 and 1997, net income totaled \$3.6 million and \$3.7 million or \$.40 and \$.41 per share (basic & diluted), respectively.

Net revenues for the three month periods ended March 31, 1998 and 1997 were \$5.9 million and \$5.7 million, respectively. The \$200,000 increase in net revenues during the 1998 first quarter as compared to the 1997 quarter was due primarily to an increase in base rentals from non-related parties due to the completion and occupancy during the third quarter of 1997 of the Cypresswood Professional Center, located in Houston, Texas in which the Trust has a 77% controlling equity interest.

Interest expense increased slightly in the first quarter of 1998 as compared to 1997 and depreciation and amortization expense increased \$42,000 or 5% due primarily to the opening of the newly constructed Cypresswood Professional Center during the third quarter of 1997.

Other operating expenses increased \$119,000 to \$453,000 for the three months ended March 31, 1998 as compared to \$334,000 for the three months ended March 31, 1997. Included in the Trust's other operating expenses were the expenses related to the medical office buildings in which the Trust has a controlling ownership interest which totaled \$231,000 for the three months ended March 31, 1998 and \$188,000 for the three months ended March 31, 1997. The \$43,000 increase was due primarily to the operating expenses on the Cypresswood Professional Center which was completed and opened during the third quarter of 1997. The majority of the expenses associated with the medical office buildings are passed on directly to the tenants and are included as revenues in the Trust's statements of income. Also included in the Trust's other operating expenses were the expenses related to the maintenance of Lake Shore Hospital which amounted to \$75,000 and \$140,000 for the three month periods ended March 31, 1998 and 1997, respectively.

Included in the Trust's financial results for the three months ended March 31, 1998 and 1997 was \$148,000 and \$212,000 of income generated from the Trust's ownership in limited liability companies which own medical office buildings in Arizona and Kentucky.

Funds from operations ("FFO"), which is the sum of net income plus depreciation expense for consolidated investments and unconsolidated investments and amortization of interest rate cap expense, totaled \$4.8 million for the three months ended March 31, 1998 and \$4.7 million for the three months ended March 31, 1997. FFO does not represent cash flows from operations as defined by generally accepted accounting principles and should not be considered as an alternative to net income as an indicator of the Trust's operating performance or to cash flows as a measure of liquidity.

LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities was \$4.6 million for the three months ended March 31, 1998 and \$4.7 million for the three months ended March 31, 1997.

During the first three months of 1998, the \$4.6 million of cash generated from operating activities and the \$11.3 million of additional borrowings were used primarily to: (i) purchase a 99% interest in a limited liability company that owns the Desert Springs Medical Plaza located in Las Vegas, Nevada (\$9.0 million); (ii) purchase a 95% equity interest in a limited liability company that owns the Edwards Medical Plaza in Phoenix, Arizona (\$3.8 million), and; (iii) pay dividends (\$3.9 million).

As of March 31, 1998 the Trust had approximately \$14 million of unused borrowing capacity under the terms of its \$70 million revolving credit agreement. This agreement matures on September 30, 2001 at which time all amounts then outstanding are required to be repaid.

GENERAL

The matters discussed in this report, as well as the news releases issued from time to time by the Trust, include certain statements containing the words "believes", "anticipates", "intends", "expects", and words of similar import, which constitute "forward-looking statements", within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance achievements of the Trust or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among other things, the fact that a substantial portion of the Trust's revenues are dependent on one operator, Universal Health Services, Inc., ("UHS") and that a substantial portion of the Trust's leases are involved in the healthcare industry which is undergoing substantial changes and is subject to pressure from government reimbursement programs and other third party payors. In recent years, an increasing number of legislative initiatives have been introduced or proposed in Congress and in state legislatures that would effect major changes in the healthcare system, either nationally or at the state level. In addition, the healthcare industry has been characterized in recent years by increased competition and consolidation. Management of the Trust is unable to predict the effect, if any, these industry factors will have on the operating results of its lessees, including the facilities leased to subsidiaries of UHS, or on their ability to meet their obligations under the terms of their leases with the Trust. The Trust disclaims any obligation to update any such factors or to publicly announce the result of any revisions to any of the forward-looking statements contained herein to reflect future events or developments.

Management of the Trust cannot predict whether the leases with subsidiaries of UHS, which have renewal options at existing lease rates, or any of the Trust's other leases, will be renewed at the end of their initial lease terms. Representatives of UHS and the Trustees who are unaffiliated with UHS have commenced informal discussions regarding the terms under which UHS would be willing to extend the leases on those facilities with terms expiring in 1999 through 2003, some of which have had EBITDAR of less than 1.0 times the rent payable to the Trust (see Note 2). There is no assurance that an agreement will be reached or, if an agreement is reached, what terms will be agreed upon. If the leases are not renewed at their current rates, the Trust would be required to find other operators for those facilities and/or enter into leases on terms potentially less favorable to the Trust than the current leases.

Management of the Trust recognizes the need to evaluate the impact on its operations of the change to calendar year 2000 and does not expect the total cost of required building related modifications to have a material impact on its results of operations. For the three month periods ended March 31, 1998 and 1997, approximately 71% and 72%, respectively, of the Trust's revenues were earned under the terms of the leases with wholly-owned subsidiaries of UHS. In 1997, UHS began establishing processes for evaluating and managing the risks and costs associated with this problem. These processes include arrangements with UHS's major outsourcing vendor to modify its computer system programming to allow for year 2000 processing capability. Such modifications are expected to be completed by the end of 1998. UHS also expects that certain medical and related equipment that cannot be made year 2000 compliant will need to be replaced, but does not expect the cost of such replacement to be material. Management of the Trust cannot estimate the magnitude of calendar year 2000 related issues on the operations of its non-related tenants and no estimates can be given on the potential adverse impact on the Trust's results of operations resulting from failure of its non-related tenants to adequately prepare for the year 2000.

PART II. OTHER INFORMATION
UNIVERSAL HEALTH REALTY INCOME TRUST

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

10.1 Bylaws of Universal Health Realty Income Trust as amended.

27. Financial Data Schedule

(b) Reports on Form 8-K

All other items of this report are inapplicable.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: May 13, 1998

UNIVERSAL HEALTH REALTY INCOME TRUST
(Registrant)

/s/ Kirk E. Gorman

Kirk E. Gorman, President,
Chief Financial Officer, Secretary and
Trustee

(Principal Financial Officer and Duly
Authorized Officer.)

UNIVERSAL HEALTH REALTY INCOME TRUST

BYLAWS

Adopted as of August 7, 1986

As Amended on December 1, 1988

As Amended on June 23, 1997

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OF

UNIVERSAL HEALTH REALTY INCOME TRUST, INC.

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ARTICLE I

TRUSTEES

SECTION 1.1 Fiduciary Duty. The Trustees shall have a fiduciary duty to the Shareholders of the Trust.

SECTION 1.2 Qualifying Shares Not Required. Trustees need not be Shareholders of Universal Health Realty Income Trust (the "Trust").

SECTION 1.3 Quorum. A majority of the Trustees shall constitute a quorum subject to the provisions of Section 2.6 of the Trust's Declaration of Trust, as it may be amended from time to time (the "Declaration").

SECTION 1.4 Number and Term; Election. The number and terms of the Trustees shall be as provided in Section 2.1 of the Declaration. Trustees shall be elected at Annual Meetings of Shareholders as provided in Section 2.1 of the Declaration. If Trustees are not so elected at an Annual Meeting or if such meeting is not held, Trustees may be elected at a special meeting of Shareholders.

SECTION 1.5 Place of Meeting. Meetings of the Trustees shall be held at the principal office of the Trust or at such place within or without the State of Maryland as the Chairman or the President shall direct or as is fixed from time to time by resolution of the Trustees. Whenever a place other than the principal office is fixed by the Chairman or the President or by resolution as the place at which future meetings are to be held, written notice thereof shall be sent to all Trustees a reasonable time in advance of any meeting to be held at such place.

SECTION 1.6 Organizational Meetings. Immediately following each Annual Meeting of Shareholders, a regular meeting of the Trustees shall be held for the purpose of organizing, electing officers and transacting other business. Notice of such meetings need not be given.

SECTION 1.7 Regular Meetings. Regular meetings of the Trustees shall be held at the place determined pursuant to Section 1.4 hereof on the dates, if any, established at each organizational meeting of the Trustees and notice of such regular meetings of the Trustees is hereby dispensed with.

SECTION 1.8 Special Meetings. Special meetings of the Trustees may be called at any time by the Chairman or President, and the Chairman or President shall call a special meeting at any time upon the written request of three (3) Trustees. Written notice of the time and place of a special meeting shall be given to each Trustee, either personally or by sending a copy thereof by mail or by telegraph, charges prepaid, to his address appearing on the books of the Trust or theretofore given by him to the Trust for the purpose of notice. In case of personal service, such notice shall be so delivered at least twenty-four (24) hours prior to the time fixed for the meeting. If such notice is mailed, it shall be deposited in the United States mail in the place in which the principal office of the Trust is located at least seventy-two (72) hours prior to the time fixed for the holding of the meeting. If telegraphed, it shall be delivered to the telegraph company at least forty-eight (48) hours prior to the time fixed for the holding of the meeting. If notice is not so given by the Secretary, it may be given in the same manner by the Chairman, President or the Trustees requesting the meeting.

SECTION 1.9 Adjourned Meetings. A quorum of the Trustees may adjourn any Trustees' meeting to meet again at a stated day and hour. In the absence of a quorum, a majority of the Trustees present may adjourn from time to time to meet again at a stated day and hour prior to the time fixed for the next regular meeting of the Trustees. The motion for adjournment shall be lodged with the records of the Trust. Notice of the time and place of an adjourned meeting need not be given to any Trustee present at the adjourned meeting if the time and place is fixed at the meeting adjourned.

SECTION 1.10 Waiver of Notice. The transactions of any meeting of the Trustees, however called and noticed or wherever held, shall be as valid as though had at a meeting duly held after regular call and notice if a quorum is present and if, either before or after the meeting, each of the Trustees not present signs a written waiver of notice, a consent to the

holding of such meeting or an approval of the minutes thereof. All such waivers, consents or approvals shall be lodged with the Trust records or made a part of the minutes of the meeting.

SECTION 1.11 Action Without Meeting. Unless specifically otherwise provided in the Declaration, any action required or permitted to be taken by the Trustees may be taken without a meeting if a majority of the Trustees (or a majority of the Independent Trustees as to any action which requires such a majority) shall individually or collectively consent in writing to such action. Such written consent or consents shall be lodged with the records of the Trust and shall have the same force and effect as the affirmative vote of such Trustees at a duly held meeting of the Trustees at which a quorum were present.

SECTION 1.12 Telephone Meetings. The Trustees may meet by means of a telephone conference circuit or similar communications equipment by means of which all persons participating in the meeting shall be able to hear one another and participate therein. Such meeting shall be deemed to have been held at a place designated by the Trustees at the meeting. Participation in a telephone conference meeting shall constitute presence in person at such meeting.

SECTION 1.13 Committee Rules. Unless the Trustees otherwise provide, each committee designated by the Trustees pursuant to Section 2.8 of the Declaration may adopt, amend and repeal rules for the conduct of such committee's business. In the absence of a provision by the Trustees or a provision in the rules of such committee to the contrary, a majority of the entire authorized number of members of such committee shall constitute a quorum for the transaction of business, the vote of a majority of the members present at a meeting at the time of such vote if a quorum is then present shall be the act of such committee, and in other respects each committee shall conduct its business in the same manner as the Trustees conduct their business pursuant to Article II of the Declaration and this Article I of these Bylaws.

ARTICLE II

OFFICERS

SECTION 2.1 Enumeration. The officers of the Trust shall be a President, a Secretary, a Treasurer, and such other officers as are elected by the Trustees including, in their discretion, a Chairman and one or more assistant secretaries and assistant treasurers, with such duties as are assigned to them by the Trustees. Officers shall be elected by and shall hold office at the pleasure of the Trustees. When the duties do not conflict, any two or more officers, except those of Chairman and/or President and Secretary, may be held by the same person.

SECTION 2.2 Powers and Duties of the Chairman. The Chairman, if there shall be such an officer, shall, if present, preside at all meetings of the Shareholders and the Trustees and may be the chief executive officer of the Trust if the Trustees so elect.

SECTION 2.3 Powers and Duties of the President. Subject to such supervisory powers, if any, as may be given by the Trustees to the Chairman, the President shall, subject to the control of the Trustees and the supervision of the Chairman, have general supervision, direction and control of the business of the Trust and its employees and shall exercise such general powers of management as are usually vested in the office of president of a corporation. In the absence of the Chairman, or if there be none, he shall preside at all meetings of the Shareholders and/or Trustees and, unless the Chairman has been designated as chief executive officer, shall be chief executive officer of the Trust. He shall be, ex officio, a member of all standing committees.

SECTION 2.4 Powers and Duties of Vice-President. Each Vice-President, if any, designated by the Trustees shall be an administrative officer of the Trust and have such duties as are designated by the President or the Trustees.

SECTION 2.5 Duties of the Secretary. The Secretary shall:

(a) Minutes. Keep full and complete minutes of the meetings (or actions in lieu thereof) of the Trustees, any committees of the Trustees and the Shareholders and give notice, as required, of all such meetings;

(b) Books and Other Records. Maintain custody of and keep the books of account and other records of the Trust except such as are in the custody of the Treasurer;

(c) Share Register. Maintain at the principal office of the Trust a share register, showing the ownership and transfers of ownership of all shares of the Trust, unless a transfer agent is employed to maintain and does maintain such a share register; and

(d) General Duties. Generally, perform all duties which pertain to his office and which are required by the Trustees.

An Assistant Secretary or Secretaries may be appointed to assist, or to act in the absence of, the Secretary.

SECTION 2.6 Duties of the Treasurer. The Treasurer shall perform all duties which pertain to his office and which are required by the Trustees, including without limitation the receipt, deposit and disbursement of funds belonging to the Trust.

An Assistant Treasurer or Treasurers may be appointed to assist, or to act in the absence of, the Treasurer.

ARTICLE III

SHAREHOLDERS

SECTION 3.1 Effect of Quorum. Subject to the provisions of the Declaration, the Shareholders present at a duly called or held meeting at which a quorum is present (such quorum determined pursuant to Section 3.9 of the Declaration) may continue to do business until adjournment notwithstanding the withdrawal of enough Shareholders so that the remaining Shareholders constitute less than a quorum.

SECTION 3.2 Place of Meeting. Meetings of the Shareholders shall be held at the principal office of the Trust or at such place within or without the State of Maryland as is designated by the Trustees or the Chairman or President or by the written consent of a majority

of the Shareholders entitled to vote thereat, given either before or after the meeting and filed with the Secretary of the Trust.

SECTION 3.3 Annual Meeting. A regular Annual Meeting of the Shareholders shall be called by the Chairman or President after the end of each fiscal year, commencing with the fiscal year ending December 31, 1986.

SECTION 3.4 Special Meetings. Special meetings of the Shareholders may be held at any time for any purpose or purposes permitted by the Declaration and shall be called as provided in Section 3.9 of the Declaration.

SECTION 3.5 Notice of Regular or Special Meetings. Written notice specifying the place, day and hour of any regular or special meeting, the purposes of the meeting, and all other matters required by law shall be given to each Shareholder of record entitled to vote, either personally or by sending a copy thereof by mail or telegraph, charges prepaid, to his or her address appearing on the books of the Trust or theretofore given by him or her to the Trust for the purpose of notice or, if no address appears or has been given, addressed to the place where the principal office of the Trust is situated. It shall be the duty of the Secretary to give notice of each Annual Meeting of the Shareholders at least fifteen (15) days and not more than sixty (60) days before the date on which it is to be held. Whenever an officer has been duly requested to call a special meeting of Shareholders, it shall be his duty to fix the date and hour thereof, which date shall be not less than twenty (20) days and not more than sixty (60) days after the receipt of such request if the request has been delivered in person or after the date of mailing the request, as the case may be, and to give notice of such special meeting within ten (10) days after receipt of such request. If the date of such special meeting is not so filed and notice thereof given within ten (10) days after the date of receipt of the request, the date and hour of such meeting may be fixed by the person or persons calling or requesting the meeting and notice thereof shall be given by such person or persons not less than twenty (20) nor more than sixty (60) days before the date on which the meeting is to be held.

SECTION 3.6 Notice of Adjourned Meetings. It shall not be necessary to give notice of the time and place of any adjourned meeting or of the business to be transacted thereat other than by announcement at the meeting at which such adjournment is taken, except that when a meeting is adjourned for thirty (30) days or more, notice of the adjourned meeting shall be given as in the case of an original meeting.

SECTION 3.7 Proxies. The appointment of a proxy or proxies for any meeting of Shareholders entitled to vote shall be made by an instrument in writing executed by the Shareholder or his duly authorized agent and filed with such officer of the Trust as the Trustees shall have designated for such purpose for verification prior to such meeting. No proxy shall be valid after the expiration of eleven (11) months from the date of its execution. At a meeting of Shareholders all questions concerning the qualification of voters, the validity of proxies, and the acceptance or rejection of votes, shall be decided by the Secretary of the meeting unless inspectors of election are appointed pursuant to Section 3.10 hereof in which event such inspectors shall pass upon all questions and shall have all other duties specified in said section.

SECTION 3.8 Consent of Absentees. The transactions of any meeting of Shareholders, either annual, special or adjourned, however called and noticed, shall be as valid as though had at a meeting duly held after the regular call and notice if a quorum is present and if, either before or after the meeting, each Shareholder entitled to vote, not present in person or by proxy, signs a written waiver of notice, a consent to the holding of such meeting or an approval of the minutes thereof. All such waivers, consents or approvals shall be lodged with the Trust records or made a part of the minutes of the meeting.

SECTION 3.9 Voting Rights. If no date is fixed for the determination of the Shareholders entitled to vote at any meeting of Shareholders, only persons in whose names Shares entitled to vote are registered on the share records of the Trust at the opening of business on the day of any meeting of Shareholders shall be entitled to vote at such meeting.

ARTICLE IV

ADVISOR

SECTION 4.1 Term. The Trustees shall not enter into any advisory contract with the Advisor unless such contract has an initial term of not more than one year, provides for annual renewal or extension thereafter, provides for termination thereof by the Trustees without cause at any time upon sixty (60) days' written notice by the Trustees, by affirmative vote or written consent of a majority of the Independent Trustees, and provides for termination thereof by the Advisor without cause at any time after the expiration of a period specified in such contract (which period shall not be shorter than the original term) without penalty upon sixty (60) days' written notice by the Advisor. In the event of the termination of an advisory contract, the terminated Advisor shall be required to cooperate with the Trust and take all reasonable steps requested to assist the Trustees in making an orderly transition of the advisory function. It shall be the duty of the Trustees annually to evaluate the performance of the Advisor, and the Trustees have a fiduciary duty to the Shareholders to supervise the relationship of the Trust with the Advisor.

SECTION 4.2 Other Activities of Advisor. The Advisor shall not be required to administer the Trust as its sole and exclusive function and may have other business interests and may engage in other activities similar or in addition to those relating to the Trust, including the rendering of advice or services of any kind to other investors or any other Persons (including other REITs) and the management of other investments. The Trustees may request the Advisor to engage in certain other activities which complement the Trust's investments, and the Advisor may receive compensation or commissions therefor from the Trust or other Persons.

Neither the Advisor nor (subject to any applicable provisions of Section 4.8 of the Declaration) any Affiliate of the Advisor shall be obligated to present any particular investment opportunities to the Trust, even if such opportunities are of a character such that, if presented to the Trust, they could be taken by the Trust, and, subject to the foregoing, each of them shall be protected in taking for its own account or recommending to others any such particular investment opportunity.

SECTION 4.3 Advisor Compensation. The Trustees, including a majority of the Independent Trustees, shall at least annually review generally the performance of the Advisor in order to determine whether the compensation which the Trust has contracted to pay to the Advisor is reasonable in relation to the nature and quality of services performed and whether the provisions of the advisory contract with the Advisor are being carried out. Each such determination shall be based on such of the following and other factors as the Trustees (including the Independent Trustees) deem appropriate and shall be reflected in the minutes of the meetings of the Trustees:

(a) the size of the advisory fee in relation to the size, composition and profitability of the portfolio of the Trust;

(b) the success of the Advisor in generating opportunities that meet the investment objectives of the Trust;

(c) the rates charged to other REITs and to investors other than REITs by advisors performing similar services;

(d) additional revenues realized by the Advisor and its Affiliates through their relationship with the Trust, including loan administration, underwriting or brokerage commissions and servicing, engineering, inspection and other fees, whether paid by the Trust or by others with whom the Trust does business;

(e) the quality and extent of service and advice furnished by the Advisor;

(f) the performance of the investment portfolio of the Trust, including income, conservation or appreciation of capital, frequency of problem investments and competence in dealing with distress situations; and

(g) the quality of the portfolio of the Trust in relationship to any investments generated by the Advisor for its own account.

SECTION 4.4 Annual Total Operating Expenses. Each advisory contract with an Advisor shall provide that the Total Operating Expenses of the Trust shall not exceed in any fiscal year the lower of:

(a) the greater of (i) two percent (2%) of the Average Invested Real Estate Assets for such fiscal year or (ii) twenty-five percent (25%) of the Net Income for such fiscal year (calculated before the deduction therefrom of such Total Operating Expenses); or

(b) the lowest of any applicable operating expense limitations that may be imposed by law or regulation in a state in which any securities of the Trust are or will be qualified for sale or by a national securities exchange on which any securities of the Trust are or may be listed, as such limitations may be altered from time to time.

The Independent Trustees shall at least annually determine whether the total fees and expenses of the Trust are reasonable in light of the investment experience of the Trust, its Net Assets, its Net Income and the fees and expenses of comparable REITs. Each such determination shall be reflected in the minutes of meetings of the Trustees.

Within sixty (60) days after the end of any fiscal quarter of the Trust ending on or after December 31, 1986, for which Total Operating Expenses (for the twelve months then ended) exceed either of the expense limitations provided in subparagraphs (a) or (b) of this Section 4.5, the Trust shall send to the Shareholders a written disclosure of such fact, together with an explanation of the factors, if any, which the Trustees (including a majority of the Independent Trustees) have concluded were sufficiently unanticipated, unusual or nonrecurring to justify such higher Total Operating Expenses.

Each advisory contract with the Advisor shall provide that in the event that the Total Operating Expenses exceed any of the limitations provided in this Section 4.5, then the Advisor shall refund to the Trust (which refund may be accomplished, at the option of the Trust, by a reduction of the Advisor's compensation) the amount by which the aggregate annual Total Operating Expenses paid or incurred by the Trust exceed the limitations herein; provided, however, that with respect to the limitations provided in subparagraphs (a) or (b) of this Section 4.5, only so much of such excess need be refunded as the Trustees, including a majority of the Independent Trustees, shall have found to be unjustified as provided above.

ARTICLE V

INVESTMENT POLICY AND POLICIES
WITH RESPECT TO CERTAIN
DISTRIBUTIONS TO SHAREHOLDERS

SECTION 5.1 Statement of Policy. It shall be the general objectives of the Trust (i) to provide current income for distribution to Shareholders through investments in income-producing, health care-related facilities, (ii) to provide Shareholders with the opportunity for additional returns through participation in any increases in the operating revenues of income-producing, health care-related facilities and (iii) to preserve and protect Shareholders' capital. These general objectives shall be pursued in a manner consistent with the investment policies specified in the remainder of this Section 5.1.

While the Trustees are authorized pursuant to the Declaration to invest the Trust Estate in a wide variety of investments, it shall be the policy of the Trustees to invest the major portion of the Trust Estate in income-producing health care-related facilities including, acute care, rehabilitative care, long-term care and psychiatric and substance abuse recovery facilities, retirement housing facilities, custodial care facilities, medical care office buildings, and ancillary support facilities associated with any of the foregoing.

The Trust may make secured or unsecured borrowings to make permitted additional Real Estate Investments and secured or unsecured borrowings for normal working capital needs, including the repair and maintenance of properties in which it has invested, tenant improvements and leasing commissions. The Trust may make such borrowings from third parties or, subject to approval by a majority of the Independent Trustees, from Affiliates of the Advisor. Interest and other financing charges or fees to be paid on loans from such Affiliates will not exceed the interest and other financing charges or fees which would be charged by third party financing institutions on comparable loans for the same purpose in the same geographic area.

To the extent that the Trust Estate has assets not otherwise invested in accordance with this Section 5.1, subject to Section 8-302 of the Corporations and Associations Article of the Annotated Code of Maryland, the Trust may invest in such assets as the Advisor and/or the Trustees shall determine.

It shall be the policy of the Trustees to make investments in such manner as to comply with the requirements of the Internal Revenue Code with respect to the composition of the investments and the derivation of the income of a real estate investment trust as defined in the REIT Provisions of the Internal Revenue Code; provided, however, that no Trustee, officer, employee or agent of the Trust shall be liable for any act or omission resulting in the loss of tax benefits under the Internal Revenue Code, except for that arising from his own willful misfeasance, bad faith, gross negligence or reckless disregard of duty.

SECTION 5.2 Prohibited Investments and Activities. The Trustees shall not engage in any of the following investment practices or activities:

(a) investing in any junior mortgage loan unless (i) the capital invested in such mortgage loan is adequately secured on the basis of the equity of the borrower in the property underlying such investment and the ability of the borrower to repay the mortgage loan, or (ii) such loan is a financing device entered into by the Trust to establish the priority of its capital investment over the capital invested by others investing with the Trust in a real estate project;

(b) investing in commodities or commodity futures contracts, other than interest rate futures, when used solely for hedging purposes;

(c) investing in contracts for the purchase of real estate, unless such contracts are recordable in the chain of title;

(d) issuing Securities that are redeemable at the option of the holders thereof;

(e) underwriting or distributing as agent securities issued by others;

(f) investing more than ten percent (10%) of the Trust's assets in unimproved real property;

(g) engaging in trading, as compared with investment activities;

(h) making secured and unsecured borrowings which in the aggregate exceed 300% of the Net Assets of the Trust, unless approved by a majority of the Independent Trustees and disclosed in the next quarterly report of the Trust, along with an explanation for such excess;

(i) any activity that would disqualify the Trust as a real estate investment trust under the provisions of the Code; or

(j) using or applying for farming, agriculture, horticulture or similar purposes in violation of Section 8-302(b) of the Corporations and Associations Article of the Annotated Code of Maryland.

SECTION 5.3 Appraisals. If the Trustees shall at any time purchase Real Property, or interests therein, the consideration paid therefor shall generally be based upon the fair market value thereof as determined by an appraisal by a person who is not an Affiliate of the Trust or the Advisor and who is, in the sole judgment of the Trustees, properly qualified to make such a determination.

SECTION 5.4 Change in Investment Policies. Notwithstanding anything to the contrary contained herein, the investment policies set out in this Article V may be changed by a vote of a majority of the Trustees, including a majority of the Independent Trustees without any shareholder vote.

ARTICLE VI

MISCELLANEOUS

SECTION 6.1 Record Dates and Closing of Transfer Books.

Pursuant to the Declaration, the Trustees may fix record dates for specified purposes. If a record date is so fixed, only Shareholders of record on the date so fixed shall be entitled to the rights to which the record date pertains.

SECTION 6.2 Inspection of Bylaws. The Trustees shall keep at

the principal office for the transaction of business of the Trust the original or a copy of the Bylaws as amended or otherwise altered to date, certified by the Secretary, which shall be open to inspection by the Shareholders at all reasonable times during office hours.

ARTICLE VII

AMENDMENTS

SECTION 7.1 By Trustees. Except for any change for which the Declaration requires approval by more than a majority vote, these Bylaws may be amended or repealed or new or additional Bylaws may be adopted by the vote or written consent of a majority of the Trustees.

ARTICLE VIII

DEFINITIONS

SECTION 8.1 Definitions. All terms defined in the Declaration shall have the same meaning when used in these Bylaws.

ARTICLE IX

FISCAL YEAR

SECTION 9.1 Fiscal Year. The fiscal year of the Trust shall be the calendar year.

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UNIVERSAL HEALTH REALTY INCOME TRUST
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U.S. DOLLARS

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