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

FORM 10-Q

(MARK ONE)

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

For the quarterly period ended June 30, 2019

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 **(State or other jurisdiction of incorporation or organization)**	**23-6858580** **(I. R. S. Employer Identification No.)**
UNIVERSAL CORPORATE CENTER **367 SOUTH GULPH ROAD** **KING OF PRUSSIA, PENNSYLVANIA** **(Address of principal executive offices)**	**19406** **(Zip Code)**

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Shares of beneficial interest, $0.01 par value	UHT	New York Stock Exchange

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

Large accelerated filer	☒	Accelerated Filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

Number of common shares of beneficial interest outstanding at July 31, 2019—13,756,539

UNIVERSAL HEALTH REALTY INCOME TRUST

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This Quarterly Report on Form 10-Q is for the quarter ended June 30, 2019. In this Quarterly Report, "we," "us," "our" and the "Trust" refer to Universal Health Realty Income Trust and its subsidiaries.

As disclosed in this Quarterly Report, including in Note 2 to the condensed consolidated financial statements—*Relationship with Universal Health Services, Inc. ("UHS") and Related Party Transactions*, a wholly-owned subsidiary of UHS (UHS of Delaware, Inc.) serves as our Advisor pursuant to the terms of an annually renewable Advisory Agreement dated December 24, 1986, and as amended and restated as of January 1, 2019. Our officers are all employees of UHS through its wholly-owned subsidiary, UHS of Delaware, Inc. In addition, three of our hospital facilities are leased to subsidiaries of UHS, and subsidiaries of UHS are tenants of seventeen medical office buildings or free-standing emergency departments, that are either wholly or jointly-owned by us. Any reference to "UHS" or "UHS facilities" in this report is referring to Universal Health Services, Inc.'s subsidiaries, including UHS of Delaware, Inc.

In this Quarterly Report, the term "revenues" does not include the revenues of the four unconsolidated limited liability companies ("LLCs") in which we have various non-controlling equity interests ranging from 33% to 95%. We currently account for our share of the income/loss from these investments by the equity method (see Note 5 to the condensed consolidated financial statements included herein).

Part I. Financial Information

Item I. Financial Statements

Universal Health Realty Income Trust
Condensed Consolidated Statements of Income
For the Three and Six Months Ended June 30, 2019 and 2018
(amounts in thousands, except per share amounts)
(unaudited)

	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Revenues:				
Lease revenue - UHS facilities (a.)	$ 5,651	$ 5,619	$ 11,444	$ 11,354
Lease revenue- Non-related parties	13,178	12,392	25,909	24,899
Other revenue - UHS facilities	209	75	422	137
Other revenue - Non-related parties	288	2,025	663	2,260
	19,326	20,111	$ 38,438	$ 38,650
Expenses:				
Depreciation and amortization	6,426	6,111	13,134	12,398
Advisory fees to UHS	982	948	1,952	1,852
Other operating expenses	5,330	5,445	10,540	10,653
	12,738	12,504	25,626	24,903
Income before equity in income of unconsolidated limited liability companies ("LLCs"), interest expense, hurricane insurance recovery proceeds and gain	6,588	7,607	12,812	13,747
Equity in income of unconsolidated LLCs	454	425	884	854
Hurricane insurance recovery proceeds in excess of damaged property write-downs	-	-	-	4,535
Hurricane business interruption insurance recovery proceeds	-	194	-	1,162
Gain on sale of land	-	-	250	-
Interest expense, net	(2,781)	(2,421)	(5,473)	(4,889)
Net income	$ 4,261	$ 5,805	$ 8,473	$ 15,409
Basic and diluted earnings per share	$ 0.31	$ 0.42	$ 0.62	$ 1.12
Weighted average number of shares outstanding - Basic	13,730	13,720	13,729	13,719
Weighted average number of shares outstanding - Diluted	13,749	13,720	13,748	13,719

(a.) Includes bonus rental on UHS hospital facilities of $1,352 and $1,204 for the three-month periods ended June 30, 2019 and 2018, respectively, and $2,746 and $2,530 for the six-month periods ended June 30, 2019 and 2018, respectively.

See accompanying notes to these condensed consolidated financial statements.

Universal Health Realty Income Trust
Condensed Consolidated Statements of Comprehensive Income
For the Three and Six Months Ended June 30, 2019 and 2018
(dollar amounts in thousands)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	**2018**	**2019**	**2018**
Net income	$ 4,261	$ 5,805	$ 8,473	$ 15,409
Other comprehensive (loss)/income:				
Unrealized derivative (loss)/gain on interest rate caps	-	6	(132)	154
Total other comprehensive (loss)/income:	-	6	(132)	154
Total comprehensive income	$ 4,261	$ 5,811	$ 8,341	$ 15,563

See accompanying notes to these condensed consolidated financial statements.

Universal Health Realty Income Trust
Condensed Consolidated Balance Sheets
(dollar amounts in thousands, except share data)
(unaudited)

	June 30, 2019	December 31, 2018
Assets:		
Real Estate Investments:		
Buildings and improvements and construction in progress	$ 560,089	$ 557,650
Accumulated depreciation	(183,857)	(173,316)
	376,232	384,334
Land	53,396	53,396
Net Real Estate Investments	429,628	437,730
Investments in limited liability companies ("LLCs")	4,962	5,019
Other Assets:		
Cash and cash equivalents	6,072	5,036
Lease and other receivables from UHS	2,806	2,739
Lease receivable - other	7,070	7,469
Intangible assets (net of accumulated amortization of $24.7 million and $27.6 million, respectively)	15,754	17,407
Right-of-use land assets, net	8,862	-
Deferred charges and other assets, net	7,597	8,356
Total Assets	$ 482,751	$ 483,756
Liabilities:		
Line of credit borrowings	$ 191,550	$ 196,400
Mortgage notes payable, non-recourse to us, net	61,562	64,881
Accrued interest	422	450
Accrued expenses and other liabilities	11,139	11,765
Dividends payable	9,354	-
Ground lease liabilities, net	8,862	-
Tenant reserves, deposits and deferred and prepaid rents	11,322	11,650
Total Liabilities	294,211	285,146
Equity:		
Preferred shares of beneficial interest, $.01 par value; 5,000,000 shares authorized; none issued and outstanding	-	-
Common shares, $.01 par value; 95,000,000 shares authorized; issued and outstanding: 2019 - 13,756,531; 2018 - 13,746,803	138	137
Capital in excess of par value	266,252	266,031
Cumulative net income	650,789	642,316
Cumulative dividends	(728,639)	(710,006)
Accumulated other comprehensive income	-	132
Total Equity	188,540	198,610
Total Liabilities and Equity	$ 482,751	$ 483,756

See accompanying notes to these condensed consolidated financial statements.

Universal Health Realty Income Trust
Condensed Consolidated Statements of Changes in Equity
For the Six Months Ended June 30, 2019
(dollar amounts in thousands)
(unaudited)

	Common Shares						
	Number of Shares	Amount	Capital in excess of par value	Cumulative net income	Cumulative dividends	Accumulated other comprehensive income/(loss)	Total Equity
January 1, 2019	13,747	$ 137	$ 266,031	$ 642,316	$(710,006)	$ 132	$ 198,610
Shares of Beneficial Interest:							
Issued, net	10	1	(110)	—	—	—	(109)
Restricted stock-based compensation expense	—	—	331	—	—	—	331
Dividends ($1.355/share)	—	—	—	—	(18,633)	—	(18,633)
Comprehensive income:	—	—	—	—	—	—	
Net income	—	—	—	8,473	—	—	8,473
Unrealized loss on interest rate cap	—	—	—	—	—	(132)	(132)
Subtotal - comprehensive income				8,473		(132)	8,341
June 30, 2019	13,757	$ 138	$ 266,252	$ 650,789	$(728,639)	$ -	$ 188,540

Universal Health Realty Income Trust
Condensed Consolidated Statements of Changes in Equity
For the Three Months Ended June 30, 2019
(dollar amounts in thousands)
(unaudited)

	Common Shares						
	Number of Shares	Amount	Capital in excess of par value	Cumulative net income	Cumulative dividends	Accumulated other comprehensive income/(loss)	Total Equity
April 1, 2019	13,748	$ 137	$ 266,247	$ 646,528	$(719,285)	$ -	$ 193,627
Shares of Beneficial Interest:							
Issued, net	9	1	(167)	—	—	—	(166)
Restricted stock-based compensation expense	—	—	172	—	—	—	172
Dividends ($.68/share)	—	—	—	—	(9,354)	—	(9,354)
Comprehensive income:	—	—	—	—	—	—	
Net income	—	—	—	4,261	—	—	4,261
Unrealized loss on interest rate cap	—	—	—	—	—	—	-
Subtotal - comprehensive income				4,261		-	4,261
June 30, 2019	13,757	$ 138	$ 266,252	$ 650,789	$(728,639)	$ -	$ 188,540

See accompanying notes to these condensed consolidated financial statements.

Universal Health Realty Income Trust
Condensed Consolidated Statements of Changes in Equity
For the Six Months Ended June 30, 2018
(dollar amounts in thousands)
(unaudited)

	Common Shares						
	Number of Shares	Amount	Capital in excess of par value	Cumulative net income	Cumulative dividends	Accumulated other comprehensive income/(loss)	Total Equity
January 1, 2018	13,735	$ 137	$ 265,335	$ 618,120	$ (673,175)	$ 144	$ 210,561
Shares of Beneficial Interest:							
Issued, net	9	—	(45)	—	—	—	(45)
Restricted stock-based compensation expense	—	—	254	—	—	—	254
Dividends ($1.335/share)	—	—	—	—	(18,343)	—	(18,343)
Comprehensive income:	—	—	—	—	—	—	
Net income	—	—	—	15,409	—	—	15,409
Unrealized loss on interest rate cap	—	—	—	—	—	154	154
Subtotal - comprehensive income				15,409		154	15,563
June 30, 2018	13,744	$ 137	$ 265,544	$ 633,529	$ (691,518)	$ 298	$ 207,990

Universal Health Realty Income Trust
Condensed Consolidated Statements of Changes in Equity
For the Three Months Ended June 30, 2018
(dollar amounts in thousands)
(unaudited)

	Common Shares						
	Number of Shares	Amount	Capital in excess of par value	Cumulative net income	Cumulative dividends	Accumulated other comprehensive income/(loss)	Total Equity
April 1, 2018	13,736	$ 137	$ 265,511	$ 627,724	$ (682,309)	$ 293	$ 211,356
Shares of Beneficial Interest:							
Issued	8	—	(102)	—	—	—	(102)
Restricted stock-based compensation expense	—	—	135	—	—	—	135
Dividends ($.67/share)	—	—	—	—	(9,209)	—	(9,209)
Comprehensive income:	—	—	—	—	—	—	-
Net income	—	—	—	5,805	—	—	5,805
Unrealized loss on interest rate cap	—	—	—	—	—	5	5
Subtotal - comprehensive income				5,805		5	5,810
June 30, 2018	13,744	$ 137	$ 265,544	$ 633,529	$ (691,518)	$ 298	$ 207,990

See accompanying notes to these condensed consolidated financial statements.

Universal Health Realty Income Trust
Condensed Consolidated Statements of Cash Flows
(dollar amounts in thousands)
(unaudited)

	Six months ended June 30, 2019	Six months ended June 30, 2018
Cash flows from operating activities:		
Net income	$ 8,473	$ 15,409
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	13,032	12,288
Amortization of debt premium	(27)	(23)
Stock-based compensation expense	331	254
Hurricane insurance recovery proceeds in excess of damaged property write-downs	—	(4,535)
Gain on sale of land	(250)	—
Changes in assets and liabilities:		
Lease receivable	332	(337)
Accrued expenses and other liabilities	(420)	(445)
Tenant reserves, deposits and deferred and prepaid rents	(382)	713
Accrued interest	(28)	(36)
Leasing costs paid	(591)	(597)
Other, net	981	517
Net cash provided by operating activities	21,451	23,208
Cash flows from investing activities:		
Investments in LLCs	(598)	(369)
Cash distributions in excess of income from LLCs	348	501
Additions to real estate investments, net	(2,956)	(4,246)
Cash proceeds received from divestiture of property, net	245	—
Hurricane insurance recovery proceeds in excess of damaged property write-downs	—	4,535
Hurricane remediation payments	—	(192)
Net cash paid for acquisition of property	—	(4,053)
Net cash used in investing activities	(2,961)	(3,824)
Cash flows from financing activities:		
Net (repayments)/borrowings on line of credit	(4,850)	16,200
Repayments of mortgage notes payable	(3,351)	(22,585)
Financing costs paid	(35)	(1,527)
Dividends paid	(9,279)	(9,187)
Issuance of shares of beneficial interest, net	61	60
Net cash used in financing activities	(17,454)	(17,039)
Increase in cash and cash equivalents	1,036	2,345
Cash and cash equivalents, beginning of period	5,036	3,387
Cash and cash equivalents, end of period	$ 6,072	$ 5,732
Supplemental disclosures of cash flow information:		
Interest paid	$ 5,204	$ 4,711
Invoices accrued for construction and improvements	$ 1,025	$ 668
Right-of-use assets obtained in exchange for lease obligations	$ 8,875	$ -

See accompanying notes to these condensed consolidated financial statements.

(1) General

This Quarterly Report on Form 10-Q is for the quarter ended June 30, 2019. In this Quarterly Report, "we," "us," "our" and the "Trust" refer to Universal Health Realty Income Trust and its subsidiaries.

In this Quarterly Report on Form 10-Q, the term "revenues" does not include the revenues of the unconsolidated LLCs in which we have various non-controlling equity interests ranging from 33% to 95%. As of June 30, 2019, we had investments in four jointly-owned LLCs/LPs which own medical office buildings, all of which are accounted for by the equity method (see Note 5). These LLCs are included in our consolidated financial statements for all periods presented on an unconsolidated basis since they are not variable interest entities for which we are the primary beneficiary, nor do we hold a controlling voting interest.

The condensed consolidated financial statements included herein have been prepared by us, without audit, pursuant to the rules and regulations of the SEC and reflect all normal and recurring adjustments which, in our opinion, 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 in the United States of America (U.S. GAAP) have been condensed or omitted pursuant to such rules and regulations, although we believe that the accompanying disclosures are adequate to make the information presented not misleading. It is suggested that these condensed consolidated financial statements be read in conjunction with the condensed consolidated financial statements, the notes thereto and accounting policies included in our Annual Report on Form 10-K for the year ended December 31, 2018.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the amounts reported in our consolidated financial statements and accompanying notes.

(2) Relationship with Universal Health Services, Inc. ("UHS") and Related Party Transactions

Leases: We commenced operations in 1986 by purchasing properties from certain subsidiaries of UHS and immediately leasing the properties back to the respective subsidiaries. Most of the leases were entered into at the time we commenced operations and provided for initial terms of 13 to 15 years with up to six additional 5-year renewal terms. The current base rentals and lease and renewal terms for each of the three hospital facilities leased to subsidiaries of UHS are provided below. The base rents are paid monthly and each lease also provides for additional or bonus rents which are computed and paid on a quarterly basis based upon a computation that compares current quarter revenue to a corresponding quarter in the base year. The three hospital leases with subsidiaries of UHS are unconditionally guaranteed by UHS and are cross-defaulted with one another.

The combined revenues generated from the leases on the UHS hospital facilities accounted for approximately 21% and 20% of our consolidated revenues for the three months ended June 30, 2019 and 2018, respectively, and approximately 22% and 21% of our consolidated revenues for the six months ended June 30, 2019 and 2018, respectively. In addition, we have seventeen medical office buildings ("MOBs"), or free-standing emergency departments ("FEDs"), that are either wholly or jointly-owned by us, that include tenants which are subsidiaries of UHS. The aggregate revenues generated from UHS-related tenants comprised approximately 30% and 28% of our consolidated revenues during the three-month periods ended June 30, 2019 and 2018, respectively, and approximately 31% and 30% of our consolidated revenues during the six-month periods ended June 30, 2019 and 2018, respectively.

Pursuant to the Master Lease Document by and among us and certain subsidiaries of UHS, dated December 24, 1986 (the "Master Lease"), which governs the leases of all hospital properties with subsidiaries of UHS, UHS has the option to renew the leases at the lease terms described below by providing notice to us at least 90 days prior to the termination of the then current term. UHS also has the right to purchase the respective leased facilities at the end of the lease terms or any renewal terms at the appraised fair market value. In addition, the Master Lease, as amended during 2006, includes a change of control provision whereby UHS has the right, upon one month's notice should a change of control of the Trust occur, to purchase any or all of the three leased hospital properties listed below at their appraised fair market value. Additionally, UHS has rights of first refusal to: (i) purchase the respective leased facilities during and for 180 days after the lease terms at the same price, terms and conditions of any third-party offer, or; (ii) renew the lease on the respective leased facility at the end of, and for 180 days after, the lease term at the same terms and conditions pursuant to any third-party offer.

The table below details the existing lease terms and renewal options for our three acute care hospitals operated by wholly-owned subsidiaries of UHS:

Hospital Name		Annual Minimum Rent	End of Lease Term	Renewal Term (years)	
McAllen Medical Center	$	5,485,000	December, 2026	5	(a)
Wellington Regional Medical Center	$	3,030,000	December, 2021	10	(b)
Southwest Healthcare System, Inland Valley Campus	$	2,648,000	December, 2021	10	(b)

(a) UHS has one 5-year renewal option at the existing lease rate (through 2031).
(b) UHS has two 5-year renewal options at fair market value lease rates (2022 through 2031).

Management cannot predict whether the leases with subsidiaries of UHS, which have renewal options at existing lease rates or fair market value lease rates, or any of our other leases, will be renewed at the end of their lease term. If the leases are not renewed at their current rates or the fair market value lease rates, we would be required to find other operators for those facilities and/or enter into leases on terms potentially less favorable to us than the current leases. In addition, if subsidiaries of UHS exercise their options to purchase the respective leased hospital or FED facilities upon expiration of the lease terms, our future revenues could decrease if we were unable to earn a favorable rate of return on the sale proceeds received, as compared to the lease revenue currently earned pursuant to the these leases.

We are the lessee on nine ground leases with subsidiaries of UHS. The remaining lease terms on the ground leases with subsidiaries of UHS range from approximately 30 years to approximately 79 years. Our annual aggregate lease payments on these properties are approximately $290,000 for each of the years ended 2019, 2020, 2021, 2022 and 2023, and an aggregate of $16.4 million thereafter. See Note 7 for further disclosure around our adoption of the new lease standard.

In August, 2019, Des Moines Medical Properties, LLC, a wholly-owned subsidiary of UHT, entered into an agreement with Clive Behavioral Health, LLC, a joint venture between UHS and Catholic Health Initiatives - Iowa, Corp. (d/b/a Mercy One Des Moines Medical Center), to construct a behavioral health care hospital in Clive, Iowa. The hospital is 100% preleased to Clive Behavioral Health, LLC under a 20-year, triple net lease with five, 10-year renewal options. Construction of the hospital, for which we have engaged a wholly-owned subsidiary of UHS to act as project manager for an aggregate fee of approximately $750,000, is expected to be completed in the fall of 2020 and the lease will commence upon issuance of the certificate of occupancy. The approximate cost of the project is estimated at $37.5 million and the initial annual rent is estimated at approximately $2.7 million.

Officers and Employees: Our officers are all employees of a wholly-owned subsidiary of UHS and although as of June 30, 2019 we had no salaried employees, our officers do typically receive annual stock-based compensation awards in the form of restricted stock. In special circumstances, if warranted and deemed appropriate by the Compensation Committee of the Board of Trustees, our officers may also receive one-time special compensation awards in the form of restricted stock and/or cash bonuses.

Advisory Agreement: UHS of Delaware, Inc. (the “Advisor”), a wholly-owned subsidiary of UHS, serves as Advisor to us under an advisory agreement dated December 24, 1986, and as amended and restated as of January 1, 2019 (the “Advisory Agreement”). Pursuant to the Advisory Agreement, the Advisor is obligated to present an investment program to us, to use its best efforts to obtain investments suitable for such program (although it is not obligated to present any particular investment opportunity to us), to provide administrative services to us and to conduct our day-to-day affairs. All transactions between us and UHS must be approved by the Trustees who are unaffiliated with UHS (the “Independent Trustees”). In performing its services under the Advisory Agreement, the Advisor may utilize independent professional services, including accounting, legal, tax and other services, for which the Advisor is reimbursed directly by us. The Advisory Agreement may be terminated for any reason upon sixty days written notice by us or the Advisor. The Advisory Agreement expires on December 31 of each year; however, it is renewable by us, subject to a determination by the Independent Trustees, that the Advisor’s performance has been satisfactory.

Pursuant to the terms of the original advisory agreement, which was in effect from inception through December 31, 2018, in addition to the advisory fee as discussed below, the Advisor was entitled to an annual incentive fee equal to 20% of the amount by which cash available for distribution to shareholders for each year, as defined in the agreement, exceeded 15% of our equity as shown on our condensed consolidated balance sheet, determined in accordance with generally accepted accounting principles without reduction for return of capital dividends. Cash available for distribution to shareholders was defined as net cash flow from operations less deductions for, among other things, amounts required to discharge our debt and liabilities and reserves for replacement and capital improvements to our properties and investments. Since the incentive fee requirements were not achieved at any time from our inception through December 31, 2018, no incentive fees were paid during that time. Given that the incentive fee requirements had never been achieved, and were deemed unlikely to be achieved in the future, the amended and restated advisory agreement that became effective on January 1, 2019, among other things, eliminated the incentive fee provision.

Our advisory fee for the three and six months ended June 30, 2019 and 2018, was computed at 0.70% of our average invested real estate assets, as derived from our condensed consolidated balance sheets. Based upon a review of our advisory fee and other general and administrative expenses, as compared to an industry peer group, the advisory fee computation remained unchanged for 2019, as compared to the last three years. The average real estate assets for advisory fee calculation purposes exclude certain items from our condensed consolidated balance sheet such as, among other things, accumulated depreciation, cash and cash equivalents, lease receivables, deferred charges and other assets. The advisory fee is payable quarterly, subject to adjustment at year-end based upon our audited financial statements. Advisory fees incurred and paid (or payable) to UHS amounted to $982,000 and $948,000 for the three months ended June 30, 2019 and 2018, respectively and were based upon average invested real estate assets of $561 million and $542 million, respectively. Advisory fees incurred and paid (or payable) to UHS amounted to $2.0 million and $1.9 million for the six months ended June 30, 2019 and 2018, respectively, and were based upon average invested real estate assets of $558 million and $529 million for the six-month periods ended June 30, 2019 and 2018, respectively.

Share Ownership: At each of June 30, 2019 and December 31, 2018, UHS owned 5.7%, of our outstanding shares of beneficial interest.

SEC reporting requirements of UHS: UHS is subject to the reporting requirements of the SEC and is required to file annual reports containing audited financial information and quarterly reports containing unaudited financial information. Since the aggregate revenues generated from the UHS-related tenants comprised 30% and 28% of our consolidated revenues during of the three-month periods ended June 30, 2019 and 2018, respectively, and 31% and 30% of our consolidated revenues during the six-month periods ended June 30, 2019 and 2018, respectively, and since a subsidiary of UHS is our Advisor, you are encouraged to obtain the publicly available filings for Universal Health Services, Inc. from the SEC's website. These filings are the sole responsibility of UHS and are not incorporated by reference herein.

(3) Dividends

Dividends:

During the second quarter of 2019, we declared dividends of $9.4 million, or $.68 per share, which were paid on July 2, 2019. We declared dividends of $9.2 million, or $.67 per share, during the second quarter of 2018, which were paid on July 3, 2018. During the six-month period ended June 30, 2019, we declared dividends of $18.6 million, or $1.355 per share, $9.4 million of which was paid on July 2, 2019. During the six-month period ended June 30, 2018, we declared dividends of $18.3 million, or $1.335 per share, $9.2 million of which was paid on July 3, 2018.

(4) Acquisitions and Dispositions

Six Months Ended June 30, 2019:

Acquisitions:

There were no acquisitions during the first six months of 2019.

Dispositions:

There were no dispositions during the first six months of 2019.

Six Months Ended June 30, 2018:

Acquisitions:

In June, 2018, we acquired the Beaumont Medical Sleep Center Building located in Southfield, Michigan for a purchase price of approximately $4.0 million. The building is 100% leased under the terms of a triple net lease and had a remaining initial lease term of approximately 9.5 years at the time of purchase, with two, five year renewal options.

Dispositions:

There were no dispositions during the first six months of 2018.

(5) Summarized Financial Information of Equity Affiliates

In accordance with U.S. GAAP and guidance relating to accounting for investments and real estate ventures, we account for our unconsolidated investments in LLCs/LPs, which we do not control, using the equity method of accounting. The third-party members in these investments have equal voting rights with regards to issues such as, but not limited to: (i) divestiture of property; (ii) annual budget approval, and; (iii) financing commitments. These investments, which represent 33% to 95% non-controlling ownership interests, are recorded initially at our cost and subsequently adjusted for our net equity in the net income, cash contributions to, and distributions from, the investments. Pursuant to certain agreements, allocations of sales proceeds and profits and losses of some of the LLC investments may be allocated disproportionately as compared to ownership interests after specified preferred return rate thresholds have been satisfied.

Distributions received from equity method investees are classified based upon the nature of the distribution. In the condensed consolidated statements of cash flows, distributions and equity in net income are presented net as cash flows from operating activities. Cash distributions received exceeding equity in earnings represent returns of investments and are classified as cash flows from investing activities in the condensed consolidated statements of cash flows.

At June 30, 2019, we have non-controlling equity investments or commitments in four jointly-owned LLCs/LPs which own MOBs. As of June 30, 2019, we accounted for these LLCs/LPs on an unconsolidated basis pursuant to the equity method since they are not variable interest entities which we are the primary beneficiary nor do we have a controlling voting interest. The majority of these entities are joint-ventures between us and non-related parties that hold minority ownership interests in the entities. Each entity is generally self-sustained from a cash flow perspective and generates sufficient cash flow to meet its operating cash flow requirements and service the third-party debt (if applicable) that is non-recourse to us. Although there is typically no ongoing financial support required from us to these entities since they are cash-flow sufficient, we may, from time to time, provide funding for certain purposes such as, but not limited to, significant capital expenditures, leasehold improvements and debt financing. Although we are not obligated to do so, if approved by us at our sole discretion, additional cash fundings are typically advanced as equity or member loans. These entities maintain property insurance on the properties.

The following property table represents the four LLCs in which we own a noncontrolling interest and were accounted for under the equity method as of June 30, 2019:

Name of LLC/LP	Ownership	Property Owned by LLC/LP
Suburban Properties	33%	St. Matthews Medical Plaza II
Brunswick Associates (a.)	74%	Mid Coast Hospital MOB
Grayson Properties (b.)	95%	Texoma Medical Plaza
FTX MOB Phase II (c.)	95%	Forney Medical Plaza II

(a.) This LLC has a third-party term loan, which is non-recourse to us, of $8.2 million outstanding as of June 30, 2019.

(b.) This building is on the campus of a UHS hospital and has tenants that include subsidiaries of UHS. This LP has a third-party term loan, which is non-recourse to us, of $13.8 million outstanding as of June 30, 2019.

(c.) We have committed to invest up to $2.5 million in equity and debt financing, of which $2.1 million has been funded as of June 30, 2019. This LP has a third-party term loan, which is non-recourse to us, of $5.0 million outstanding as of June 30, 2019.

Below are the condensed combined statements of income (unaudited) for the LLCs/LPs accounted for under the equity method during the three and six months ended June 30, 2019 and 2018.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
	(amounts in thousands)		(amounts in thousands)	
Revenues	$ 2,531	$ 2,451	$ 4,991	$ 4,913
Operating expenses	994	977	2,006	1,935
Depreciation and amortization	485	438	883	895
Interest, net	322	328	644	656
Net income	$ 730	$ 708	$ 1,458	$ 1,427
Our share of net income	$ 454	$ 425	$ 884	$ 854

Below are the condensed combined balance sheets (unaudited) for the four above-mentioned LLCs that were accounted for under the equity method as of June 30, 2019 and December 31, 2018:

	June 30, 2019	December 31, 2018
	(amounts in thousands)	
Net property, including construction in progress	$ 31,154	$ 31,818
Other assets	6,911	3,251
Total assets	$ 38,065	$ 35,069
Other liabilities	$ 5,947	$ 2,717
Mortgage notes payable, non-recourse to us	26,951	27,256
Equity	5,167	5,096
Total liabilities and equity	$ 38,065	$ 35,069
Investments in LLCs before amounts included in accrued expenses and other liabilities	$ 4,962	$ 5,019
Amounts included in accrued expenses and other liabilities	(1,950)	(2,258)
Our share of equity in LLCs, net	$ 3,012	$ 2,761

As of June 30, 2019, and December 31, 2018, aggregate principal amounts due on mortgage notes payable by unconsolidated LLCs, which are accounted for under the equity method and are non-recourse to us, are as follows (amounts in thousands):

Name of LLC/LP	Mortgage Loan Balance (a.) 6/30/2019	12/31/2018	Maturity Date
FTX MOB Phase II (5.00% fixed rate mortgage loan)	$ 4,996	$ 5,067	October, 2020
Grayson Properties (5.034% fixed rate mortgage loan)	13,792	13,929	September, 2021
Brunswick Associates (3.64% fixed rate mortgage loan)	8,163	8,260	December, 2024
	$ 26,951	$ 27,256	

(a.) All mortgage loans require monthly principal payments through maturity and include a balloon principal payment upon maturity.

Pursuant to the operating and/or partnership agreements of the four LLCs/LPs in which we continue to hold non-controlling ownership interests, the third-party member and/or the Trust, at any time, potentially subject to certain conditions, have the right to make an offer ("Offering Member") to the other member(s) ("Non-Offering Member") in which it either agrees to: (i) sell the entire ownership interest of the Offering Member to the Non-Offering Member ("Offer to Sell") at a price as determined by the Offering Member ("Transfer Price"), or; (ii) purchase the entire ownership interest of the Non-Offering Member ("Offer to Purchase") at the equivalent proportionate Transfer Price. The Non-Offering Member has 60 to 90 days to either: (i) purchase the entire ownership interest of the Offering Member at the Transfer Price, or; (ii) sell its entire ownership interest to the Offering Member at the equivalent proportionate Transfer Price. The closing of the transfer must occur within 60 to 90 days of the acceptance by the Non-Offering Member.

(6) Recent Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02 - Leases (Topic 842), which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The guidance amended the existing accounting standards, including the requirement that lessees recognize right-of-use assets and lease liabilities for leases with terms greater than twelve months on their condensed consolidated balance sheet. It also requires disclosures designed to give financial statement users information regarding amount, timing, and uncertainty of cash flows arising from leases. The FASB issued ASU 2018-11, "Leases (Topic 842) Targeted Improvements" in July 2018, which provides lessors with a practical expedient, by class of underlying assets, to not separate non-lease components from the related lease components, and, instead, to account for those components as a single lease component, if certain criteria are met.

We adopted Topic 842 on January 1, 2019, the date it became effective for public companies, and applied the new leasing standard to leases in place as of the effective date using the modified retrospective transition method. We applied Topic 842 to all leases as of January 1, 2019 with comparative periods continuing to be reported under Topic 840. We elected the package of practical expedients and were not required to reassess the following upon adoption: (i) whether an expired or existing contract met the definition of a lease; (ii) the lease classification at January 1, 2019 for existing leases; and (iii) whether leasing costs previously capitalized as initial direct costs would continue to be amortized. This allowed us to continue to account for our existing ground and office space leases as operating leases. Upon adoption, we did not have an adjustment to the opening balance of retained earnings due to the election of these practical expedients. The package of practical expedients provided to lessors allowed us not to separate expenses reimbursed by our customers ("rental recoveries") from the associated rental revenue if certain criteria were met. We assessed these criteria and concluded that the timing and pattern of transfer for rental revenue and the associated rental recoveries are the same and, as our leases qualify as operating leases, we accounted for and presented rental revenue and rental recoveries (UHS facilities and Non-related parties) as a single component under Lease revenue in our condensed consolidated statements of income for the three and six months ended June 30, 2019 and 2018. Upon adoption, we recognized right-of-use assets and lease liabilities for ground leases in which we are the lessee with various third parties, including subsidiaries of UHS, at fourteen of our consolidated properties on the condensed consolidated balance sheet.

See Note 7 for further disclosure around our adoption of the new lease standard.

(7) Lease Accounting

As Lessor:

We lease our operating properties to customers under agreements that are classified as operating leases. We recognize the total minimum lease payments provided for under the leases on a straight-line basis over the lease term. Generally, under the terms of our leases, the majority of our rental expenses, including common area maintenance, real estate taxes and insurance, are recovered from our customers. We record amounts reimbursed by customers in the period that the applicable expenses are incurred, which is generally ratably throughout the term of the lease. We have elected the package of practical expedients that allows lessors to not separate lease and non-lease components by class of underlying asset. This practical expedient allowed us to not separate expenses reimbursed by our customers ("tenant reimbursements") from the associated rental revenue if certain criteria were met. We assessed these criteria and concluded that the timing and pattern of transfer for rental revenue and the associated tenant reimbursements are the same, and as our leases qualify as operating leases, we accounted for and presented rental revenue and tenant reimbursements as a single component under Lease revenue in our condensed consolidated statements of income for the three and six months ended June 30, 2019. As a result of our adoption of this practical expedient, we presented $4.2 million of base rental revenue for UHS facilities, $1.2 million of bonus rental revenue for UHS facilities and $228,000 of tenant reimbursement revenue for UHS facilities as a single component ("Lease revenue – UHS facilities") in the condensed consolidated statements of income for the three months ended June 30, 2018, and $8.4 million of base rental revenue for UHS facilities, $2.5 million of bonus rental revenue for UHS facilities and $461,000 of tenant reimbursement revenue for UHS facilities as a single component ("Lease revenue – UHS facilities") in the condensed consolidated statements of income for the six months ended June 30, 2018 to conform to the 2019 new presentation. Additionally, we presented $10.2 million of base rental revenues from non-related parties and $2.2 million of tenant reimbursements from non-related parties as a single component ("Lease revenue – Non-related parties") in the condensed consolidated statements of income for the three months ended June 30, 2018, and $20.5 million of base rental revenues from non-related parties and $4.4 million of tenant reimbursements from non-related parties as a single component ("Lease revenue – Non-related parties") in the condensed consolidated statements of income for the six months ended June 30, 2018 to conform to the 2019 new presentation.

Minimum future lease revenue from base rents from non-cancelable leases related to properties included in our financial statements on a consolidated basis, excluding increases from changes in the consumer price index, bonus rents and the impact of straight line rent adjustments, are as follows (amounts in thousands):

	June 30, 2019		December 31, 2018
Year ending,			
2019	$ 29,055	(a.)	$ 56,494
2020	53,229		50,291
2021	47,842		45,357
2022	32,459		30,089
2023	26,691		24,972
Thereafter	71,569		67,288
Total minimum base rents	$ 260,845		$ 274,491

(a.) Represents the remaining six months of 2019.

ASU 2016-02 requires that lessors expense certain initial direct costs, which were capitalizable under the previous leasing standard, as incurred. Upon adoption, only the incremental costs of signing a lease will be capitalizable, which was consistent to our historical practice.

As Lessee:

We are the lessee with various third parties, including subsidiaries of UHS, in connection with ground leases for land at fourteen of our consolidated properties. Our right-of-use land assets represent our right to use the land for the lease term and our lease liabilities represent our obligation to make lease payments arising from the leases. Right-of-use assets and lease liabilities were recognized upon adoption of Topic 842 based on the present value of lease payments over the lease term. We utilized our estimated incremental borrowing rate, which was derived from information available as of January 1, 2019, in determining the present value of lease payments. A right-of-use asset and lease liability are not recognized for leases with an initial term of 12 months or less, as these short-term leases are accounted for similar to previous guidance for operating leases. We do not currently have any ground leases with an initial term of 12 months or less. As of June 30, 2019, our condensed consolidated balance sheet includes right-of-use land assets of approximately $8.9 million and ground lease liabilities of approximately $8.9 million.

The components of lease expense payments were as follows (in thousands):

	Three months ended June 30, 2019	Six months ended June 30, 2019
Operating lease cost	$ 120	$ 238
Total lease cost	$ 120	$ 238

During the three months ended June 30, 2019, the cash paid for amounts included in the measurement of lease liabilities related to our operating leases was approximately $120,000, which is included in other operating expenses within the condensed consolidated statements of income. During the six months ended June 30, 2019, the cash paid for amounts included in the measurement of lease liabilities related to our operating leases was approximately $238,000, which is included as an operating cash outflow within the condensed consolidated statement of cash flows and included in other operating expenses within the condensed consolidated statements of income. As of and during the six months ended June 30, 2019, we did not enter into any lease agreements set to commence in the future and there were no newly leased assets for which a right-of-use asset was recorded in exchange for a new lease liability.

Supplemental balance sheet information related to leases was as follows (in thousands):

	June 30, 2019
Operating Leases	
Right-of-use land assets-operating leases	$ 8,862
Total lease liabilities	$ 8,862
Weighted Average remaining lease term, years	
Operating leases	58.8
Weighted Average discount rate	
Operating leases	5.07%

The following table summarizes the fixed, future minimum rental payments, excluding variable costs, which are discounted by our incremental borrowing rate to calculate the lease liabilities for our operating leases in which we are the lessee. We do not include renewal options in the lease term for calculating the lease liability unless we are reasonably certain we will exercise the option. Maturities of lease liabilities were as follows (in thousands):

	June 30, 2019		December 31, 2018
Year ending,			
2019	$ 238	(a.)	$ 474
2020	475		474
2021	475		474
2022	475		474
2023	475		474
Later years	25,640		25,582
Total undiscounted lease payments	$ 27,778		$ 27,952
Less imputed interest	18,916		
Total	$ 8,862		

(a.) Represents the remaining six months of 2019.

(8) Debt and Financial Instruments

Debt:

Management routinely monitors and analyzes the Trust's capital structure in an effort to maintain the targeted balance among capital resources including the level of borrowings pursuant to our $300 million revolving credit agreement, the level of borrowings pursuant to non-recourse mortgage debt secured by the real property of our properties and our level of equity including consideration of additional equity issuances. This ongoing analysis considers factors such as the current debt market and interest rate environment, the current/projected occupancy and financial performance of our properties, the current loan-to-value ratio of our properties, the Trust's current stock price, the capital resources required for anticipated acquisitions and the expected capital to be generated by anticipated divestitures. This analysis, together with consideration of the Trust's current balance of revolving credit agreement borrowings, non-recourse mortgage borrowings and equity, assists management in deciding which capital resource to utilize when events such as refinancing of specific debt components occur or additional funds are required to finance the Trust's growth.

On March 27, 2018, we entered into a revolving credit agreement ("Credit Agreement") which, among other things, increased our borrowing capacity by $50 million to $300 million and extended the maturity date from our previously existing facility. The replacement Credit Agreement, which is scheduled to mature in March 2022, includes a $40 million sublimit for letters of credit and a $30 million sublimit for swingline/short-term loans. The Credit Agreement also provides for options to extend the maturity date for two additional six month periods. Additionally, the Credit Agreement includes an option to increase the total facility borrowing capacity up to an additional $50 million, subject to lender agreement. Borrowings under the Credit Agreement are guaranteed by certain subsidiaries of the Trust. In addition, borrowings under the Credit Agreement are secured by first priority security interests in and liens on all equity interests in certain of the Trust's wholly-owned subsidiaries. Borrowings made pursuant to the Credit Agreement will bear interest, at our option, at one, two, three, or six month LIBOR plus an applicable margin ranging from 1.10% to 1.35% or at the Base Rate plus an applicable margin ranging from 0.10% to 0.35%. The Credit Agreement defines "Base Rate" as the greater of: (a) the administrative agent's prime rate; (b) the federal funds effective rate plus 1/2 of 1%, and; (c) one month LIBOR plus 1%. A facility fee of 0.15% to 0.35% will be charged on the total commitment of the Credit Agreement. The margins over LIBOR, Base Rate and the facility fee are based upon our total leverage ratio. At June 30, 2019, the applicable margin over the LIBOR rate was 1.20%, the margin over the Base Rate was 0.20%, and the facility fee was 0.20%.

At June 30, 2019, we had $191.6 million of outstanding borrowings under our Credit Agreement and $108.4 million of available borrowing capacity. At December 31, 2018, we had $196.4 million of outstanding borrowings outstanding against our revolving credit agreement and $103.6 million of available borrowing capacity. There are no compensating balance requirements.

The Credit Agreement contains customary affirmative and negative covenants, including limitations on certain indebtedness, liens, acquisitions and other investments, fundamental changes, asset dispositions and dividends and other distributions. The Credit Agreement also contains restrictive covenants regarding the Trust's ratio of total debt to total assets, the fixed charge coverage ratio, the ratio of total secured debt to total asset value, the ratio of total unsecured debt to total unencumbered asset value, and minimum tangible net worth, as well as customary events of default, the occurrence of which may trigger an acceleration of amounts outstanding under the Credit Agreement. We are in compliance with all of the covenants at June 30, 2019 and December 31, 2018. We also believe that we would remain in compliance if the full amount of our commitment was borrowed.

The following table includes a summary of the required compliance ratios, giving effect to the covenants contained in the Credit Agreement (dollar amounts in thousands):

	Covenant	June 30, 2019	December 31, 2018
Tangible net worth	> =$125,000	$ 172,786	$ 181,203
Total leverage	< 60%	40.3%	41.3%
Secured leverage	< 30%	9.4%	9.8%
Unencumbered leverage	< 60%	36.2%	37.6%
Fixed charge coverage	> 1.50x	4.0x	4.3x

As indicated on the following table, we have various mortgages, all of which are non-recourse to us, included on our condensed consolidated balance sheet as of June 30, 2019 (amounts in thousands):

Facility Name	Outstanding Balance (in thousands) (a.)	Interest Rate	Maturity Date
700 Shadow Lane and Goldring MOBs fixed rate mortgage loan	$ 5,759	4.54%	June, 2022
BRB Medical Office Building fixed rate mortgage loan	5,825	4.27%	December, 2022
Desert Valley Medical Center fixed rate mortgage loan	4,734	3.62%	January, 2023
2704 North Tenaya Way fixed rate mortgage loan	6,800	4.95%	November, 2023
Summerlin Hospital Medical Office Building III fixed rate mortgage loan	13,197	4.03%	April, 2024
Tuscan Professional Building fixed rate mortgage loan	3,759	5.56%	June, 2025
Phoenix Children’s East Valley Care Center fixed rate mortgage loan	9,079	3.95%	January, 2030
Rosenberg Children's Medical Plaza fixed rate mortgage loan	12,841	4.42%	September, 2033
Total, excluding net debt premium and net financing fees	61,994		
Less net financing fees	(652)		
Plus net debt premium	220		
Total mortgages notes payable, non-recourse to us, net	$ 61,562		

(a.) All mortgage loans require monthly principal payments through maturity and either fully amortize or include a balloon principal payment upon maturity.

On April 2, 2019, a $2.5 million fixed rate mortgage loan on Vibra Hospital – Corpus Christi was fully repaid utilizing borrowings under our Credit Agreement. The lease on this hospital facility expired on June 1, 2019 and we are currently in the process of marking the property for lease to a new tenant.

The mortgages are secured by the real property of the buildings as well as property leases and rents. The mortgages outstanding as of June 30, 2019 had a combined fair value of approximately $64.1 million. At December 31, 2018, we had various mortgages, all of which were non-recourse to us, included in our condensed consolidated balance sheet. The combined outstanding balance of these various mortgages was $65.3 million and had a combined fair value of approximately $64.9 million. The fair value of our debt was computed based upon quotes received from financial institutions. We consider these to be “level 2” in the fair value hierarchy as outlined in the authoritative guidance for disclosure in connection with debt instruments. Changes in market rates on our fixed rate debt impacts the fair value of debt, but it has no impact on interest incurred or cash flow.

Financial Instruments:

During the second quarter of 2016, we entered into an interest rate cap on the total notional amount of $30 million whereby we paid a premium of $115,000. In exchange for the premium payment, the counterparties agreed to pay us the difference between 1.50% and one-month LIBOR if one-month LIBOR rises above 1.50% during the term of the cap. This interest rate cap became effective in January, 2017 and expired in March 2019. From inception through the March, 2019 expiration, we received or accrued approximately

$205,000 in payments made to us by the counterparties ($61,000 of which was received during the first three months of 2019 and $144,000 of which was received during 2018) pursuant to the terms of this cap.

During the third quarter of 2016, we entered into an additional interest rate cap agreement on a total notional amount of $30 million whereby we paid a premium of $55,000. In exchange for the premium payment, the counterparties agreed to pay us the difference between 1.5% and one-month LIBOR if one-month LIBOR rises above 1.5% during the term of the cap. This interest rate cap became effective in October, 2016 and expired in March, 2019. From inception through the March, 2019 expiration, we received or accrued approximately $205,000 in payments made to us by the counterparties ($61,000 of which was received during the first three months of 2019 and $144,000 of which was received during 2018) pursuant to the terms of this cap.

Although we can provide no assurance that we will ultimately do so, we are currently monitoring the interest rate environment and evaluating the terms of potential replacement interest rate cap and/or swap agreements that we may enter into for a large portion, or potentially all, of the $60 million total notional amount of interest rate caps that expired in March, 2019.

(9) Segment Reporting

Our primary business is investing in and leasing healthcare and human service facilities through direct ownership or through joint ventures, which aggregate into a single reportable segment. We actively manage our portfolio of healthcare and human service facilities and may from time to time make decisions to sell lower performing properties not meeting our long-term investment objectives. The proceeds of sales are typically reinvested in new developments or acquisitions, which we believe will meet our planned rate of return. It is our intent that all healthcare and human service facilities will be owned or developed for investment purposes. Our revenue and net income are generated from the operation of our investment portfolio.

Our portfolio is located throughout the United States, however, we do not distinguish or group our operations on a geographical basis for purposes of allocating resources or measuring performance. We review operating and financial data for each property on an individual basis; therefore, we define an operating segment as our individual properties. Individual properties have been aggregated into one reportable segment based upon their similarities with regard to both the nature and economics of the facilities, tenants and operational processes, as well as long-term average financial performance. No individual property meets the requirements necessary to be considered its own segment.

(10) Impact of Hurricane Harvey

In late August 2017, five of our medical office buildings located in the Houston, Texas area incurred extensive water damage as a result of Hurricane Harvey. Until various times during the second quarter of 2018, these properties were temporarily closed and non-operational as we continued to reconstruct and restore them to operational condition. As of June 30, 2018, reconstruction on all of the occupied space in these properties had been completed and operations resumed.

During 2018, pursuant to the terms of a global settlement with our commercial property insurance carrier, we received $5.5 million of additional insurance recovery proceeds bringing the aggregate hurricane-related insurance recoveries to $12.5 million. The aggregate insurance recovery proceeds, which are net of applicable deductibles, covered substantially all of the costs incurred related to the remediation, repair and reconstruction of each of these properties, as well as business interruption recoveries for the lost income related to each of these properties during the period they were non-operational.

Included in our financial results for the three months ended June 30, 2018 are approximately $194,000 of business interruption insurance recovery proceeds. Included in our financial results for the six months ended June 30, 2018 are approximately $1.2 million of business interruption insurance recovery proceeds, covering the period of late August, 2017 through June, 2018, approximately $500,000 of which related to 2017. These business interruption insurance recovery proceeds are included in net cash provided by operating activities in our condensed consolidated statement of cash flows for the six-month period ended June 30, 2018. Additionally, the six months ended June 30, 2018 included approximately $4.5 million of hurricane insurance recoveries in excess of damaged property write-downs, which are included in net cash provided by investing activities in our condensed consolidated statement of cash flows for the six-month period ended June 30, 2018.

2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Overview

We are a real estate investment trust (“REIT”) that commenced operations in 1986. We invest in healthcare and human service related facilities currently including acute care hospitals, rehabilitation hospitals, sub-acute facilities, free-standing emergency departments, childcare centers and medical/office buildings. As of July 31, 2019, we have sixty-nine real estate investments located in twenty states consisting of:

- six hospital facilities consisting of three acute care, one rehabilitation and two sub-acute;
- fifty-five medical/office buildings, including four owned by unconsolidated limited liability companies (“LLCs”)/limited liability partnerships (“LPs”);
- four free-standing emergency departments (“FEDs”), and;
- four pre-school and childcare centers.

Forward Looking Statements and Certain Risk Factors

You should carefully review all of the information contained in this Quarterly Report, and should particularly consider any risk factors that we set forth in this Quarterly Report and in other reports or documents that we file from time to time with the Securities and Exchange Commission (the “SEC”). In this Quarterly Report, we state our beliefs of future events and of our future financial performance. In some cases, you can identify those so-called “forward-looking statements” by words such as “may,” “will,” “should,” “could,” “would,” “predicts,” “potential,” “continue,” “expects,” “anticipates,” “future,” “intends,” “plans,” “believes,” “estimates,” “appears,” “projects” and similar expressions, as well as statements in future tense. You should be aware that those statements are only our predictions. Actual events or results may differ materially. In evaluating those statements, you should specifically consider various factors, including the risks outlined herein and in our Annual Report on Form 10-K for the year ended December 31, 2018 in *Item 1A Risk Factors* and in *Item 7 Management’s Discussion and Analysis of Financial Condition and Results of Operations—Forward Looking Statements*. Those factors may cause our actual results to differ materially from any of our forward-looking statements.

Forward-looking statements should not be read as a guarantee of future performance or results, and will not necessarily be accurate indications of the times at, or by which, such performance or results will be achieved. Forward-looking information is based on information available at the time and/or our good faith belief with respect to future events, and is subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in the statements. Such factors include, among other things, the following:

- a substantial portion of our revenues are dependent upon one operator, Universal Health Services, Inc. (“UHS”), which comprised approximately 30% and 28% of our consolidated revenues for the three-month periods ended June 30, 2019 and 2018, respectively, and approximately 31% and 30% of our consolidated revenues for the six-month periods ended June 30, 2019 and 2018, respectively. We cannot assure you that subsidiaries of UHS will renew the leases, at existing lease rates or fair market value lease rates, on our three acute care hospitals (two of which are scheduled to expire in December, 2021 and one of which is scheduled to expire in December, 2026) and two FEDs. In addition, if subsidiaries of UHS exercise their options to purchase the respective leased hospital facilities and FEDs upon expiration of the lease terms, our future revenues and results of operations could decrease if we were unable to earn a favorable rate of return on the sale proceeds received, as compared to the lease revenue currently earned pursuant to these leases;
- in certain of our markets, the general real estate market has been unfavorably impacted by increased competition/capacity and decreases in occupancy and rental rates which may adversely impact our operating results and the underlying value of our properties;
- a number of legislative initiatives have recently been passed into law that may result in major changes in the health care delivery system on a national or state level to the operators of our facilities, including UHS. No assurances can be given that the implementation of these new laws will not have a material adverse effect on the business, financial condition or results of operations of our operators;
- the potential indirect impact of the Tax Cuts and Jobs Act of 2017 (the “2017 Tax Act”), signed into law on December 22, 2017, which makes significant changes to corporate and individual tax rates and calculation of taxes, which could potentially impact our tenants and jurisdictions, both positively and negatively, in which we do business, as well as the overall investment thesis for REITs;
- a subsidiary of UHS is our Advisor and our officers are all employees of a wholly-owned subsidiary of UHS, which may create the potential for conflicts of interest;

- lost revenues resulting from the exercise of purchase options, lease expirations and renewals and other restructuring (see *Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations-Hospital Leases*, for additional disclosure related to lease expirations that occurred during the second quarter of 2019 on two hospital facilities that, on a combined basis, comprised approximately 2% of our consolidated revenues during each of the years ended December 31, 2018 and 2017);
- our ability to continue to obtain capital on acceptable terms, including borrowed funds, to fund future growth of our business;
- the outcome and effects of known and unknown litigation, government investigations, and liabilities and other claims asserted against us, UHS or the other operators of our facilities. UHS and its subsidiaries are subject to pending legal actions, purported shareholder class actions and shareholder derivative cases, governmental investigations and regulatory actions and the effects of adverse publicity relating to such matters. Since UHS comprised approximately 30% and 31% of our consolidated revenues during the three and six-month periods ended June 30, 2019, respectively, and since a subsidiary of UHS is our Advisor, you are encouraged to obtain and review the disclosures contained in the *Legal Proceedings* section of Universal Health Services, Inc.'s Forms 10-Q and 10-K, as publicly filed with the Securities and Exchange Commission. Those filings are the sole responsibility of UHS and are not incorporated by reference herein;
- failure of UHS or the other operators of our hospital facilities to comply with governmental regulations related to the Medicare and Medicaid licensing and certification requirements could have a material adverse impact on our future revenues and the underlying value of the property;
- the potential unfavorable impact on our business of deterioration in national, regional and local economic and business conditions, including a worsening of credit and/or capital market conditions, which may adversely affect our ability to obtain capital which may be required to fund the future growth of our business and refinance existing debt with near term maturities;
- a deterioration in general economic conditions which could result in increases in the number of people unemployed and/or insured and likely increase the number of individuals without health insurance; as a result, the operators of our facilities may experience decreases in patient volumes which could result in decreased occupancy rates at our medical office buildings;
- a worsening of the economic and employment conditions in the United States could materially affect the business of our operators, including UHS, which may unfavorably impact our future bonus rentals (on the UHS hospital facilities) and may potentially have a negative impact on the future lease renewal terms and the underlying value of the hospital properties;
- real estate market factors, including without limitation, the supply and demand of office space and market rental rates, changes in interest rates as well as an increase in the development of medical office condominiums in certain markets;
- the impact of property values and results of operations of severe weather conditions, including the effects of Hurricane Harvey on several of our properties in Texas;
- government regulations, including changes in the reimbursement levels under the Medicare and Medicaid programs;
- the issues facing the health care industry that affect the operators of our facilities, including UHS, such as: changes in, or the ability to comply with, existing laws and government regulations; unfavorable changes in the levels and terms of reimbursement by third party payors or government programs, including Medicare (including, but not limited to, the potential unfavorable impact of future reductions to Medicare reimbursements resulting from the Budget Control Act of 2011, as discussed below) and Medicaid (most states have reported significant budget deficits that have, in the past, resulted in the reduction of Medicaid funding to the operators of our facilities, including UHS); demographic changes; the ability to enter into managed care provider agreements on acceptable terms; an increase in uninsured and self-pay patients which unfavorably impacts the collectability of patient accounts; decreasing in-patient admission trends; technological and pharmaceutical improvements that may increase the cost of providing, or reduce the demand for, health care, and; the ability to attract and retain qualified medical personnel, including physicians;
- in August, 2011, the Budget Control Act of 2011 (the "2011 Act") was enacted into law. The 2011 Act imposed annual spending limits for most federal agencies and programs aimed at reducing budget deficits by $917 billion between 2012 and 2021, according to a report released by the Congressional Budget Office. The 2011 Act provides for new spending on program integrity initiatives intended to reduce fraud and abuse under the Medicare program. Among its other provisions, the law established a bipartisan Congressional committee, known as the Joint Select Committee on Deficit Reduction (the "Joint Committee"), which was tasked with making recommendations aimed at reducing future federal budget deficits by an additional $1.5 trillion over 10 years. The Joint Committee was unable to reach an agreement by the November 23, 2011 deadline and, as a result, across-the-board cuts to discretionary, national defense and Medicare spending were

implemented on March 1, 2013 resulting in Medicare payment reductions of up to 2% per fiscal year with a uniform percentage reduction across all Medicare programs. The Bipartisan Budget Act of 2015, enacted on November 2, 2015, continued the 2% reductions to Medicare reimbursement imposed under the 2011 Act. We cannot predict whether Congress will restructure the implemented Medicare payment reductions or what federal other deficit reduction initiatives may be proposed by Congress going forward. We also cannot predict the effect these enactments will have on operators (including UHS), and, thus, our business;

- in March, 2010, the Health Care and Education Reconciliation Act of 2010 and the Patient Protection and Affordable Care Act (the "ACA") were enacted into law and created significant changes to health insurance coverage for U.S. citizens as well as material revisions to the federal Medicare and state Medicaid programs. The two combined primary goals of these acts are to provide for increased access to coverage for healthcare and to reduce healthcare-related expenses. Medicare, Medicaid and other health care industry changes are scheduled to be implemented at various times during this decade. Initiatives to repeal the ACA, in whole or in part, to delay elements of implementation or funding, and to offer amendments or supplements to modify its provisions, have been persistent. The ultimate outcomes of legislative attempts to repeal or amend the ACA and legal challenges to the ACA are unknown. Recent Congressional and Presidential election results created a political environment in which there have been repeated attempts to repeal or replace substantial portions of the ACA;

- an increasing number of legislative initiatives have been passed into law that may result in major changes in the health care delivery system on a national or state level. Legislation has already been enacted that has eliminated the penalty for failing to maintain health coverage that was part of the original Legislation. President Trump has already taken executive actions: (i) requiring all federal agencies with authorities and responsibilities under the Legislation to "exercise all authority and discretion available to them to waiver, defer, grant exemptions from, or delay" parts of the Legislation that place "unwarranted economic and regulatory burdens" on states, individuals or health care providers; (ii) the issuance of a final rule in June, 2018 by the Department of Labor to enable the formation of association health plans that would be exempt from certain Legislation requirements such as the provision of essential health benefits; (iii) the issuance of a final rule in August, 2018 by the Department of Labor, Treasury, and Health and Human Services to expand the availability of short-term, limited duration health insurance, (iv) eliminating cost-sharing reduction payments to insurers that would otherwise offset deductibles and other out-of-pocket expenses for health plan enrollees at or below 250 percent of the federal poverty level; (v) relaxing requirements for state innovation waivers that could reduce enrollment in the individual and small group markets and lead to additional enrollment in short-term, limited duration insurance and association health plans; and (vi) the issuance of a proposed rule by the Department of Labor, Treasury, and Health and Human Services that would be incentivize the use of health reimbursement accounts by employers to permit employees to purchase health insurance in the individual market. The uncertainty resulting from these Executive Branch policies has led to reduced Exchange enrollment in 2018 and 2019 and is expected to further worsen the individual and small group market risk pools in future years. It is also anticipated that these and future policies may create additional cost and reimbursement pressures on hospitals. In addition, while attempts to repeal the entirety of the Affordable Care Act ("ACA") have not been successful to date, a key provision of the ACA was repealed as part of the Tax Cuts and Jobs Act and on December 14, 2018, a federal U.S. District Court Judge in Texas ruled the entire ACA is unconstitutional. While that ruling is stayed and has been appealed, it has caused greater uncertainty regarding the future status of the ACA. If all or any parts of the ACA are found to be unconstitutional, it could have a material adverse effect on the business, financial condition and results of operations of the operators of our properties, and, thus, our business;

- there can be no assurance that if any of the announced or proposed changes described above are implemented there will not be negative financial impact on the operators of our hospitals, which material effects may include a potential decrease in the market for health care services or a decrease in the ability of the operators of our hospitals to receive reimbursement for health care services provided which could result in a material adverse effect on the financial condition or results of operations of the operators of our properties, and, thus, our business;

- competition for our operators from other REITs;

- the operators of our facilities face competition from other health care providers, including physician owned facilities and other competing facilities, including certain facilities operated by UHS but the real property of which is not owned by us. Such competition is experienced in markets including, but not limited to, McAllen, Texas, the site of our McAllen Medical Center, a 370-bed acute care hospital, and Riverside County, California, the site of our Southwest Healthcare System-Inland Valley Campus, a 130-bed acute care hospital;

- changes in, or inadvertent violations of, tax laws and regulations and other factors than can affect REITs and our status as a REIT;

- should we be unable to comply with the strict income distribution requirements applicable to REITs, utilizing only cash generated by operating activities, we would be required to generate cash from other sources which could adversely affect our financial condition;
- our ownership interest in four LLCs/LPs in which we hold non-controlling equity interests. In addition, pursuant to the operating and/or partnership agreements of the four LLCs/LPs in which we continue to hold non-controlling ownership interests, the third-party member and the Trust, at any time, potentially subject to certain conditions, have the right to make an offer ("Offering Member") to the other member(s) ("Non-Offering Member") in which it either agrees to: (i) sell the entire ownership interest of the Offering Member to the Non-Offering Member ("Offer to Sell") at a price as determined by the Offering Member ("Transfer Price"), or; (ii) purchase the entire ownership interest of the Non-Offering Member ("Offer to Purchase") at the equivalent proportionate Transfer Price. The Non-Offering Member has 60 to 90 days to either: (i) purchase the entire ownership interest of the Offering Member at the Transfer Price, or; (ii) sell its entire ownership interest to the Offering Member at the equivalent proportionate Transfer Price. The closing of the transfer must occur within 60 to 90 days of the acceptance by the Non-Offering Member;
- fluctuations in the value of our common stock, and;
- other factors referenced herein or in our other filings with the Securities and Exchange Commission.

Given these uncertainties, risks and assumptions, you are cautioned not to place undue reliance on such forward-looking statements. Our actual results and financial condition, including the operating results of our lessees and the facilities leased to subsidiaries of UHS, could differ materially from those expressed in, or implied by, the forward-looking statements.

Forward-looking statements speak only as of the date the statements are made. We assume no obligation to publicly update any forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting forward-looking information, except as may be required by law. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by this cautionary statement.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the amounts reported in our consolidated financial statements and accompanying notes.

We consider our critical accounting policies to be those that require us to make significant judgments and estimates when we prepare our consolidated financial statements, including the following:

Purchase Accounting for Acquisition of Investments in Real Estate: Purchase accounting is applied to the assets and liabilities related to all real estate investments acquired from third parties. In accordance with current accounting guidance, we account for our property acquisitions as acquisitions of assets, which requires the capitalization of acquisition costs to the underlying assets. The fair value of the real estate acquired is allocated to the acquired tangible assets, consisting primarily of land, building and tenant improvements, and identified intangible assets and liabilities, consisting of the value of above-market and below-market leases, and acquired ground leases, based in each case on their fair values. Loan premiums, in the case of above market rate assumed loans, or loan discounts, in the case of below market assumed loans, are recorded based on the fair value of any loans assumed in connection with acquiring the real estate.

The fair values of the tangible assets of an acquired property are determined based on comparable land sales for land and replacement costs adjusted for physical and market obsolescence for the improvements. The fair values of the tangible assets of an acquired property are also determined by valuing the property as if it were vacant, and the "as-if-vacant" value is then allocated to land, building and tenant improvements based on management's determination of the relative fair values of these assets. Management determines the as-if-vacant fair value of a property based on assumptions that a market participant would use, which is similar to methods used by independent appraisers. In addition, there is intangible value related to having tenants leasing space in the purchased property, which is referred to as in-place lease value. Such value results primarily from the buyer of a leased property avoiding the costs associated with leasing the property and also avoiding rent losses and unreimbursed operating expenses during the hypothetical lease-up period. Factors considered by management in performing these analyses include an estimate of carrying costs during the expected lease-up periods considering current market conditions and costs to execute similar leases. In estimating carrying costs, management includes real estate taxes, insurance and other operating expenses and estimates of lost lease revenue during the expected lease-up periods based on current market demand. Management also estimates costs to execute similar leases including leasing commissions, tenant improvements, legal and other related costs. The value of in-place leases are amortized to expense over the remaining initial terms of the respective leases.

In allocating the fair value of the identified intangible assets and liabilities of an acquired property, above-market and below-market in-place lease values are recorded based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) estimated fair market lease rates from the perspective of a market participant for the corresponding in-place leases, measured, for above-market leases, over a period equal to the remaining non-cancelable term of the lease and, for below-market leases, over a period equal to the initial term plus any below market fixed rate renewal periods. The capitalized above-market lease values are amortized as a reduction of rental income over the remaining non-cancelable terms of the respective leases. The capitalized below-market lease values, also referred to as acquired lease obligations, are amortized as an increase to rental income over the initial terms of the respective leases.

Asset Impairment: We review each of our properties for indicators that its carrying amount may not be recoverable. Examples of such indicators may include a significant decrease in the market price of the property, a change in the expected holding period for the property, a significant adverse change in how the property is being used or expected to be used based on the underwriting at the time of acquisition, an accumulation of costs significantly in excess of the amount originally expected for the acquisition or development of the property, or a history of operating or cash flow losses of the property. When such impairment indicators exist, we review an estimate of the future undiscounted net cash flows (excluding interest charges) expected to result from the real estate investment's use and eventual disposition and compare that estimate to the carrying value of the property. We consider factors such as future operating income, trends and prospects, as well as the effects of leasing demand, competition and other factors. If our future undiscounted net cash flow evaluation indicates that we are unable to recover the carrying value of a real estate investment, an impairment loss is recorded to the extent that the carrying value exceeds the estimated fair value of the property. The evaluation of anticipated cash flows is highly subjective and is based in part on assumptions regarding future occupancy, rental rates and capital requirements that could differ materially from actual results in future periods. Since cash flows on properties considered to be long-lived assets to be held and used are considered on an undiscounted basis to determine whether the carrying value of a property is recoverable, our strategy of holding properties over the long-term directly decreases the likelihood of their carrying values not being recoverable and therefore requiring the recording of an impairment loss. If our strategy changes or market conditions otherwise dictate an earlier sale date, an impairment loss may be recognized and such loss could be material. If we determine that the asset fails the recoverability test, the affected assets must be reduced to their fair value.

We generally estimate the fair value of rental properties utilizing a discounted cash flow analysis that includes projections of future revenues, expenses and capital improvement costs that a market participant would use based on the highest and best use of the asset, which is similar to the income approach that is commonly utilized by appraisers. In certain cases, we may supplement this analysis by obtaining outside broker opinions of value or third party appraisals.

In considering whether to classify a property as held for sale, we consider factors such as whether management has committed to a plan to sell the property, the property is available for immediate sale in its present condition for a price that is reasonable in relation to its current value, the sale of the property is probable, and actions required for management to complete the plan indicate that it is unlikely that any significant changes will made to the plan. If all the criteria are met, we classify the property as held for sale. Upon being classified as held for sale, depreciation and amortization related to the property ceases and it is recorded at the lower of its carrying amount or fair value less cost to sell. The assets and related liabilities of the property are classified separately on the consolidated balance sheets for the most recent reporting period. Only those assets held for sale that constitute a strategic shift or that will have a major effect on our operations are classified as discontinued operations.

An other than temporary impairment of an investment in an unconsolidated LLC is recognized when the carrying value of the investment is not considered recoverable based on evaluation of the severity and duration of the decline in value, including projected declines in cash flow. To the extent impairment has occurred, the excess carrying value of the asset over its estimated fair value is charged to income.

Federal Income Taxes: No provision has been made for federal income tax purposes since we qualify as a REIT under Sections 856 to 860 of the Internal Revenue Code of 1986, and intend to continue to remain so qualified. To qualify as a REIT, we must meet certain organizational and operational requirements, including a requirement to distribute at least 90% of our annual REIT taxable income to shareholders. As a REIT, we generally will not be subject to federal, state or local income tax on income that we distribute as dividends to our shareholders. We have historically distributed, and intend to continue to distribute, 100% of our annual REIT taxable income to our shareholders.

We are subject to a federal excise tax computed on a calendar year basis. The excise tax equals 4% of the amount by which 85% of our ordinary income plus 95% of any capital gain income for the calendar year exceeds cash distributions during the calendar year, as defined. No provision for excise tax has been reflected in the financial statements as no tax was due.

Earnings and profits, which determine the taxability of dividends to shareholders, will differ from net income reported for financial reporting purposes due to the differences for federal tax purposes in the cost basis of assets and in the estimated useful lives used to compute depreciation and the recording of provision for investment losses.

Results of Operations

During the three-month period ended June 30, 2019, net income was $4.3 million, as compared to $5.8 million during the second quarter of 2018. The $1.5 million decrease was attributable to:

- $1.7 million decrease in connection with a lease termination agreement entered into and recorded during the second quarter of 2018, related to a single tenant MOB located in Texas that terminated a lease that was scheduled to expire in July, 2020;
- $194,000 decrease resulting from Hurricane Harvey related business interruption insurance recovery proceeds recorded during the second quarter of 2018;
- an increase of approximately $400,000 resulting from non-recurring repairs and remediation expenses incurred at one of our medical office buildings during the second quarter of 2018;
- $148,000 increase in bonus rental revenue related to the UHS hospital facilities;
- $360,000 decrease resulting from an increase in interest expense, primarily due to an increase in our average cost of borrowings under our revolving credit agreement, and;
- approximately $200,000 of other combined net increases.

During the six-month period ended June 30, 2019, net income was $8.5 million as compared to $15.4 million during the six months of 2018. The $6.9 million decrease was primarily attributable to:

- $4.5 million decrease resulting from the first six months of 2018 including Hurricane Harvey related insurance recovery proceeds received in excess of property damage write-offs;
- $1.2 million decrease resulting from the first six months of 2018 including Hurricane Harvey related business interruption insurance recovery proceeds received, including approximately $500,000 which related to 2017;
- $1.7 million decrease in connection with a lease termination agreement entered into during the second quarter of 2018, related to a single tenant MOB located in Texas that terminated a lease that was scheduled to expire in July, 2020;
- $584,000 decrease resulting from an increase in interest expense primarily due to increases in our average outstanding borrowings and our average cost of borrowings under our revolving credit agreement;
- an increase of approximately $400,000 resulting from non-recurring repairs and remediation expenses incurred at one of our medical office buildings during the second quarter of 2018;
- $216,000 increases in bonus rental revenue related to the UHS hospital facilities;
- $250,000 increase resulting from a gain on the sale of land recorded during the first quarter of 2019, and;
- approximately $200,000 of other combined net increases.

Included in our other operating expenses are expenses related to the consolidated medical office buildings, which totaled $4.5 million and $4.9 million for the three-month periods ended June 30, 2019 and 2018, respectively, and $9.0 million and $9.6 million for the six-month periods ended June 30, 2019 and 2018, respectively. The decrease in operating expenses for the three and six months ended June 30, 2019, as compared to June 30, 2018, is partially due to approximately $400,000 of non-recurring repairs and remediation expenses incurred at one of our medical office buildings during the second quarter of 2018. A large portion of the expenses associated with our consolidated medical office buildings is passed on directly to the tenants either directly as tenant reimbursements of common area maintenance expenses or included in base rental amounts. Tenant reimbursements for operating expenses are accrued as revenue in the same period the related expenses are incurred and are included as lease revenue in our condensed consolidated statements of income.

Funds from operations ("FFO") is a widely recognized measure of performance for Real Estate Investment Trusts ("REITs"). We believe that FFO and FFO per diluted share, which are non-GAAP financial measures, are helpful to our investors as measures of our operating performance. We compute FFO, as reflected on the attached Supplemental Schedules, in accordance with standards established by the National Association of Real Estate Investment Trusts ("NAREIT"), which may not be comparable to FFO reported by other REITs that do not compute FFO in accordance with the NAREIT definition, or that interpret the NAREIT definition differently than we interpret the definition. FFO adjusts for the effects of gains, such as gains on transactions and hurricane recovery proceeds in excess of damaged property write-downs during the periods presented. We adjusted for hurricane insurance recovery proceeds in excess of damaged property write-downs for the first six months of 2018 since we believe that this gain is similar in nature and has the same characteristics as an adjustment for gains/losses resulting from the sale of depreciable property, which are required to be excluded from FFO under NAREIT's definition. To the extent a REIT recognizes a gain or loss with respect to the sale of incidental assets, such as the sale of land peripheral to operating properties, the REIT has the option to exclude or include such gains and losses in the calculation of FFO. We have opted to exclude gains and losses from sales of incidental assets in our calculation of FFO. FFO does not represent cash generated from operating activities in accordance with GAAP and should not be considered to be an alternative to net income determined in accordance with GAAP. In addition, FFO should not be used as: (i) an indication of our financial performance determined in accordance with GAAP; (ii) an alternative to cash flow from operating activities determined in accordance with GAAP; (iii) a measure of our liquidity, or; (iv) an indicator of funds available for our cash needs, including our ability to make cash distributions to shareholders.

Below is a reconciliation of our reported net income to FFO for the three and six-month periods ended June 30, 2019 and 2018 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Net income	$ 4,261	$ 5,805	$ 8,473	$ 15,409
Depreciation and amortization expense on consolidated investments	6,426	5,959	13,134	12,110
Depreciation and amortization expense on unconsolidated affiliates	291	254	574	525
Hurricane insurance recovery proceeds in excess of damaged property write-downs	-	-	-	(4,535)
Gain on sale of land	-	-	(250)	-
Funds From Operations	$ 10,978	$ 12,018	$ 21,931	$ 23,509
Weighted average number of shares outstanding - Basic	13,730	13,720	13,729	13,719
Weighted average number of shares outstanding - Diluted	13,749	13,720	13,748	13,719
Funds From Operations per diluted share	$ 0.80	$ 0.88	$ 1.60	$ 1.71

Our FFO decreased $1.0 million, or $.08 per diluted share, during the second quarter of 2019, as compared to the second quarter of 2018. The decrease was primarily due to: (i) an unfavorable impact of approximately $1.7 million, or $.12 per diluted share, due to the above-mentioned lease termination agreement entered into during the second quarter of 2018; (ii) a favorable impact of approximately $400,000, or $.02 per diluted share, consisting of repair and remediation expenses incurred during the second quarter of 2018 at one of our MOBs; (iii) an unfavorable impact of $194,000, or $.01 per diluted share, of business interruption insurance recoveries recorded during the second quarter of 2018 in connection with damage sustained from Hurricane Harvey, and; (iv) other combined net increases of approximately $450,000, or $.03 per diluted share, due to increased net income generated at various properties.

Our FFO decreased $1.6 million, or $.11 per diluted share, during the first six months of 2019, as compared to the first six months of 2018, due to: (i) an unfavorable impact of approximately $1.7 million, or $.12 per diluted share, due to the above-mentioned lease termination agreement entered into during the second quarter of 2018; (ii) a favorable impact of approximately $400,000, or $.02 per diluted share, consisting of repair and remediation expenses incurred during the second quarter of 2018 at one of our MOBs; (iii) an unfavorable impact of approximately $500,000, or $.04 per diluted share, resulting from business interruption insurance recovery proceeds recorded during the six-month period ended June 30, 2018, that related to the period of August,through December of, 2017, and; (iv) other combined favorable net increases of approximately $225,000, or $.02 per diluted share, due to increased net income generated at various properties.

Hurricane Harvey Impact

In late August, 2017, five of our medical office buildings located in the Houston, Texas area, incurred extensive water damage as a result of Hurricane Harvey. Until various times during the second quarter of 2018, these properties were temporarily closed and non-operational as we continued to reconstruct and restore them to operational condition. As of June 30, 2018, reconstruction on all of the occupied space in these properties had been completed and operations had resumed.

During the first quarter of 2018, pursuant to the terms of a global settlement with our commercial property insurance carrier, we received $5.5 million of additional insurance recovery proceeds bringing the aggregate hurricane-related insurance recoveries to $12.5 million. The aggregate insurance recovery proceeds, which are net of applicable deductibles, covered substantially all of the costs incurred related to the remediation, repair and reconstruction of each of these properties as well business interruption recoveries for the lost income related to each of these properties during the period they were non-operational.

Hospital Leases

Included in our portfolio are six hospital facilities that comprised approximately 25% and 26% of our consolidated revenues during 2018 and 2017, respectively. The combined revenues generated from the leases on the three UHS hospital facilities, which have existing lease terms that are scheduled to expire in 2021 (two hospitals) or 2026 (one hospital), accounted for approximately 21% and 22% of our consolidated revenues during 2018 and 2017, respectively.

As disclosed in our Form 10-K for the year ended December 31, 2018, and our Form 10-Q for the quarter ended March 31, 2019, the tenants in two of the remaining three hospital facilities had provided notice to us that they did not intend to renew the leases upon the scheduled expiration of the respective facilities. The leases on these two hospital facilities, which are Encompass Health Deaconess Rehabilitation Hospital located in Evansville, Indiana, and Vibra Hospital of Corpus Christi located in Corpus Christi, Texas, expired on May 31, 2019 and June 1, 2019, respectively. The combined revenues generated from the leases on these two hospital facilities comprised approximately 2% of our consolidated revenues during each of the years ended December 31, 2018 and 2017. Encompass Health Deaconess Rehabilitation Hospital entered into a short-term lease with us, at a substantially increased lease rate as compared to the expired lease rate that is scheduled to expire on September 30, 2019. In connection with this short-term lease, the tenant has three, one-month renewal options that could extend the lease term for an additional one, two or three months beyond September 30, 2019. The tenant that occupied Vibra Hospital of Corpus Christi vacated the property at the end of the lease term on June 1, 2019. Although we are in the process of marketing each property for lease to new tenants, should these properties remain vacant for an extended period of time, or should we experience decreased lease rates on future leases, as compared to prior/expired lease rates, or incur substantial renovation costs to make the properties suitable for other operators/tenants, our future results of operations could be materially unfavorably impacted.

Liquidity and Capital Resources

Net cash provided by operating activities

Net cash provided by operating activities was $21.5 million during the six-month period ended June 30, 2019 as compared to $23.2 million during the comparable period of 2018. The $1.8 million net decrease was attributable to:

- an unfavorable change of $1.8 million due to a decrease in net income plus/minus the adjustments to reconcile net income to net cash provided by operating activities (depreciation and amortization, amortization of debt premium, stock-based compensation, hurricane insurance recovery proceeds in excess of damaged property write-downs and gain on sale of land). This decrease was due primarily to the above-mentioned $1.7 million lease termination revenue recorded during the first six months of 2018 and the above-mentioned $500,000 of business interruption insurance recoveries recorded during the first six months of 2018 that related to 2017, partially offset by the above-mentioned $400,000 repair and remediation expenses incurred at one of our MOBs during the first six months of 2018;
- a favorable change of $669,000 in lease receivable;
- an unfavorable change of $1.1 million in tenant reserves, deposits and deferred and prepaid rents, and;
- other combined net favorable changes of approximately $500,000.

Net cash used in investing activities

Net cash used in investing activities was $3.0 million during the first six months of 2019 as compared to $3.8 million of net cash used in investing activities during the first six months of 2018.

During the six-month period ended June 30, 2019, we funded: (i) $598,000 in equity investments in unconsolidated LLCs, and; (ii) $3.0 million in capital additions to real estate investments including tenant improvements at various MOBs. In addition, during the six-month period ended June 30, 2019, we received: (i) $245,000 of cash proceeds from the divestiture of land, and; (ii) $348,000 of cash distributions in excess of income received from our unconsolidated LLCs.

During the six-month period ended June 30, 2018, we funded: (i) $369,000 in equity investments in an unconsolidated LLC; (ii) $4.2 million in capital additions to real estate investments including tenant improvements at various MOBs; (iii) $4.1 million paid to acquire the Beaumont Medical Sleep Center Building, and; (iv) $192,000 of hurricane related remediation expenses. In addition, during the six-month period ended June 30, 2018, we received: (i) $4.5 million of hurricane insurance proceeds in excess of damaged property write-downs, and; (ii) 501,000 of cash distributions in excess of income received from our unconsolidated LLCs..

Net cash used in financing activities

Net cash used in financing activities was $17.5 million during the six months ended June 30, 2019, as compared to $17.0 million during the six months ended June 30, 2018.

During the six-month period ended June 30, 2019, we paid: (i) $4.9 million of net outstanding borrowings under our revolving credit agreement; (ii) $3.4 million on mortgage notes payable that are non-recourse to us, including the repayment of $2.5 million related to a previously outstanding mortgage note payable on one property that was funded utilizing borrowings under our revolving credit agreement; (iii) $35,000 of financing costs, and; (iv) $9.3 million of dividends (excludes $9.4 million dividend declared on June 12, 2019 that was paid on July 2, 2019). Additionally, during the six months ended June 30, 2019, we received $61,000 of net cash from the issuance of shares of beneficial interest.

During the six-month period ended June 30, 2018, we paid: (i) $22.6 million on mortgage notes payable that are non-recourse to us, including the repayments of $21.7 million related to a previously outstanding mortgage notes payable on three properties, which were funded utilizing borrowings under our revolving credit agreement; (ii) $1.5 million of financing costs related to the revolving credit agreement that was amended during the first quarter of 2018, and; (iii) $9.2 million of dividends (excludes the $9.2 million dividend declared on June 13, 2018 that was paid on July 3, 2018). Additionally, during the six months ended June 30, 2018, we received: (i) $16.2 million of net borrowings on our revolving credit agreement, and; (ii) $60,000 of net cash from the issuance of shares of beneficial interest.

Additional cash flow and dividends paid information for the six-month periods ended June 30, 2019 and 2018:

As indicated on our condensed consolidated statement of cash flows, we generated net cash provided by operating activities of $21.5 million and $23.2 million during the six-month periods ended June 30, 2019 and 2018, respectively. As also indicated on our statement of cash flows, non-cash expenses including depreciation and amortization expense, amortization of debt premium, stock-based compensation expense, hurricane insurance recovery proceeds in excess of damaged property write-downs, and gain on transaction (as applicable) are the primary differences between our net income and net cash provided by operating activities during each period. In addition, as reflected in the cash flows from investing activities section, we received $348,000 and $501,000 during the six-month periods ended June 30, 2019 and 2018, respectively, of cash distributions in excess of income from various unconsolidated LLCs which represents our share of the net cash flow distributions from these entities. The cash distributions in excess of income represent operating cash flows net of capital expenditures and debt repayments made by the LLCs.

We therefore generated $21.8 million and $23.7 million of net cash during the six months ended June 30, 2019 and 2018, respectively, related to the operating activities of our properties recorded on a consolidated and an unconsolidated basis. We declared dividends of $18.6 million during the six months ended June 30, 2019 ($9.4 million of which was paid in July, 2019) and declared dividends of $18.3 million during the six months ended June 30, 2018, ($9.2 million of which was paid in July, 2018). During the first six months of 2019, the $21.8 million of net cash generated related to the operating activities of our properties was approximately $3.2 million greater than the $18.6 million of dividends declared during the first six months of 2019. During the first six months of 2018, the $23.7 million of net cash generated related to the operating activities of our properties was approximately $5.4 million greater than the $18.3 million of dividends declared during the first six months of 2018.

As indicated in the cash flows from investing activities and cash flows from financing activities sections of the statements of cash flows, there were various other sources and uses of cash during the six months ended June 30, 2019 and 2018. From time to time, various other sources and uses of cash may include items such as investments and advances made to/from LLCs, additions to real estate investments, acquisitions/divestiture of properties, net borrowings/repayments of debt, and proceeds generated from the issuance of equity. Therefore, in any given period, the funding source for our dividend payments is not wholly dependent on the operating cash flow generated by our properties. Rather, our dividends as well as our capital reinvestments into our existing properties, acquisitions of real property and other investments are funded based upon the aggregate net cash inflows or outflows from all sources and uses of cash from the properties we own either in whole or through LLCs, as outlined above.

In determining and monitoring our dividend level on a quarterly basis, our management and Board of Trustees consider many factors in determining the amount of dividends to be paid each period. These considerations primarily include: (i) the minimum required amount of dividends to be paid in order to maintain our REIT status; (ii) the current and projected operating results of our properties, including those owned in LLCs, and; (iii) our future capital commitments and debt repayments, including those of our LLCs. Based upon the information discussed above, as well as consideration of projections and forecasts of our future operating cash flows, management and the Board of Trustees have determined that our operating cash flows have been sufficient to fund our dividend payments. Future dividend levels will be determined based upon the factors outlined above with consideration given to our projected future results of operations.

We expect to finance all capital expenditures and acquisitions and pay dividends utilizing internally generated and additional funds. Additional funds may be obtained through: (i) borrowings under our existing $300 million revolving credit agreement (which had $108.4 million of available borrowing capacity, net of outstanding borrowings as of June 30, 2019); (ii) borrowings under or refinancing of existing third-party debt pursuant to mortgage loan agreements entered into by our consolidated and unconsolidated LLCs/LPs; (iii) the issuance of equity, and/or; (iv) the issuance of other long-term debt.

We believe that our operating cash flows, cash and cash equivalents, available borrowing capacity under our revolving credit agreement and access to the capital markets provide us with sufficient capital resources to fund our operating, investing and financing requirements for the next twelve months, including providing sufficient capital to allow us to make distributions necessary to enable us to continue to qualify as a REIT under Sections 856 to 860 of the Internal Revenue Code of 1986. In the event we need to access the capital markets or other sources of financing, there can be no assurance that we will be able to obtain financing on acceptable terms or within an acceptable time. Our inability to obtain financing on terms acceptable to us could have a material unfavorable impact on our results of operations, financial condition and liquidity.

Credit facilities and mortgage debt

Management routinely monitors and analyzes the Trust's capital structure in an effort to maintain the targeted balance among capital resources including the level of borrowings pursuant to our $300 million revolving credit agreement, the level of borrowings pursuant to non-recourse mortgage debt secured by the real property of our properties and our level of equity including consideration of additional equity issuances. This ongoing analysis considers factors such as the current debt market and interest rate environment, the current/projected occupancy and financial performance of our properties, the current loan-to-value ratio of our properties, the Trust's current stock price, the capital resources required for anticipated acquisitions and the expected capital to be generated by anticipated divestitures. This analysis, together with consideration of the Trust's current balance of revolving credit agreement borrowings, non-recourse mortgage borrowings and equity, assists management in deciding which capital resource to utilize when events such as refinancing of specific debt components occur or additional funds are required to finance the Trust's growth.

On March 27, 2018, we entered into a revolving credit agreement ("Credit Agreement") which, among other things, increased our borrowing capacity by $50 million to $300 million and extended the maturity date from our previously existing facility. The replacement Credit Agreement, which is scheduled to mature in March, 2022, includes a $40 million sublimit for letters of credit and a $30 million sub limit for swingline/short-term loans. The Credit Agreement also provides for options to extend the maturity date for two additional six month periods. Additionally, the Credit Agreement includes an option to increase the total facility borrowing capacity up to an additional $50 million, subject to lender agreement. Borrowings under the Credit Agreement are guaranteed by certain subsidiaries of the Trust. In addition, borrowings under the Credit Agreement are secured by first priority security interests in and liens on all equity interests in certain of the Trust's wholly-owned subsidiaries. Borrowings made pursuant to the Credit Agreement will bear interest, at our option, at one, two, three, or six month LIBOR plus an applicable margin ranging from 1.10% to 1.35% or at the Base Rate plus an applicable margin ranging from 0.10% to 0.35%. The Credit Agreement defines "Base Rate" as the greater of: (a) the administrative agent's prime rate; (b) the federal funds effective rate plus 1/2 of 1%, and; (c) one month LIBOR plus 1%. A facility fee of 0.15% to 0.35% will be charged on the total commitment of the Credit Agreement. The margins over LIBOR, Base Rate and the facility fee are based upon our total leverage ratio. At June 30, 2019, the applicable margin over the LIBOR rate was 1.20%, the margin over the Base Rate was 0.20%, and the facility fee was 0.20%.

At June 30, 2019, we had $191.6 million of outstanding borrowings under our Credit Agreement and $108.4 million of available borrowing capacity. At December 31, 2018, we had $196.4 million of outstanding borrowings outstanding against our revolving credit agreement and $103.6 million of available borrowing capacity. There are no compensating balance requirements.

The Credit Agreement contains customary affirmative and negative covenants, including limitations on certain indebtedness, liens, acquisitions and other investments, fundamental changes, asset dispositions and dividends and other distributions. The Credit Agreement also contains restrictive covenants regarding the Trust's ratio of total debt to total assets, the fixed charge coverage ratio, the ratio of total secured debt to total asset value, the ratio of total unsecured debt to total unencumbered asset value, and minimum tangible net worth, as well as customary events of default, the occurrence of which may trigger an acceleration of amounts outstanding under the Credit Agreement. We are in compliance with all of the covenants at June 30, 2019 and December 31, 2018. We also believe that we would remain in compliance if the full amount of our commitment was borrowed.

The following table includes a summary of the required compliance ratios, giving effect to the covenants contained in the Credit Agreement (dollar amounts in thousands):

	Covenant	June 30, 2019	December 31, 2018
Tangible net worth	> =$125,000	$ 172,786	$ 181,203
Total leverage	< 60%	40.3%	41.3%
Secured leverage	< 30%	9.4%	9.8%
Unencumbered leverage	< 60%	36.2%	37.6%
Fixed charge coverage	> 1.50x	4.0x	4.3x

As indicated on the following table, we have various mortgages, all of which are non-recourse to us, included on our condensed consolidated balance sheet as of June 30, 2019 (amounts in thousands):

Facility Name	Outstanding Balance (in thousands) (a.)	Interest Rate	Maturity Date
700 Shadow Lane and Goldring MOBs fixed rate mortgage loan	$ 5,759	4.54%	June, 2022
BRB Medical Office Building fixed rate mortgage loan	5,825	4.27%	December, 2022
Desert Valley Medical Center fixed rate mortgage loan	4,734	3.62%	January, 2023
2704 North Tenaya Way fixed rate mortgage loan	6,800	4.95%	November, 2023
Summerlin Hospital Medical Office Building III fixed rate mortgage loan	13,197	4.03%	April, 2024
Tuscan Professional Building fixed rate mortgage loan	3,759	5.56%	June, 2025
Phoenix Children’s East Valley Care Center fixed rate mortgage loan	9,079	3.95%	January, 2030
Rosenberg Children's Medical Plaza fixed rate mortgage loan	12,841	4.42%	September, 2033
Total, excluding net debt premium and net financing fees	61,994		
Less net financing fees	(652)		
Plus net debt premium	220		
Total mortgages notes payable, non-recourse to us, net	$ 61,562		

(a.) All mortgage loans require monthly principal payments through maturity and either fully amortize or include a balloon principal payment upon maturity.

On April 2, 2019, the $2.5 million fixed rate mortgage loan on Vibra Hospital – Corpus Christi was fully repaid utilizing borrowings under our Credit agreement.

The mortgages are secured by the real property of the buildings as well as property leases and rents. The mortgages outstanding as of June 30, 2019 had a combined fair value of approximately $64.1 million. At December 31, 2018, we had various mortgages, all of which were non-recourse to us, included in our consolidated balance sheet. The combined outstanding balance of these various mortgages was $65.3 million and had a combined fair value of approximately $64.9 million.

Changes in market rates on our fixed rate debt impacts the fair value of debt, but it has no impact on interest incurred or cash flow.

Off Balance Sheet Arrangements

As of June 30, 2019 and December 31, 2018, we do not have any off balance sheet arrangements other than equity and debt financing commitments.

Acquisition and Divestiture Activity

Please see Note 4 to the condensed consolidated financial statements for completed transactions.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Reference is made to Item 7A in our Annual Report on Form 10-K for the year ended December 31, 2018. There have been no material changes in the quantitative and qualitative disclosures during the first six months of 2019.

Item 4. Controls and Procedures

As of June 30, 2019, under the supervision and with the participation of our management, including the Trust’s Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), we performed an evaluation of the effectiveness of our disclosure controls and procedures as defined in Rule 13a-15(e) or Rule 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “1934 Act”).

Based on this evaluation, the CEO and CFO have concluded that our disclosure controls and procedures are effective to ensure that material information is recorded, processed, summarized and reported by management on a timely basis in order to comply with our disclosure obligations under the 1934 Act and the SEC rules thereunder.

On January 1, 2019, we adopted ASC 842. In connection with our adoption of ASC 842 we did implement changes to our internal controls relating to leases. These changes included the development of new policies, enhanced contract review requirements and other ongoing monitoring activities. These controls were designed to provide assurance at a reasonable level of the fair presentation of our condensed consolidated financial statements and related disclosures.

There have been no other changes in our internal control over financial reporting or in other factors during the first six months of 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION
UNIVERSAL HEALTH REALTY INCOME TRUST

Item 1A. Risk Factors

Our Annual Report on Form 10-K for the year ended December 31, 2018 includes a listing of risk factors to be considered by investors in our securities. There have been no material changes in our risk factors from those set forth in our Annual Report on Form 10-K for the year ended December 31, 2018.

Item 6. Exhibits

(a.) Exhibits:

31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a)/15(d)-14(a) under the Securities Exchange Act of 1934, as amended.
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a)/15(d)-14(a) under the Securities Exchange Act of 1934, as amended.
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document – the instance document does not appear in the Interactive Data file because iXBRL tags are embedded within the Inline XBRL document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

EXHIBIT INDEX

Exhibit No.	Description
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101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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: August 8, 2019

UNIVERSAL HEALTH REALTY INCOME TRUST
(Registrant)

/s/ Alan B. Miller
Alan B. Miller,
Chairman of the Board,
President and Chief Executive Officer
(Principal Executive Officer)

/s/ Charles F. Boyle
Charles F. Boyle, Vice President and Chief Financial Officer
(Principal Financial Officer)

Exhibit 31.1

CERTIFICATION—Chief Executive Officer

I, Alan B. Miller, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Universal Health Realty Income Trust;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2019

/s/ Alan B. Miller
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION—Chief Financial Officer

I, Charles F. Boyle, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Universal Health Realty Income Trust;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2019

/s/ Charles F. Boyle

Vice President and Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Universal Health Realty Income Trust (the "Trust") on Form 10-Q for the quarter ended June 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Alan B. Miller, President and Chief Executive Officer of the Trust, hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(i) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Trust at the end of, and for the period covered by, the Report.

/s/ Alan B. Miller
President and Chief Executive Officer
August 8, 2019

A signed original of this written statement required by Section 906 has been provided to the Trust and will be retained and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Universal Health Realty Income Trust (the “Trust”) on Form 10-Q for the quarter ended June 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Charles F. Boyle, Vice President and Chief Financial Officer of the Trust, hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(i) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Trust at the end of, and for the period covered by, the Report.

/s/ Charles F. Boyle
Vice President and Chief Financial Officer
August 8, 2019

A signed original of this written statement required by Section 906 has been provided to the Trust and will be retained and furnished to the Securities and Exchange Commission or its staff upon request.