

FORM 10-K
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(MARK ONE)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES AND EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 1998
OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934 For
the transition period from _____ to

Commission File No. 1-9321

UNIVERSAL HEALTH
REALTY INCOME TRUST
(Exact name of registrant as specified in its charter)

Maryland 23-6858580
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification Number)

Universal Corporate Center
367 South Gulph Road
P.O. Box 61558 19406-0958
King of Prussia, Pennsylvania (Zip Code)
(Address of principal executive offices)

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

Securities registered pursuant to Section 12(b) of the Act:
Title of each Class Name of each exchange on which registered
Shares of beneficial interest, \$.01 par value New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant (1) has filed all reports to be
filed by Section 13 or 15(d) of the Securities and 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 if disclosure of delinquent filers pursuant to Item 405
of Regulation S-K is not contained herein, and will not be contained, to the
best of Registrant's knowledge, in definitive proxy or information statements
incorporated by reference in Part III of this Form 10-K or any amendment to this
Form 10-K. ☐

Aggregate market value of voting shares held by non-affiliates as of January 31,
1999: \$168,231,750.
Number of shares of beneficial interest outstanding of registrant as of January
31, 1999: 8,955,465.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for its 1999 Annual
Meeting of Shareholders, which will be filed with the Securities and Exchange
Commission within 120 days after December 31, 1998 (incorporated by reference
under Part III).

PART I

Item 1. BUSINESS

General

The Trust commenced operations on December 24, 1986. As of December 31,
1998, the Trust had investments in thirty-one facilities located in
fourteen states consisting of the following:

Facility Name	Location	Type of Facility	Guarantor
Chalmette Medical Center	(A) Chalmette, LA	Acute Care	Universal Health Services, Inc.
Virtue Street Pavilion	(A) Chalmette, LA	Rehabilitation	Universal Health Services, Inc.
Inland Valley Regional Medical Ctr.	(A) Wildomar, CA	Acute Care	Universal Health Services, Inc.
McAllen Medical Center	(A) McAllen, TX	Acute Care	Universal Health Services, Inc.
Meridell Achievement Center	(A) Austin, TX	Behavioral Health	Universal Health Services, Inc.
The Bridgeway	(A) N.Little Rock, AR	Behavioral Health	Universal Health Services, Inc.
Wellington Regional Medical Center	(A) W.Palm Beach, FL	Acute Care	Universal Health Services, Inc.
Vencor Hospital - Chicago	(B) Chicago, IL	Sub-Acute Care	Vencor, Inc.
Tri-State Rehabilitation Hospital	(B) Evansville, IN	Rehabilitation	HEALTHSOUTH Corporation
Fresno Herndon Medical Plaza	(B) Fresno, CA	Medical Office Bldg.	---
Family Doctor's Medical Office Bldg.	(B) Shreveport, LA	Medical Office Bldg.	Columbia/HCA Healthcare Corp.
Kelsey-Seybold Clinic at Kings Crossing	(B) Kingwood, TX	Medical Office Bldg.	Caremark International, Inc.
Professional Bldgs. at Kings Crossing	(B) Kingwood, TX	Medical Office Bldg.	---
Chesterbrook Academy	(B) Audubon, PA	Preschool & Childcare	Nobel Education Dynamics & Subs.
Carefree Learning Center	(B) New Britain, PA	Preschool & Childcare	Nobel Education Dynamics & Subs.
Carefree Learning Center	(B) Newtown, PA	Preschool & Childcare	Nobel Education Dynamics & Subs.
Carefree Learning Center	(B) Uwchlan, PA	Preschool & Childcare	Nobel Education Dynamics & Subs.
Southern Crescent Center	(B) Riverdale, GA	Medical Office Bldg.	---
Desert Samaritan Hospital MOBs	(C) Phoenix, AZ	Medical Office Bldg.	---

Suburban Medical Center MOB	(D)	Louisville, KY	Medical Office Bldg.	---
Maryvale Samaritan Hospital MOB	(E)	Phoenix, AZ	Medical Office Bldg.	---
Desert Valley Medical Center MOB	(F)	Phoenix, AZ	Medical Office Bldg.	---
Thunderbird Paseo Medical Plaza	(G)	Glendale, AZ	Medical Office Bldg.	---
Cypresswood Professional Center	(H)	Houston, TX	Medical Office Bldg.	---
Samaritan West Valley Medical Ctr.	(I)	Goodyear, AZ	MOB, Imaging Ctr.	---
Edwards Medical Plaza	(F)	Phoenix, AZ	Medical Office Bldg.	---
Desert Springs Medical Plaza	(J)	Las Vegas, NV	Medical Office Bldg.	Quorum Health Group, Inc.
Pacifica Palms Medical Plaza	(F)	Torrance, CA	Medical Office Bldg.	---
St. Jude Heritage Health Complex	(K)	Fullerton, CA	Medical Office Bldg.	---
Rio Rancho Medical Center	(L)	Rio Rancho, NM	Medical Office Bldg.	---
Lake Shore Hospital	(M)	Manchester, NH	Unoccupied	---

- (A) Leased to subsidiaries of Universal Health Services, Inc.
- (B) Real estate assets owned by the Trust and leased to an unaffiliated third-party or parties.
- (C) The Trust has a 61% equity interest in a limited liability company ("LLC") which owns the real estate assets of this facility.
- (D) The Trust has a 33% equity interest in a LLC which owns the real estate assets of this facility on which construction was completed during the third quarter of 1996. In connection with this property, the Trust posted a \$3.5 million standby letter of credit for the benefit of the third-party lending institution that provided financing which matures in May, 1999.
- (E) The Trust has a 60% interest in a LLC which owns the real estate assets of this facility.
- (F) The Trust has a 95% equity interest in a LLC which owns the real estate assets of this facility.
- (G) The Trust has a 75% equity interest in a LLC which owns the real estate assets of this facility.
- (H) The Trust has provided financing, which matures in August, 2002, to a limited partnership in which the Trust owns a 77% controlling interest. Construction on this facility was completed on a substantial portion of the building and the facility was opened during the third quarter of 1997. In connection with this investment, the Trust made a capital contribution of \$343,000 to the limited partnership.
- (I) The Trust has a 89% equity interest in a LLC which owns the real estate assets of this facility. Construction was completed and the facility opened during the fourth quarter of 1997.

- (J) The Trust has a 99% equity interest in a LLC which owns the real estate assets of this facility.
- (K) The Trust has a 48% equity interest in a LLC which owns the real estate assets of this facility.
- (L) The Trust has a 80% equity interest in a LLC which owns the real estate assets of this facility.
- (M) The Trust received free and clear title to the real estate assets of Lake Shore Hospital during 1995. The Trust continues to market this facility to third parties interested in purchasing or leasing the real estate assets.

In this Annual Report on Form 10-K, the term "revenues" does not include the revenues of the unconsolidated limited liability companies in which the Trust has various non-controlling equity interests ranging from 33% to 99%. The Trust accounts for its share of the income/loss from these investments by the equity method.

As of December 31, 1998, the Trust has invested an aggregate of \$202 million in various real estate assets, mortgage loans, construction loans and limited liability companies and limited partnerships which own real estate assets. Included in the Trust's portfolio is ownership of nine hospital facilities (aggregate investment of \$136 million) which contain an aggregate of 1,279 licensed beds. The leases with respect to such facilities comprised 81% of the Trust's 1998 revenues, have fixed terms with an average of 5.2 years remaining and provide for renewal options for up to six five-year terms. During 1998, wholly-owned subsidiaries of Universal Health Services, Inc. ("UHS") exercised five-year renewal options on four hospitals owned by the Trust which were scheduled to expire in 1999 through 2001. The leases on these facilities were renewed at the same lease rates and terms as the initial leases. Minimum rents are payable based on the initial acquisition costs of the facilities and, with respect to all facilities other than the one leased to Vencor Hospital - Chicago, additional rents are payable based upon a percentage of each facility's revenue in excess of base year amounts or CPI increases in excess of base year amounts. The lessees have rights of first refusal to purchase the facilities exercisable during and in most cases for 180 days after the expiration of the lease terms and also have purchase options exercisable upon three to six months notice at the end of each lease term at the facility's fair market value. Subsequent to December 31, 1998, the lease on Tri-State Rehabilitation Hospital was amended and renewed for a five-year term commencing June 1, 1999 and ending May 31, 2004. Pursuant to the terms of the lease, as amended, the minimum rent has been increased and the additional rent provision has been eliminated.

For the hospital facilities owned by the Trust, the combined ratio of earnings before interest, taxes, depreciation, amortization and lease and rental expense (EBITDAR) (excluding a favorable prior year net revenue adjustment recorded during 1996 at one of the Trust's facilities) to minimum rent plus additional rent payable to the Trust was approximately 5.1, 4.7 and 5.0 for the years ended December 31, 1998, 1997 and 1996, respectively. The coverage ratio for individual facilities varies (see "Relationship to Universal Health Services, Inc.").

Pursuant to the terms of the leases with subsidiaries of UHS, UHS is responsible for building operations, maintenance and renovations required at the seven hospital facilities leased from the Trust. For the Trust's multi-tenant medical office buildings, cash reserves have been established to fund required building maintenance and renovations. Lessees are required to maintain all risk, replacement cost and commercial property insurance policies on the leased properties. The Trust is one of the named insured and believes the leased properties are adequately insured.

Relationship to Universal Health Services, Inc.

Leases. As of December 31, 1998, subsidiaries of UHS leased seven of the nine hospital facilities owned by the Trust with terms expiring in 2000 through 2006. The leases to the subsidiaries of UHS are guaranteed by UHS and are cross-defaulted with one another. Each of the leases contains

renewal options of up to six five-year periods. These leases accounted for 75% of the total revenue of the Trust for the five years ended December 31, 1998 (72% for the three years ended December 31, 1998).

During the third quarter of 1998, wholly-owned subsidiaries of UHS exercised five-year renewal options on four hospitals owned by the Trust which were scheduled to expire in 1999 through 2001 (Virtue Street Pavilion, The Bridgeway, Inland Valley Regional Medical Center and Wellington Regional Medical Center). The leases on these facilities were renewed at the same lease rates and terms as the initial leases and these renewals remove the majority of the previously disclosed uncertainty regarding the lease renewals with subsidiaries of UHS. As part of the renewal agreement, the Trust also agreed to grant additional fixed rate renewal options to a wholly-owned subsidiary of UHS commencing in 2022 on the real property of McAllen Medical Center. The leases on the four renewed facilities represented 30% of the Trust's rental revenue for the twelve month period ended December 31, 1998. On a combined basis, these four facilities had earnings before interest, taxes, depreciation, amortization and lease and rental expense (EBITDAR) for the twelve month period ended December 31, 1998 of 1.8 times the annual rent payable to the Trust (ranging from 1.2 to 3.0). The remaining UHS facilities, including McAllen Medical Center, had a combined EBITDAR for the twelve month period ended December 31, 1998 of 7.7 times the annual rent payable to the Trust (ranging from 1.1 to 8.6). The lease on one UHS facility, which had EBITDAR for the twelve month period ended December 31, 1998 of 1.1 times the rent payable to the Trust, expires in 2000 and represented approximately 5% of the Trust's rental revenue for the twelve month period ended December 31, 1998. Management of the Trust can not predict whether the leases with subsidiaries of UHS, which have renewal options at existing lease rates, or any of the Trust's other leases, will be renewed at the end of their initial term or first five-year renewal term.

In recent years, an increasing number of legislative initiatives have been introduced or proposed in Congress and in state legislatures that would effect major changes in the healthcare system, either nationally or at the state level (see "Regulation"). In addition, the healthcare industry has been characterized in recent years by increased competition and consolidation. Management of the Trust is unable to predict the effect, if any, these industry factors will have on the operating results of its lessees, including the facilities leased to subsidiaries of UHS, or on their ability to meet their obligations under the terms of their leases with the Trust.

Pursuant to the terms of the leases with UHS, the lessees have 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 leases also grant the lessees options, exercisable on at least six months notice, to purchase the respective leased facilities at the end of the lease term or any renewal term at the facility's then fair market value. The terms of the leases also provide that in the event UHS discontinues operations at the leased facility for more than one year, or elects to terminate its lease prior to the expiration of its term for prudent business reasons, UHS is obligated to offer a substitution property. If the Trust does not accept the substitution property offered, UHS is obligated to purchase the leased facility back from the Trust at a price equal to the greater of its then fair market value or the original purchase price paid by the Trust. As noted below, transactions with UHS must be approved by a majority of the Trustees who are unaffiliated with UHS (the "Independent Trustees"). The purchase options and rights of first refusal granted to the respective lessees to purchase or lease the respective leased facilities, after the expiration of the lease term, may adversely affect the Trust's ability to sell or lease a facility, and may present a

potential conflict of interest between the Trust and UHS since the price and terms offered by a third-party are likely to be dependent, in part, upon the financial performance of the facility during the final years of the lease term.

Advisory Agreement. UHS of Delaware, Inc. (the "Advisor"), a wholly-owned subsidiary of UHS, serves as Advisor to the Trust under an Advisory Agreement dated December 24, 1986 between the Advisor and the Trust (the "Advisory Agreement"). Under the Advisory Agreement, the Advisor is obligated to present an investment program to the Trust, to use its best efforts to obtain investments suitable for such program (although it is not obligated to present any particular investment opportunity to the Trust), to provide administrative services to the Trust and to conduct the Trust's day-to-day affairs. In performing its services under the Advisory Agreement, the Advisor may utilize independent professional services, including accounting, legal and other services, for which the Advisor is reimbursed directly by the Trust. The Advisory Agreement expires on December 31 of each year; however, it is renewable by the Trust, subject to a determination by the Independent Trustees that the Advisor's performance has been satisfactory. The Advisory Agreement may be terminated for any reason upon sixty days written notice by the Trust or the Advisor. The Advisory Agreement has been renewed for 1999. All transactions with UHS must be approved by the Independent Trustees. The Advisory Agreement provides that the Advisor is entitled to receive an annual advisory fee equal to .60% of the average invested real estate assets of the Trust, as derived from its consolidated balance sheet from time to time. In addition, the Advisor is 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 Advisory Agreement, exceeds 15% of the Trust's equity as shown on its balance sheet, determined in accordance with generally accepted accounting principles without reduction for return of capital dividends. No incentive fees were paid during 1998, 1997 and 1996. The advisory fee is payable quarterly, subject to adjustment at year end based upon audited financial statements of the Trust.

Share Purchase Option. UHS has the option to purchase shares of beneficial interest in the Trust at fair market value to maintain a 5% interest in the Trust. As of December 31, 1998, UHS owned 8% of the outstanding shares of beneficial interest.

Competition

The Trust believes that it is one of twelve publicly traded real estate investment trusts (REITs) currently investing primarily in income-producing real estate with an emphasis on healthcare related facilities. The REITs compete with one another in that each is continually seeking attractive investment opportunities in healthcare related facilities.

The Trust may also compete with banks and other companies, including UHS, in the acquisition, leasing and financing of healthcare related facilities. In most geographical areas in which the Trust's facilities operate, there are other facilities which provide services comparable to those offered by the Trust's facilities, some of which are owned by governmental agencies and supported by tax revenues, and others of which are owned by nonprofit corporations and may be supported to a large extent by endowments and charitable contributions. Such support is not available to the Trust's facilities. In addition, certain hospitals which are located in the areas served by the Trust's facilities are special service hospitals providing medical, surgical and behavioral health services that are not available at the Trust's hospitals or other general hospitals. The competitive position of a hospital is to a large degree dependent upon the number and quality of staff physicians. Although a physician may at any time terminate his or her affiliation with a hospital, the Trust's hospitals seek to retain doctors of varied specializations on its hospital staffs and to attract other

qualified doctors by improving facilities and maintaining high ethical and professional standards.

The Trust's hospital facilities continue to experience a shift in payor mix resulting in an increase in revenues attributable to managed care payors and unfavorable general industry trends which include pressures to control healthcare costs. Providers participating in managed care programs agree to provide services to patients for a discount from established rates which generally results in pricing concessions by the providers and lower margins. Additionally, managed care companies generally encourage alternatives to inpatient treatment settings and reduce utilization of inpatient services. In response to increased pressure on revenues, the Trust's hospital facilities continue to implement cost control programs including more efficient staffing standards and re-engineering of services. Pressure on operating margins is expected to continue due to, among other things, the changes in Medicare payments mandated by the Balanced Budget Act of 1997 which became effective October 1, 1997 and the industry-wide trend towards managed care which limits the ability of the Trust's hospital facilities to increase their prices.

Outpatient treatment and diagnostic facilities, outpatient surgical centers, and freestanding ambulatory surgical centers also impact the healthcare marketplace. Many of the Trust's facilities continue to experience an increase in outpatient revenues which is primarily the result of advances in medical technologies and pharmaceutical improvements, which allow more services to be provided on an outpatient basis, and increased pressure from Medicare, Medicaid, health maintenance organizations ("HMOs"), preferred provider organizations ("PPOs"), and insurers to reduce hospital stays and provide services, where possible, on a less expensive outpatient basis. The hospital industry in the United States, as well as the Trust's hospital facilities, continue to have significant unused capacity which has created substantial competition for patients. Inpatient utilization continues to be negatively affected by payor-required, pre-admission authorization and by payor pressure to maximize outpatient and alternative healthcare delivery services for less acutely ill patients. The Trust expects its hospital facilities to continue to experience increased competition, admission constraints and payor pressures.

The Trust anticipates investing in additional healthcare related facilities and leasing the facilities to qualified operators, perhaps including UHS and subsidiaries of UHS.

Regulation

The Medicare program reimburses the operators of the Trust's hospitals primarily based on established rates by a diagnosis related group for acute care hospitals and by cost based formula for behavioral health facilities. Historically, rates paid under Medicare's prospective payment system ("PPS") for inpatient services have increased, however, these increases have been less than cost increases. The Balanced Budget Act calls for the government to trim the growth of federal spending on Medicare by \$115 billion and on Medicaid by \$13 billion over the next five years. The act also calls for the reductions in the future rate of increases to payments made to hospitals and reduces the amount of reimbursement for outpatient services, bad debt expense and capital costs. It is likely that future budgets will contain further reductions in the rate of increase of Medicare and Medicaid spending, as evidence by the Clinton Administration's proposed fiscal year 2000 budget which includes a proposal to freeze Medicare hospital payment rates. Outpatient reimbursement for Medicare patients is scheduled to convert to a PPS during the second quarter of 2000. Since final provisions of the outpatient Medicare PPS are not yet available, operators of the Trust's hospitals can not completely estimate the resulting impact on their future results of operations. While the Trust is unable to predict whether this most recent proposal, or any other future health reform legislation, will ultimately be enacted at the federal

or state level, the Trust expects continuing pressure to limit expenditures by governmental healthcare programs. Further changes in the Medicare or Medicaid programs and other proposals to limit healthcare spending could have a material adverse impact on the operating results of the Trust's facilities and the healthcare industry.

In addition to the Medicare and Medicaid programs, other payors continue to actively negotiate the amounts they will pay for services performed. In general, the operators of the Trust's facilities expect to continue to experience an increase in business from managed care programs, including HMOs and PPOs. The consequent growth in managed care networks and the resulting impact of these networks on the operating results of the Trust's facilities vary among the markets in which the Trust's facilities operate.

Executive Officers of the Registrant

The executive officers of the Trust are as follows:

Name	Age	Position
Alan B. Miller	61	Chairman of the Board and Chief Executive Officer
Kirk E. Gorman	48	President, Chief Financial Officer, Secretary and Trustee
Charles F. Boyle	39	Vice President and Controller
Cheryl K. Ramagano	36	Vice President and Treasurer
Timothy J. Fowler	43	Vice President, Acquisition and Development

Mr. Alan B. Miller has been Chairman of the Board and Chief Executive Officer of the Trust since its inception in 1986. He served as President of the Trust until March, 1990. Mr. Miller has been Chairman of the Board, President and Chief Executive Officer of UHS since its inception in 1978. Mr. Miller also serves as a director of CDI Corp., Genesis Health Ventures and Penn Mutual Life Insurance Company.

Mr. Kirk E. Gorman has been President and Chief Financial Officer of the Trust since March, 1990 and was elected to the Board of Trustees and Secretary in December, 1994. Mr. Gorman had previously served as Vice President and Chief Financial Officer of the Trust since April, 1987. Mr. Gorman was elected Senior Vice President, Treasurer and Chief Financial Officer of UHS in 1992 and served as its Senior Vice President and Treasurer since 1989.

Mr. Charles F. Boyle was elected Vice President and Controller of the Trust in June, 1991. Mr. Boyle was promoted to Assistant Vice President - Corporate Accounting of UHS in 1994 and served as its Director of Corporate Accounting since 1989.

Ms. Cheryl K. Ramagano was elected Vice President and Treasurer of the Trust in September, 1992. Ms. Ramagano was promoted to Assistant Treasurer of UHS in 1994 and served as its Director of Finance since 1990.

Mr. Timothy J. Fowler was elected Vice President, Acquisition and Development of the Trust upon the commencement of his employment with UHS in October, 1993. Prior thereto, he served as a Vice President of The Chase Manhattan Bank, N.A. since 1986.

The Trust's officers are all employees of UHS and as of December 31, 1998, the Trust had no salaried employees and paid no cash compensation. In 1999, the Trustees awarded a \$50,000 bonus to Mr. Kirk E. Gorman, President, Chief Financial Officer, Secretary and Trustee of the Trust. UHS agreed to a \$50,000 reduction in the 1999 advisory fee paid by the Trust.

Item 2. Properties

The following table shows the Trust's investments in hospital facilities leased to Universal Health Services, Inc. and other non-related parties. The table on the next page provides information related to various properties in which the Trust has significant investments, some of which are accounted for by the equity method. The capacity in terms of beds (for the hospital facilities) and the five-year occupancy levels are based on information provided by the lessees.

Hospital Facility Name and Location	Type of facility	Number of available beds @	Average Occupancy (1)					Lease Term		
								Minimum	End of	Renewal
		12/31/98	1998	1997	1996	1995	1994	rent	or initial renewed term	term (years)

Chalmette Medical Centers										
Virtue Street Pavilion (3)	Rehabilitation	45	63%	64%	61%	57%	92%	\$1,261,000	2004	25
Chalmette Medical Center	Acute Care	118	61%	64%	66%	67%	66%	921,000	2003	15
Chalmette, Louisiana (2)										
Inland Valley Regional Medical Center	Acute Care	80	60%	52%	49%	49%	45%	1,857,000	2006	30
Wildomar, California (3)										
McAllen Medical Center	Acute Care	472	69%	76%	88%	87%	89%	5,485,000	2001	30
McAllen, Texas (3)										
Wellington Regional Medical Center	Acute Care	120	37%	36%	36%	30%	32%	2,495,000	2006	30
West Palm Beach, Florida (3)										
The BridgeWay	Behavioral Health	70	79%	68%	62%	65%	61%	683,000	2004	25
North Little Rock, Arkansas (3)										
Meridell Achievement Center	Behavioral Health	114	53%	47%	45%	65%	47%	1,071,000	2000	20
Austin, Texas										
Tri-State Regional Rehabilitation Hospital	Rehabilitation	80	82%	74%	59%	59%	61%	1,167,000	2004	20
Evansville, Indiana (4)										
Vencor Hospital	Sub-Acute Care	75	42%	50%	45%	38%	38%	1,065,000	2001	25
Chicago, Illinois (5)										

Item 2. Properties (continued)

Facility Name and Location	Type of facility	Average Occupancy (1)					Lease Term		
							Minimum	End of initial	Renewal
		1998	1997	1996	1995	1994	rent	or renewed term	term (years)
Fresno - Herndon Medical Plaza Fresno, California (6)	Medical Office Building	100%	100%	100%	100%	-	\$740,000	1999 -2003	various
Kelsey-Seybold Clinic at King's Crossing Professional Center at King's Crossing Kingwood, Texas (7)	Medical Office Buildings	100% 100%	100% 100%	100% 93%	100% 100%	- -	264,000 299,000	2005 2000 -2005	10 various
The Southern Crescent Center Riverdale, Georgia (8)	Medical Office Building	100%	100%	89%	-	-	795,000	1999 -2006	various
The Cypresswood Professional Center Spring, Texas (9)	Medical Office Building	100%	96%	-	-	-	524,000	2002 -2007	various
Desert Samaritan Medical Buildings Phoenix, Arizona (10)	Medical Office Buildings	99%	97%	97%	-	-	4,147,000	1998-2008	various
Desert Springs Medical Plaza Las Vegas, Nevada (11)	Medical Office Building	100%	-	-	-	-	1,633,000	1999-2002	various
Edwards Medical Plaza Phoenix, Arizona (12)	Medical Office Building	87%	-	-	-	-	2,212,000	1999-2005	various

(1) Average occupancy rate for the hospital facilities is based on the average number of available beds occupied during the five years ended December 31, 1998. Average occupancy rate for the multi-tenant medical office buildings is based on the occupied square footage of each building. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" for effects of various occupancy levels at the Trust's hospital facilities. Average available beds is the number of beds which are actually in service at any given time for immediate patient use with the necessary equipment and staff available for patient care. A hospital may have appropriate licenses for more beds than are in service for a number of reasons, including lack of demand, incomplete construction, and anticipation of future needs.

(2) The operations of The Virtue Street Pavilion and Chalmette Medical Center, two facilities which are separated by approximately one mile, were combined at the end of 1989. Each facility is leased pursuant to a separate lease. The Chalmette Medical Center facility is a 118-bed medical/surgical facility. The Virtue Street Pavilion is a 73-bed facility made up of a physical rehabilitation unit, skilled nursing and inpatient behavioral health services. In December of 1994, the operator of the Virtue Street Pavilion entered into a three year sub-lease agreement with Lifecare Hospitals of New Orleans, LLC, for a portion of the facility. Annual rental is \$1.1 million under the provisions of this agreement. The sub-lease, which expires in December, 2000, contains one three year extension at the lessee's option. No assurance can be given as to the effect, if any, the consolidation of the two facilities as mentioned above, had on the underlying value of the Virtue Street Pavilion and Chalmette Medical Center. Rental commitments and the guarantee by UHS under the existing leases continue for the remainder of the respective terms of the leases.

(3) During 1998, wholly-owned subsidiaries of UHS exercised five-year renewal options on four hospitals owned by the Trust which were scheduled to expire in 1999 through 2001 (Virtue Street Pavilion, The Bridgeway, Inland Valley Regional Medical Center and Wellington Medical Center). The leases on these facilities were renewed at the same lease rates and terms as the initial leases. As part of the renewal agreement, the Trust also agreed to grant additional fixed rate renewal options to a wholly-owned subsidiary of UHS commencing in 2022 on the real property of McAllen Medical Center.

(4) The Trust purchased this hospital during 1989 for approximately \$7.5 million. During 1993, the Trust purchased for approximately \$1.1 million, a 20 bed addition which was added to the facility. The Trust entered into an agreement with the operator, an unaffiliated third-party, to lease the facility for an initial fixed term of 10 years, with the operator having the option to extend the lease for five 5-year renewal terms. Subsequent to December 31, 1998, the lease on this facility was amended and renewed for a five-year term commencing on June 1, 1999 and ending on May 31, 2004. Pursuant to the terms of the lease as amended, the minimum rent has been increased and the additional rent provision has been eliminated.

(5) During December of 1993, UHS, the former lessee and operator of Belmont Community Hospital, sold the operations of the facility to THC-Chicago, Inc., an indirect wholly-owned subsidiary of Community Psychiatric Centers ("CPC"). Concurrently, the Trust purchased certain related real property from UHS for \$1 million in cash and a note payable with a carrying value of \$1.2 million at December 31, 1998. The note payable has a face value of \$1 million and is due on December 31, 2001. The amount of interest payable on this note is contingent upon the financial performance of this leased facility and its estimated fair value at the end of the initial lease term. The Trust has estimated the total amount payable under the terms of this note and has discounted the payments to their net present value using a 6% rate.

Included in the Trust's 1998 financial results is approximately \$69,000 of interest expense related to this note. In connection with this transaction, UHS's lease with the Trust was terminated and the Trust entered into an eight year lease agreement with THC-Chicago. In 1997, CPC was acquired by Vencor, Inc. who assumed their obligations under the lease and renamed the facility Vencor Hospital-Chicago. The lease is guaranteed by Vencor, Inc.

(6) In November of 1994, the Trust purchased the Fresno-Herndon Medical Plaza located in Fresno, California for \$6.3 million. The 37,800 square foot medical office building is leased to several tenants, including an outpatient surgery center operated by Columbia/HCA Healthcare Corporation, under the terms of leases with expiration dates ranging from November, 1999 to March, 2003. The Trust has granted the seller the option to repurchase the property in November, 2001 for \$7,250,000.

(7) In December of 1994, the Trust agreed to provide construction financing for the Professional Center at Kings Crossing, of which \$1.1 million was advanced during 1994 and \$3.2 million was advanced during 1995. During the fourth quarter of 1995, upon completion and occupancy of the properties, the Trust purchased the single tenant and two multi-tenant medical office buildings for the total construction cost of \$4.3 million. The single tenant building consists of 20,000 net square feet and is leased to Kelsey-Seybold, a subsidiary of Caremark International, Inc., for an initial term of 10 years. The two multi-tenant buildings total 27,535 net square feet and are occupied by tenants consisting primarily of medical professionals. The lease is guaranteed by Caremark International, Inc., a subsidiary of Medpartners, Inc.

(8) During the second quarter of 1996, the Trust purchased The Southern Crescent Center, a multi-tenant medical office building, for approximately \$6 million. The Southern Crescent Center is a 41,400 square foot, multi-tenant medical office building located adjacent to the Southern Regional Medical Center in Riverdale, Georgia.

(9) Construction on the Cypresswood Professional Center, located in Houston, Texas, was completed during 1997 for a total cost of \$4.4 million. In connection with this investment, the Trust provided five-year financing (which matures in August, 2002) to a limited partnership which owns the real estate assets of this facility. The Trust owns a 77% controlling interest in the partnership.

(10) In January 1996, the Trust invested \$5 million to acquire a 61% non-controlling interest in a limited liability company that owns three medical office buildings located in Phoenix, Arizona. The three buildings total approximately 194,000 gross square feet and are leased to several tenants. In connection with this investment the limited liability company obtained non-recourse, third-party financing, which has outstanding balance at December 31, 1998 of \$17.1 million.

(11) Since April 1998, the Trust invested a total of \$10.1 million to acquire a 99% non-controlling interest in a limited liability company that owns the Desert Springs Medical Plaza located in Las Vegas, Nevada. The 89,000 square foot medical office building, which is located on the campus of Desert Springs Hospital, is master leased and guaranteed by Quorum Health Group, Inc. In connection with this investment the limited liability company obtained non-recourse, third-party financing, which has an outstanding balance at December 31, 1998 of \$5.9 million.

(12) In April 1998, the Trust invested \$3.8 million to acquire a 95% non-controlling interest in a limited liability company that owns the Edwards Medical Plaza located in Phoenix, Arizona.

The 85,000 square foot medical office building, which is leased to multiple tenants, is located on the campus of the Good Samaritan Regional Medical Center. In connection with this investment the limited liability company obtained non-recourse, third-party financing which has an outstanding balance at December 31, 1998 of \$7.5 million

Item 3. LEGAL PROCEEDINGS

Not Applicable.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable. No matter was submitted during the fourth quarter of the year ended December 31, 1998 to a vote of security holders.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Trust's shares of beneficial interest are listed on the New York Stock Exchange. The high and low closing sales prices for the Trust shares of beneficial interest for each quarter in the two years ended December 31, 1998 and 1997 are summarized below:

	1998		1997	
	High Price	Low Price	High Price	Low Price
First Quarter	\$22 1/2	\$21	\$22 3/8	\$19 3/4
Second Quarter	\$21 3/8	\$18 13/16	\$20	\$18 1/2
Third Quarter	\$20 1/4	\$18 1/16	\$21 1/2	\$18 15/16
Fourth Quarter	\$20 1/4	\$18 3/8	\$21 7/8	\$20 1/16

As of January 31, 1999, there were approximately 982 shareholders of record of the Trust's shares of beneficial interest. It is the Trust's intention to declare quarterly dividends to the holders of its shares of beneficial interest so as to comply with applicable sections of the Internal Revenue Code governing real estate investment trusts. Covenants relating to the revolving credit facility limit the Trust's ability to increase dividends in excess of 95% of cash available for distribution unless additional distributions are required to be made so as to comply with applicable sections of the Internal Revenue Code and related regulations governing real estate investment trusts. In each of the past five years, dividends per share were declared as follows:

	1998	1997	1996	1995	1994
First Quarter	\$.435	\$.425	\$.420	\$.42	\$.415
Second Quarter	.435	.425	.425	.42	.415
Third Quarter	.440	.425	.425	.42	.415
Fourth Quarter	.445	.430	.425	.42	.420
	-----	-----	-----	-----	-----
	\$ 1.755	\$ 1.705	\$ 1.695	\$ 1.68	\$ 1.665
	=====	=====	=====	=====	=====

Item 6. SELECTED FINANCIAL DATA

Financial highlights for the Trust for the five years ended December 31, 1998 were as follows:

	1998 (1)	1997 (1)	1996 (1)	1995	1994
Revenues	\$23,234,000	\$22,764,000	\$21,923,000	\$20,417,000	\$18,826,000
Net income	\$14,337,000	\$13,967,000	\$14,158,000	\$13,584,000	\$14,312,000
Funds from Operations (2)	\$19,857,000	\$18,809,000	\$18,174,000	\$17,024,000	\$17,501,000
Per Share Data:					
Net income-Basic	\$1.60	\$1.56	\$1.58	\$1.52	\$1.60
Net income-Diluted	\$1.60	\$1.56	\$1.58	\$1.52	\$1.60
Dividends	\$1.755	\$1.705	\$1.695	\$1.680	\$1.665

(1) See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

(2) Funds from operations ("FFO") may not be calculated in the same manner for all companies, and accordingly, FFO as presented above may not be comparable to similarly titled measures by other companies. FFO does not represent cash flows from operations as defined by generally accepted accounting principles and should not be considered as an alternative to net income as an indicator of the Trust's operating performance or to cash flows as a measure of liquidity. FFO shown above is calculated as follows:

	1998	1997	1996	1995	1994
Net income	\$14,337,000	\$13,967,000	\$14,158,000	\$13,584,000	\$14,312,000
Depreciation expense:					
Consolidated investments	3,809,000	3,740,000	3,554,000	3,315,000	3,127,000
Unconsolidated affiliates	1,587,000	978,000	337,000	--	--
Amortization of interest rate cap	124,000	124,000	125,000	125,000	62,000
Total	\$19,857,000	\$18,809,000	\$18,174,000	\$17,024,000	\$17,501,000
	=====	=====	=====	=====	=====

At End of Period	1998	1997	1996	1995	1994
Total Assets	\$169,406,000	\$146,755,000	\$148,566,000	\$132,770,000	\$128,907,000
Debt	\$ 66,016,000	\$ 42,347,000	\$ 43,082,000	\$ 26,396,000	\$ 21,283,000

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

Forward Looking Statements

The matters discussed in this report, as well as the news releases issued from time to time by the Trust, include certain statements containing the words "believes", "anticipates", "intends", "expects", and words of similar import, which constitute "forward-looking statements" within the meaning of Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Trust's or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among other things, the following: a substantial portion of the Trust's revenues are dependent on one operator, Universal Health Services, Inc., ("UHS"); a substantial portion of the Trust's leases are involved in the healthcare industry which is undergoing substantial changes and is subject to possible changes in the levels and terms of reimbursement from third-party payors and government reimbursement programs, including Medicare and Medicaid; the Trust's ability to finance its growth on favorable terms; the impact of Year 2000 issues; liability and other claims asserted against the Trust or operators of the Trust's facilities, and other factors referenced herein. Additionally, the operators of the Trust's facilities, including UHS, are confronted with other issues such as: industry capacity; demographic changes; existing laws and government regulations and changes in or failure to comply with laws and governmental regulations; the ability to enter into managed care provider agreements on acceptable terms; competition; the loss of significant customers; technological and pharmaceutical improvements that increase the cost of providing, or reduce the demand for healthcare; and the ability to attract and retain qualified personnel, including physicians. Management of the Trust is unable to predict the effect, if any, these factors will have on the operating results of its lessees, including the facilities leased to subsidiaries of UHS. Given these uncertainties, prospective investors are cautioned not to place undue reliance on such forward-looking statements. The Trust disclaims any obligation to update any such factors or to publicly announce the result of any revisions to any of the forward-looking statements contained herein to reflect future events or developments.

Liquidity and Capital Resources

General

The Trust commenced operations on December 24, 1986. As of December 31, 1998, the Trust had investments in thirty-one facilities located in fourteen states.

It is the Trust's intention to declare quarterly dividends to the holders of its shares of beneficial interest so as to comply with applicable sections of the Internal Revenue Code governing real estate investment trusts. Covenants relating to the revolving credit facility limit the Trust's ability to increase dividends in excess of 95% of cash available for distribution unless additional distributions are required to be made to comply with applicable sections of the Internal Revenue Code and related regulations governing real estate investment trusts. During 1998, dividends of \$1.755 per share, or \$15,716,000 in the aggregate, were declared and paid.

Net cash generated by operating activities was \$18.7 million in 1998, \$17.7 million in 1997 and \$18.0 million in 1996. The \$1 million net increase in 1998 as compared to 1997 was due primarily to: (i) a \$500,000 increase in net income plus the addback of the non-cash charges (depreciation, amortization, and amortization of interest rate cap expense); (ii) a \$100,000 favorable change in rent receivable, and; (iii) a \$400,000 favorable change in tenant escrows, deposits and prepaid rents. The \$300,000 net decrease in 1997 as compared to 1996 was due primarily to a \$100,000 decrease in net income plus the addback of the non-cash charges (as defined above) and \$200,000 of unfavorable changes in other net working capital accounts.

During 1998, the \$18.7 million of cash flows generated from operations, the \$23.6 million of additional borrowings, the \$900,000 of cash distributions received in excess of income from the Trust's investments in LLCs and the \$600,000 reduction in cash were used primarily to: (i) pay dividends (\$15.7 million); (ii) investments in and advances to five limited liability companies (\$27.9 million, see Note 3), and; (iii) purchase real property and additions to land and buildings (\$200,000). Included in the \$27.9 million invested in/advanced to limited liability companies was \$10.0 million of short-term loans advanced to three separate LLCs in which the Trust has ownership interests ranging from 48% to 95%. These loans, which are earning interest at variable rates depending upon the length of time the loan is outstanding, earned interest at an annual average rate of 9% for 1998. The loans are expected to be fully repaid to the Trust during 1999 once the LLCs secure long-term, third-party financing.

During 1997, the \$17.7 million of cash flows generated from operations, the \$6.8 million of cash received for repayments under a mortgage and a construction note receivable (net of \$3.4 million of advances in 1997) and the \$600,000 of cash distributions received in excess of income from the Trust's investments in LLCs were used primarily to: (i) pay dividends (\$15.3 million); (ii) purchase real property and additions to land and buildings (\$4.2 million); (iii) purchase equity interests in two limited liability companies (\$3.7 million, see Note 3), and; (iv) repay debt (\$800,000). As of December 31, 1997, the Trust had a \$1 million short-term cash investment which was used to repay debt in the beginning of January, 1998.

During 1996, the \$18.0 million of cash flows generated from operations and the \$16.6 million of additional borrowings were used primarily to: (i) pay dividends (\$15.2 million); (ii) purchase additional real property (\$10.2 million, see Note 3); (iii) purchase equity interest in various limited liability companies (\$7.6 million, see Note 3), and; (iv) begin construction on two new medical office buildings which will be owned by limited liability companies and limited partnerships in which the Trust will own equity interests (\$1.6 million, see Note 3).

During 1998, the Trust replaced its \$70 million revolving credit agreement with a new \$80 million unsecured, non-amortizing revolving credit agreement (the "Agreement"), which is scheduled to expire in June, 2003. During the term of the Agreement, the Trust has the option to request an increase in the borrowing capacity to \$100 million. The Agreement provides for interest at the Trust's option, at the certificate of deposit rate plus 5/8% to 1 1/8%, Eurodollar rate plus 1/2% to 1 1/8% or the prime rate. A fee of .175% to .375% is required on the unused portion of this commitment. The margins over the certificate of deposit rate, Eurodollar rate and the commitment fee are based upon the Trust's debt to total capital ratio as defined by the Agreement. At December 31, 1998, the applicable margin over the certificate of deposit and Eurodollar rates were 7/8% and 5/8%, respectively, and the commitment fee was .20%. There are no compensating balance requirements. The Agreement contains a provision whereby the commitments will be reduced by 50% of the proceeds generated from any new equity offering. At December 31, 1998, the Trust had approximately \$12 million of available borrowing capacity.

Covenants relating to the revolving credit facility require the maintenance of a minimum tangible net worth and specified financial ratios, limit the Trust's ability to incur additional debt, limit the aggregate amount of mortgage receivables and limit the Trust's ability to increase dividends in excess of 95% of cash available for distribution, unless additional distributions are required to comply with the applicable section of the Internal Revenue Code and related regulations governing real estate investment trusts.

The Trust has entered into interest rate swap agreements and an interest rate cap agreement which are designed to reduce the impact of changes in interest rates on its floating rate revolving credit notes. The Trust has three outstanding swap agreements for notional principal amounts of \$5 million, \$4 million and \$1,580,000 which mature in May, 1999, July, 2002 and May, 2001, respectively. These swap agreements effectively fix the interest rate on \$10,580,000 of variable rate debt at 7.56% including the revolver spread of .625%. The interest rate cap, for which the Trust paid \$622,750, (unamortized premium of \$62,000 at December 31, 1998) matures in June, 1999 and fixes the maximum rate on \$15 million of variable rate revolving credit notes at 7.625% including the revolver spread of .625%. The interest rate swap and cap agreements were entered into in anticipation of certain borrowing transactions made by the Trust during 1995, 1996 and 1997. The effective rate on the Trust's revolving credit notes including commitment fees and interest rate swap expense was 6.7%, 6.9% and 6.8% during 1998, 1997 and 1996, respectively. Additional interest expense recorded as a result of the Trust's hedging activity, which is included in the effective interest rates shown above, was \$136,000, \$118,000 and \$130,000 in 1998, 1997 and 1996, respectively. The Trust is exposed to credit loss in the event of non-performance by the counterparties to the interest rate swap and cap agreements. These counterparties are major financial institutions and the Trust does not anticipate non-performance by the counterparties which are rated A or better by Moody's Investors Service. Termination of the interest rate swaps at December 31, 1998 would have resulted in payments to the counterparties of approximately \$322,000 and termination of the interest rate cap would have had no impact on the Trust. The fair value of the interest rate swap and cap agreements at December 31, 1998 reflects the estimated amounts that the Trust would pay or receive to terminate the contracts and are based on quotes from the counterparties.

Results of Operations

Total revenues increased 2% or \$470,000 to \$23.2 million in 1998 as compared to 1997 and 4% or \$841,000 to \$22.8 million in 1997 as compared to 1996. The \$470,000 increase during 1998 over 1997 was due primarily to a \$788,000 increase in base rentals from non-related parties (due primarily to the completion of The Cypresswood Professional Center during the third quarter of 1997), and a \$122,000 increase in bonus rental income from UHS facilities. These favorable changes were partially offset by a \$473,000 decrease in interest income due to a mortgage loan receivable which was fully repaid in June, 1997 and a construction loan receivable which was repaid in December, 1997. The \$841,000 increase during 1997 over 1996 was primarily attributable to an increase in base rentals from non-related parties due to the various acquisitions made by the Trust during the second quarter of 1996 and the third quarter of 1997 (see Note 3).

The average occupancy rate of a hospital is affected by a number of factors, including the number of physicians using the hospital, changes in the number of beds, the composition and size of the population of the community in which the hospital is located, general and local economic conditions, variations in local medical and surgical practices and the degree of outpatient use of the hospital services. Current industry trends in utilization and occupancy have been significantly affected by changes in reimbursement policies of third-party payors. A continuation of such

industry trends could have a material adverse impact upon the future operating performance of the Trust's hospital facilities. The Trust's hospital facilities have experienced growth in outpatient utilization over the past several years. The increase in outpatient services is primarily the result of advances in medical technologies and pharmaceutical improvements, which allow more services to be provided on an outpatient basis, and increased pressure from Medicare, Medicaid, managed care companies and other insurers to reduce hospital stays and provide services where possible, on a less expensive outpatient basis. The hospital industry in the United States as well as the Trust's hospital facilities continue to have significant unused capacity which has created substantial competition for patients. Inpatient utilization continues to be negatively affected by payor-required, pre-admission authorization and by payor pressure to maximize outpatient and alternative healthcare delivery services for less acutely ill patients. The Trust expects the increased competition, admission constraints and payor pressures to continue. The ability of the Trust's hospital facilities to maintain their historical rate of net revenue growth and operating margins is dependent upon their ability to successfully respond to these trends as well as reductions in spending on governmental healthcare programs.

A significant portion of the revenues generated at the Trust's hospital facilities are derived from fixed payment services, including Medicare and Medicaid. The Medicare program reimburses the Trust's hospital facilities primarily based on established rates by a diagnosis related group for acute care hospitals and by a cost based formula for behavioral health facilities. Historically, rates paid under Medicare's prospective payment system ("PPS") for inpatient services have increased, however, these increases have been less than cost increases. The Balanced Budget Act calls for the government to trim the growth of federal spending on Medicare by \$115 billion and on Medicaid by \$13 billion over the next five years. The act also calls for the reductions in the future rate of increases to payments made to hospitals and reduces the amount of reimbursement for outpatient services, bad debt expense and capital costs. It is likely that future budgets will contain further reductions in the rate of increase of Medicare and Medicaid spending, as evidenced by the Clinton Administration's proposed fiscal year 2000 budget which includes a proposal to freeze Medicare hospital payment rates. Outpatient reimbursement for Medicare patients is scheduled to convert to a PPS during the second quarter of 2000. Since final provisions of the outpatient Medicare PPS are not yet available, operators of the Trust's hospitals can not completely estimate the resulting impact on their future results of operations. While the Trust is unable to predict whether this most recent proposal, or any other future health reform legislation, will ultimately be enacted at the federal or state level, the Trust expects continuing pressure to limit expenditures by governmental healthcare programs. Further changes in the Medicare or Medicaid programs and other proposals to limit healthcare spending could have a material adverse impact on the operating results of the Trust's facilities and the healthcare industry.

In general, the operators of the Trust's hospital facilities expect to continue to experience an increase in business from managed care programs, including HMOs and PPOs. The consequent growth in managed care networks and the resulting impact of these networks on the operating results of the Trust's facilities vary among the markets in which the Trust's facilities operate. Management of the Trust is unable to predict the rate of growth of the net revenues of its facilities and the resulting impact on bonus revenues, which are computed as a percentage of each facility's net revenues in excess of base year amounts or CPI increases in excess of base year amounts. Net revenues of the Trust's facilities are dependent upon developments in medical technologies and physician practice patterns, both of which are beyond the control of management of the facilities.

Interest expense increased \$547,000 or 19% in 1998 as compared to 1997 and \$378,000 or 15% in 1997 as compared to 1996 due primarily to the additional borrowings used to finance the 1998,

1997 and 1996 investments described in Note 3.

Depreciation and amortization expense increased \$104,000 or 3% in 1998 as compared to 1997 and \$139,000 or 4% in 1997 as compared to 1996 due primarily to the depreciation expense related to the 1997 and 1996 acquisitions described in Note 3.

Other operating expenses increased \$479,000 or 34% in 1998 as compared to 1997 due to the operating expenses on the Cypresswood Professional Center on which construction was completed during the third quarter of 1997 and an increase in various other operating expenses. Other operating expenses increased \$276,000 or 24% in 1997 as compared to 1996 due primarily to the expenses related to the medical office buildings acquired by the Trust during the second quarter of 1996 and the third quarter of 1997 and an increase in various other operating expenses. The expenses related to the medical office buildings, in which the Trust has a controlling ownership interest, totaled \$1.0 million in 1998, \$770,000 in 1997 and \$551,000 in 1996. The majority of these expenses are passed on directly to the tenants and are included as revenues in the Trust's statements of income.

Net income for 1998 was \$14.3 million or \$1.60 per basic and diluted share compared to \$14.0 million or \$1.56 per basic and diluted share in 1997 and \$14.2 million or \$1.58 per basic and diluted share in 1996.

Funds from operations ("FFO"), which is the sum of net income plus depreciation expense for consolidated investments and unconsolidated investments and amortization of interest rate cap expense, totaled \$19.9 million in 1998, \$18.8 million in 1997 and \$18.2 million in 1996. FFO may not be calculated in the same manner for all companies, and accordingly, may not be comparable to similarly titled measures by other companies. FFO does not represent cash flows from operations as defined by generally accepted accounting principles and should not be considered as an alternative to net income as an indicator of the Trust's operating performance or to cash flows as a measure of liquidity.

General

During the third quarter of 1998, wholly-owned subsidiaries of UHS exercised five-year renewal options on four hospitals owned by the Trust which were scheduled to expire in 1999 through 2001 (Virtue Street Pavilion, The Bridgeway, Inland Valley Regional Medical Center and Wellington Regional Medical Center). The leases on these facilities were renewed at the same lease rates and terms as the initial leases and these renewals remove the majority of the previously disclosed uncertainty regarding the lease renewals with subsidiaries of UHS. As part of the renewal agreement, the Trust also agreed to grant additional fixed rate renewal options to a wholly-owned subsidiary of UHS commencing in 2022 on the real property of McAllen Medical Center. Management of the Trust can not predict whether the leases with subsidiaries of UHS, which have renewal options at existing lease rates, or any of the Trust's other leases, will be renewed at the end of their initial term or first five-year renewal term.

The Year 2000 issue is the result of computer programs being written using two digits rather than four to define the applicable year. Computer programs, certain building infrastructure components (including elevators, alarm systems and certain HVAC systems) and certain computer aided medical equipment that have time-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in system failures or miscalculations causing disruption of operations or medical equipment malfunctions that could affect patient diagnosis and treatment.

Management of the Trust recognizes the need to evaluate the impact on its operations of the change to calendar year 2000 and does not expect the total cost of required building related modifications to have a material impact on its results of operations. Approximately 72% of the Trust's total revenues for the three year period ended December 31, 1998, were earned under the terms of the leases with wholly-owned subsidiaries of UHS.

UHS has undertaken steps to inventory and assess applications and equipment at risk to be affected by Year 2000 issues and to convert, remediate or replace such applications and equipment. UHS has completed its assessment of its major financial and clinical software and believes that such software is substantially Year 2000 compliant. As to certain peripheral software, UHS has scheduled upgrades to be completed by June, 1999. For its biomedical equipment, UHS expects to complete the assessment phase of its Year 2000 analysis by early in the second quarter of 1999. UHS believes that Year 2000 related remediation costs incurred through December 31, 1998 have not had a material impact on its results of operations. However, UHS is not able to reasonably estimate the total capital costs to be incurred for equipment replacement since the equipment analysis phase has not yet been completed. Some replacement or upgrade of systems and equipment would take place in the normal course of business. Several systems, key to UHS's operations, have been scheduled to be replaced through vendor supplied systems before Year 2000. The costs of repairing existing systems is expensed as incurred. UHS has allocated a portion of its 1999 capital budget as Year 2000 contingency funds and expects that all of the capital costs can be accommodated within that budget. UHS presently believes that with modifications to existing software and conversions to new software, the Year 2000 issue will not pose material operational problems for its computer systems. However, if such modifications and conversions are not made, or are not completed timely, the Year 2000 issue could have a material impact on the operations of UHS and UHS's ability to meet its obligations under the terms of its leases with the Trust.

The majority of the software used by UHS is purchased from third parties. UHS is relying on software (including UHS's major outsourcing vendor which provides the financial and clinical applications for the majority of UHS's acute care facilities), hardware and other equipment vendors to verify Year 2000 compliance of their products. UHS also depends on: fiscal intermediaries which process claims and make payments for the Medicare program; health maintenance organizations, insurance companies and other private payors; vendors of medical supplies and pharmaceuticals used in patient care; and, providers of utilities such as electricity, water, natural gas and telephone services. As part of its Year 2000 strategy, UHS intends to seek assurances from these parties that their services and products will not be interrupted or malfunction due to the Year 2000 problem. Failure of third parties to resolve their Year 2000 issues could have a material adverse effect on UHS's results of operations and its ability to provide health care services.

Each of UHS's hospitals has a disaster plan which will be reviewed as part of UHS's Year 2000 contingency planning process. However, no assurance can be given that UHS will be able to develop contingency plans which will enable each of its facilities to continue to operate in all circumstances.

This Year 2000 assessment is based on information currently available to UHS and the Trust and UHS and the Trust will revise its assessment at it implements its Year 2000 strategy. UHS can provide no assurance that applications and equipment UHS believes to be Year 2000 compliant will not experience difficulties or that UHS will not experience difficulties obtaining resources needed to make modifications to or replace its affected systems and equipment. Failure by UHS or third parties on which it relies to resolve Year 2000 issues could have a material adverse effect on its results of operations, its ability to provide health care services and on UHS's ability to meet its obligations under the terms of its leases with the Trust. Consequently, the Trust can give no assurances that issues related to Year 2000 will not have a material adverse effect on its financial condition or results of operations.

With respect to the Trust's non-related properties, an assessment was conducted by the Trust which covered the compliance efforts of the tenants and based upon the responses received, these tenants do not expect Year 2000 related issues to have a material impact on their operations. Management of the Trust will continue to monitor the Year 2000 compliance efforts of its non-related tenants as well as the effects of potential non-compliance.

The Trust will develop contingency plans if, and to the extent, deemed necessary. However, based upon current information and barring developments, the Trust does not anticipate developing any substantive contingency plans with respect to Year 2000 issues. In addition, the Trust has no plans to seek independent verification or review of its assessments. The Trust believes that its expenditures for assessing and correcting Year 2000 issues have not been material. In addition, the Trust is not aware of any issues that will require material expenditures by the Trust or tenants of the Trust's facilities in the future.

Based upon current information, the Trust believes that the risk posed by the foreseeable Year 2000 related problems with its internal systems, (including both information and non-information systems) is minimal. Year 2000 related problems at certain third-party payors, service providers and non-related tenants is greater, however, based upon current information, the Trust does not believe such problems will have a material effect on its operations. While the Trust believes that it will be Year 2000 compliant by December 31, 1999, there can be no assurance that the Trust or tenants of the Trust's properties will be successful in identifying and assessing all compliance issues, or that the efforts of the Trust or tenants of the Trust's properties to remedy all Year 2000 compliance issues will be effective such that they will not have a material adverse effect on the Trust's business or results of operations.

Market Risks Associated with Financial Instruments

The Trust's interest expense is sensitive to changes in the general level of domestic interest rates. To mitigate the impact of fluctuations in domestic interest rates, a portion of the Trust's debt is fixed rate accomplished by entering into interest rate swap agreements. The interest rate swap agreements are contracts that require the Trust to pay a fixed and receive a floating interest rate over the life of the agreements. The floating-rates are based on LIBOR and the fixed-rates are determined upon consummation of the swap agreements. The interest rate swap agreements do not constitute positions independent of the underlying exposures. The Trust does not hold or

issue derivative instruments for trading purposes and is not a party to any instruments with leverage features. The Trust is exposed to credit losses in the event of non-performance by the counterparties to its financial instruments. The counterparties are creditworthy financial institutions, rated A or better by Moody's Investor Services and the Trust anticipates that the counterparties will be able to fully satisfy their obligations under the contracts. For the years ended December 31, 1998, 1997 and 1996, the Trust received a weighted average rate of 5.24%, 5.79% and 5.60%, respectively, and paid a weighted average rate on its interest rate swap agreements of 6.94%, 6.94% and 6.80%, respectively.

The table below presents information about the Trust's derivative financial instruments and other financial instruments that are sensitive to changes in interest rates, including interest rate swaps as of December 31, 1998. For debt obligations, the table presents principal cash flows and related weighted-average interest rates by contractual maturity dates. For interest rate swap agreements, the table presents notional amounts by expected maturity date and weighted average interest rates based on rates in effect at December 31, 1998.

	Maturity Date, Fiscal Year Ending December 31						
(Dollars in thousands)	1999	2000	2001	2002	2003	There- after	Total
	----	----	----	----	----	-----	-----
Long-term debt:							
Fixed rate			\$1,216				\$1,216
Average interest rates			6.0%				
Variable rate long-term debt						64,800	64,800
Interest rate swaps:							
Pay fixed/receive							
variable notional amounts	5,000		1,580	4,000			10,580
Average pay rate	7.245%		6.80%	6.6025%			
Average receive rate	3 month		3 month	6 month			
	LIBOR		LIBOR	LIBOR			
Interest rate caps	15,000						15,000
Cap rate	7.0%						

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Trust's Balance Sheets and its Statements of Income, Changes in Shareholders' Equity and Cash Flows, together with the report of Arthur Andersen LLP, independent public accountants, are included elsewhere herein. Reference is made to the "Index to Financial Statements and Schedules."

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

There is hereby incorporated by reference the information to appear under the caption "Election of Trustees" in the Trust's definitive Proxy Statement to be filed with the Securities and Exchange Commission within 120 days after December 31, 1998. See also "Executive Officers of the Registrant" appearing in Part I hereof.

Item 11. EXECUTIVE COMPENSATION

There is hereby incorporated by reference the information under the caption "Executive Compensation" and "Compensation Pursuant to Plans" in the Trust's definitive Proxy Statement to be filed with the Securities and Exchange Commission within 120 days after December 31, 1998.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS
AND MANAGEMENT

There is hereby incorporated by reference the information under the caption "Security Ownership of Certain Beneficial Owners and Management" in the Trust's definitive Proxy Statement to be filed with the Securities and Exchange Commission within 120 days after December 31, 1998.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

There is hereby incorporated by reference the information under the caption "Transactions With Management and Others" in the Trust's definitive Proxy Statement to be filed with the Securities and Exchange Commission within 120 days after December 31, 1998.

PART IV

Item 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) Financial Statements and Financial Statement Schedules:

1) Report of Independent Public Accountants

2) Financial Statements

Consolidated Balance Sheets - December 31, 1998 and December 31, 1997
Consolidated Statements of Income - Years Ended December 31, 1998, 1997 and 1996
Consolidated Statements of Shareholders' Equity - Years Ended December 31, 1998, 1997 and 1996
Consolidated Statements of Cash Flows - Years Ended December 31, 1998, 1997 and 1996
Notes to Consolidated Financial Statements - December 31, 1998

(3) Schedules

Schedule II - Valuation and Qualifying Accounts - Years Ended December 31, 1998, 1997 and 1996
Schedule III - Real Estate and Accumulated Depreciation - December 31, 1998
Notes to Schedule III - December 31, 1998

(b) Reports on Form 8-K:

No reports on Form 8-K were filed during the last quarter of the year ended December 31, 1998

(c) Exhibits:

3.1 Declaration of Trust, dated as of August 1986, previously filed as Exhibit 3.1 Amendment No. 3 of the Registration Statement on Form S-11 and Form S-2 of Universal Health Services, Inc. and the Trust (Registration No. 33-7872), is incorporated herein by reference.

3.2 Amendment to Declaration of Trust, dated as of June 23, 1993, previously filed as Exhibit 3.2 to the Trust's Annual Report on Form 10-K for the year ended December 31, 1993, is incorporated herein by reference.

3.3 Amended and restated bylaws, filed as Exhibit 10.1 to the Trust's Form 10-Q for the quarter ended March 31, 1998, is incorporated herein by reference.

10.1 Advisory Agreement, dated as of December 24, 1986, between UHS of Delaware, Inc. and The Trust, previously filed as Exhibit 10.2 to the Trust's Current Report on Form 8-K dated December 24, 1986, is incorporated herein by reference.

10.2 Agreement effective January 1, 1999, to renew Advisory Agreement dated as of December 24, 1986 between Universal Health Realty Income Trust and UHS of Delaware, Inc.

10.3 Contract of Acquisition, dated as of August 1986, between the Trust and certain subsidiaries of Universal Health Services, Inc., previously filed as Exhibit 10.2 to Amendment No. 3 of the Registration Statement on Form S-11 and S-2 of Universal Health Services, Inc. and the Trust (Registration No. 33-7872), is incorporated herein by reference.

10.4 Form of Leases, including Form of Master Lease Document Leases, between certain subsidiaries of Universal Health Services, Inc. and the Trust, previously filed as Exhibit 10.3 to Amendment No. 3 of the Registration Statement on Form S-11 and Form S-2 of Universal Health Services, Inc. and the Trust (Registration No. 33-7872), is incorporated herein by reference.

10.5 Share Option Agreement, dated as of December 24, 1986, between the Trust and Universal Health Services, Inc., previously filed as Exhibit 10.4 to the Trust's Current Report on Form 8-K dated December 24, 1986, is incorporated herein by reference.

10.6 Corporate Guaranty of Obligations of Subsidiaries Pursuant to Leases and Contract of Acquisition, dated December 1986, issued by Universal Health Services, Inc. in favor of the Trust, previously filed as Exhibit 10.5 to the Trust's Current Report on Form 8-K dated December 24, 1986, is incorporated herein by reference.

10.7 Contract of Acquisition dated August 31, 1988 between the Trust, Rehab Systems Company, Inc. and Tri-State Regional Rehabilitation Hospital, Inc., previously filed as Exhibit 10.2 to the Trust's September 30, 1988 Form 10-Q, is incorporated herein by reference.

10.8 Key Employees' Restricted Share Purchase Plan approved by the Trustees on December 1, 1988 which authorized the issuance of up to 50,000 common shares, previously filed as Exhibit 10.11 to the Trust's Annual Report on Form 10-K for the year ended December 31, 1988, is incorporated herein by reference.

10.9 Share Compensation Plan for Outside Trustees, previously filed as Exhibit 10.12 to the Trust's Annual Report on Form 10-K for the year ended December 31, 1991, is incorporated herein by reference.

10.10 1988 Non-Statutory Stock Option Plan, as amended, previously filed as Exhibit 10.13 to the Trust's Annual Report on Form 10-K for the year ended December 31, 1991, is incorporated herein by reference.

10.11 Lease dated December 22, 1993, between Universal Health Realty Income Trust and THC-Chicago, Inc. as lessee, previously filed as Exhibit 10.14 to the Trust's Annual Report on Form 10-K for the year ended December 31, 1993, is incorporated herein by reference.

10.12 Mortgage Modification, Consolidation and Extension Agreement and Consolidated Note dated December 28, 1993 in the amount of \$6,500,000 from Crouse Irving Memorial Properties, Inc. to Universal Health Realty Income Trust, previously filed as Exhibit 10.15 to the Trust's Annual Report on Form 10-K for the year ended December 31, 1993, is incorporated herein by reference.

10.13 Agreement for Purchase and Sale and Repurchase Agreement dated as of November 4, 1994 between Fresno-Herndon Partners, Limited and Universal Health Realty Income Trust, previously filed as Exhibit 10.16 to the Trust's Annual Report on Form 10-K for the year ended December 31, 1994, is incorporated herein by reference.

10.14 Agreement of Purchase and Sale, and Construction Loan Agreement dated as of December 20, 1994 between Turner Adreac, L.C. and Universal Health Realty Income Trust, previously filed as Exhibit 10.17 to the Trust's Annual Report on Form 10-K for the year ended December 31, 1994, is incorporated herein by reference.

10.15 Sale Agreement, dated as of September 1, 1995, by and among Universal Health Realty Income Trust and Desert Commercial Properties Limited Partnership, previously filed as Exhibit 10.18 to the Trust's Annual Report on Form 10-K for the year ended December 31, 1996, is incorporated herein by reference.

10.16 Operating Agreement of DSMB Properties, L.L.C., dated as of September 1, 1995, by and among Universal Health Realty Income Trust and Desert Commercial Properties Limited Partnership, previously filed as Exhibit 10.19 to the Trust's Annual Report on Form 10-K for the year ended December 31, 1996, is incorporated herein by reference.

10.17 Agreement and Escrow Instructions, dated as of August 15, 1995, by and between Phase III Desert Samaritan Medical Building Partners and Desert Commercial Properties Limited Partnership, previously filed as Exhibit 10.20 to the Trust's Annual Report on 10-K for the year ended December 31, 1996, is incorporated herein by reference.

10.18 Amendment to Credit Agreement dated as of September 27, 1996 by and among Universal Health Realty Income Trust, Corestates Bank, N.A. as agent, NationsBank, N.A., and First Union National Bank, previously filed as Exhibit 10.1 to the Trust's Form 10-Q for the quarter ended September 30, 1996, is incorporated herein by reference.

10.19 Universal Health Realty Income Trust 1997 Incentive Plan, previously filed as Exhibit 10.1 to the Trust's Form 10-Q for the quarter ended September 30, 1997, is incorporated herein by reference.

10.20 Revolving Credit Agreement as of June 24, 1998 among (i) Universal Health Realty Income Trust, a real estate investment trust organized under the laws of the State of Maryland and having its principal place of business at 366 South Gulph Road, King of Prussia, Pennsylvania 19406 (the "Company"), (ii) The Financial Institutions Listed on Schedule 1 Hereto (individually a "Bank" and collectively the "Banks") and (iii) First Union National Bank, as successor by merger to CoreStates Bank, N.A., as administrative agent for the Banks (the "Agent"), previously filed as Exhibit 10.1 to the Trust's Form 10-Q for the quarter ended June 30, 1998, is incorporated herein by reference.

10.21 Amendment No. 1 to Lease, made as of July 31, 1998, between Universal Health Realty Income Trust, a Maryland real estate investment trust ("Lessor"), and Inland Valley Regional Medical Center, Inc., a California Corporation ("Lessee"), previously filed as Exhibit 10.1 to the Trust's Form 10-Q for the quarter ended September 30, 1998, is incorporated herein by reference.

10.22 Amendment No. 1 to Lease, made as of July 31, 1998, between Universal Health Realty Income Trust, a Maryland real estate investment trust ("Lessor"), and McAllen Medical Center, L.P. (f/k/a Universal Health Services of McAllen, Inc.), a Texas Limited Partnership ("Lessee"), amends the lease, made as of December 24, 1986, between Lessor and Lessee, previously filed as Exhibit 10.2 to the Trust's Form 10-Q for the quarter ended September 30, 1998, is incorporated herein by reference.

27 Financial Data Schedule

28.1 Dividend Reinvestment Plan for Stockholders, previously filed as Exhibit 28.1 to the Trust's Form 10-Q for the quarter ended March 31, 1987, is incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: March 8, 1999

UNIVERSAL HEALTH REALTY INCOME TRUST
(Registrant)

By: /s/ Alan B. Miller
Alan B. Miller, Chairman of the Board
and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date	Signature and Title
March 8, 1999	/s/ Alan B. Miller Alan B. Miller, Chairman of the Board and Chief Executive Officer
March 8, 1999	/s/ Kirk E. Gorman Kirk E. Gorman, President, Chief Financial Officer, Secretary and Trustee
March 8, 1999	/s/ James E. Dalton James E. Dalton, Jr., Trustee
March 8, 1999	/s/ Myles H. Tanenbaum Myles H. Tanenbaum, Trustee
March 8, 1999	/s/ Daniel M. Cain Daniel M. Cain, Trustee
March 8, 1999	/s/ Miles L. Berger Miles L. Berger, Trustee

INDEX TO FINANCIAL STATEMENTS AND SCHEDULES

	Page
Report of Independent Public Accountants	F-2
Consolidated Balance Sheets - December 31, 1998 and December 31, 1997	F-3
Consolidated Statements of Income - Years Ended December 31, 1998, 1997 and 1996	F-4
Consolidated Statements of Shareholders' Equity - Years Ended December 31, 1998, 1997 and 1996	F-5
Consolidated Statements of Cash Flows - Years Ended December 31, 1998, 1997 and 1996	F-6
Notes to Consolidated Financial Statements - December 31, 1998	F-7
Schedule II - Valuation and Qualifying Accounts - Years Ended December 31, 1998, 1997 and 1996	F-19
Schedule III - Real Estate and Accumulated Depreciation - December 31, 1998	F-20
Notes to Schedule III - December 31, 1998	F-21

Report of Independent Public Accountants

To The Shareholders and Board of Trustees of
Universal Health Realty Income Trust:

We have audited the accompanying consolidated balance sheets of Universal Health Realty Income Trust and Subsidiaries (a Maryland real estate investment trust) as of December 31, 1998 and 1997 and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 1998. These financial statements and the schedules referred to below are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Universal Health Realty Income Trust and Subsidiaries, as of December 31, 1998 and 1997 and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to Financial Statements and Schedules on Page F-1 are presented for the purpose of complying with the Securities and Exchange Commission's rules and are not a required part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

Philadelphia, Pennsylvania
January 19, 1999

Arthur Andersen LLP

Universal Health Realty Income Trust
Consolidated Balance Sheets

Assets:	December 31, 1998	December 31, 1997
-----	-----	-----
Real Estate Investments:		
Buildings & improvements	\$ 142,871,000	\$ 143,600,000
Accumulated depreciation	(34,006,000)	(30,280,000)
	-----	-----
	108,865,000	113,320,000
Land	21,061,000	20,255,000
Construction in progress	28,000	--
Reserve for investment losses	(116,000)	(89,000)
	-----	-----
Net Real Estate Investments	129,838,000	133,486,000
	-----	-----
Investments in and advances to limited liability companies	38,165,000	11,075,000
Other Assets:		
Cash	572,000	1,238,000
Bonus rent receivable from UHS	681,000	653,000
Rent receivable from non-related parties	24,000	80,000
Deferred charges and other assets, net	126,000	223,000
	-----	-----
	\$ 169,406,000	\$ 146,755,000
	=====	=====
Liabilities and Shareholders' Equity:		
Liabilities:		
Bank borrowings	\$ 64,800,000	\$ 41,200,000
Note payable to UHS	1,216,000	1,147,000
Accrued interest	281,000	217,000
Accrued expenses & other liabilities	1,300,000	1,130,000
Tenant reserves, escrows, deposits and prepaid rents	374,000	268,000
Minority interest	87,000	101,000
Shareholders' Equity:		
Preferred shares of beneficial interest, \$.01 par value; 5,000,000 shares authorized; none outstanding	--	--
Common shares, \$.01 par value; 95,000,000 shares authorized; issued and outstanding: 1998 - 8,955,465 1997 - 8,954,840	90,000	90,000
Capital in excess of par value	128,685,000	128,650,000
Cumulative net income	126,458,000	112,121,000
Cumulative dividends	(153,885,000)	(138,169,000)
	-----	-----
Total Shareholders' Equity	101,348,000	102,692,000
	-----	-----
	\$ 169,406,000	\$ 146,755,000
	=====	=====

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

Universal Health Realty Income Trust
Consolidated Statements of Income

	Year ended December 31,		
	1998	1997	1996
Revenues (Note 2):			
Base rental - UHS facilities	\$13,764,000	\$13,731,000	\$13,731,000
Base rental - Non-related parties	6,393,000	5,605,000	4,706,000
Bonus rental	2,966,000	2,844,000	2,735,000
Interest	111,000	584,000	751,000
	23,234,000	22,764,000	21,923,000
Expenses:			
Depreciation & amortization	3,879,000	3,775,000	3,636,000
Interest expense	3,490,000	2,943,000	2,565,000
Advisory fees to UHS (Note 2)	1,161,000	1,099,000	1,044,000
Other operating expenses	1,904,000	1,425,000	1,149,000
	10,434,000	9,242,000	8,394,000
Income before equity in limited liability companies	12,800,000	13,522,000	13,529,000
Equity in income of limited liability companies	1,537,000	445,000	629,000
Net Income	\$14,337,000	\$13,967,000	\$14,158,000
	=====	=====	=====
Net Income Per Share - Basic	\$ 1.60	\$ 1.56	\$ 1.58
	=====	=====	=====
Net Income Per Share - Diluted	\$ 1.60	\$ 1.56	\$ 1.58
	=====	=====	=====
Weighted average number of shares outstanding - Basic	8,952,000	8,952,000	8,952,000
Weighted average number of share equivalents	22,000	15,000	6,000
	-----	-----	-----
Weighted average number of shares and equivalents outstanding - Diluted	8,974,000	8,967,000	8,958,000
	=====	=====	=====

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

Universal Health Realty Income Trust
Consolidated Statements of Shareholders' Equity
For the Years Ended December 31, 1998, 1997 and 1996

	Common Shares Number of Shares	Amount	Capital in excess of par value	Cumulative net income	Cumulative dividends
January 1, 1996	8,947,192	\$ 89,000	\$ 128,643,000	\$ 83,996,000	(\$107,731,000)
Net Income	--	--	--	14,158,000	--
Issuance of shares of beneficial interest	5,148	1,000	--	--	--
Dividends (\$1.695/share)	--	--	--	--	(15,174,000)
January 1, 1997	8,952,340	90,000	128,643,000	98,154,000	(122,905,000)
Net Income	--	--	--	13,967,000	--
Issuance of shares of beneficial interest	2,500	--	7,000	--	--
Dividends (\$1.705/share)	--	--	--	--	(15,264,000)
January 1, 1998	8,954,840	90,000	128,650,000	112,121,000	(138,169,000)
Net Income	--	--	--	14,337,000	--
Issuance of shares of beneficial interest	625	--	35,000	--	--
Dividends (\$1.755/share)	--	--	--	--	(15,716,000)
December 31, 1998	8,955,465	\$ 90,000	\$ 128,685,000	\$ 126,458,000	(\$153,885,000)

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

Universal Health Realty Income Trust
Consolidated Statements of Cash Flows

	Year ended December 31,		
	1998	1997	1996
Cash flows from operating activities:			
Net income	\$ 14,337,000	\$ 13,967,000	\$ 14,158,000
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation & amortization	3,879,000	3,775,000	3,636,000
Amortization of interest rate cap	124,000	124,000	125,000
Changes in assets and liabilities:			
Rent receivable	28,000	(67,000)	(47,000)
Accrued expenses & other liabilities	170,000	197,000	77,000
Tenant escrows, deposits & prepaid rents	106,000	(247,000)	(29,000)
Accrued interest	64,000	(17,000)	77,000
Deferred charges & other	(53,000)	(26,000)	6,000
Net cash provided by operating activities	18,655,000	17,706,000	18,003,000
Cash flows from investing activities:			
Investments in and advances to limited liability companies	(27,892,000)	(3,741,000)	(7,624,000)
Acquisitions and additions to land, buildings and CIP	(158,000)	(4,246,000)	(10,195,000)
Payments made for construction in progress	(28,000)	--	(1,246,000)
Cash distributions in excess of income from LLCs	863,000	598,000	--
Advances under construction notes receivable	--	(3,414,000)	(391,000)
Repayments under mortgage and construction notes receivable	--	10,262,000	--
Net cash used in investing activities	(27,215,000)	(541,000)	(19,456,000)
Cash flows from financing activities:			
Additional borrowings, net of financing costs	23,600,000	--	16,625,000
Repayment of debt	--	(800,000)	--
Issuance of shares of beneficial interest	10,000	--	--
Dividends paid	(15,716,000)	(15,264,000)	(15,174,000)
Net cash provided by (used in) financing activities	7,894,000	(16,064,000)	1,451,000
(Decrease) increase in cash	(666,000)	1,101,000	(2,000)
Cash, beginning of period	1,238,000	137,000	139,000
Cash, end of period	\$ 572,000	\$ 1,238,000	\$ 137,000
Supplemental disclosures of cash flow information:			
Interest paid	\$ 3,232,000	\$ 2,770,000	\$ 2,302,000

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

Universal Health Realty Income Trust
Notes to the Consolidated Financial Statements
December 31, 1998

(1) Summary of Significant Accounting Policies

Nature of Operations

Universal Health Realty Income Trust and Subsidiaries (the "Trust") is organized as a Maryland real estate investment trust. As of December 31, 1998 the Trust had investments in thirty-one facilities located in fourteen states consisting of investments in healthcare and human service related facilities including acute care hospitals, behavioral healthcare facilities, rehabilitation hospitals, sub-acute care facilities, surgery centers, childcare centers and medical office buildings, seven of which are leased to subsidiaries of Universal Health Services, Inc., ("UHS").

Federal Income Taxes

No provision has been made for federal income tax purposes since the Trust qualifies as a real estate investment trust under Sections 856 to 860 of the Internal Revenue Code of 1986, and intends to continue to remain so qualified. As such, it is required to distribute at least 95 percent of its real estate investment taxable income to its shareholders.

The Trust is subject to a federal excise tax computed on a calendar year basis. The excise tax equals 4% of the excess, if any, of 85% of the Trust's ordinary income plus 95% of any capital gain income for the calendar year over 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 will 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.

Real Estate Properties

The Trust records acquired real estate at cost and uses the straight-line method of depreciation for buildings and improvements over estimated useful lives of 25 to 45 years.

It is the Trust's policy to review the carrying value of long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. Measurement of the impairment loss is based on the fair value of the asset. Generally, fair value will be determined using valuation techniques such as the present value of expected future cash flow.

The Trust invests primarily in healthcare-related facilities and, therefore, is subject to certain industry risk factors, which directly impact the operating results of its lessees. In recent years, an increasing number of legislative initiatives have been introduced or proposed in Congress and in state legislatures that would effect major changes in the healthcare system, either nationally or at the state level. In addition, the healthcare industry has been characterized in recent years by

increased competition and consolidation.

In assessing the carrying value of the Trust's real estate investments for possible impairment, management reviews estimates of future cash flows expected from each of its facilities and evaluates the creditworthiness of its lessees based on their current operating performance and on current industry conditions.

Management of the Trust is unable to predict the effect, if any, that the industry factors discussed above will have on the operating results of its lessees or on their ability to meet their obligations under the terms of their leases with the Trust. In addition, management of the Trust cannot predict whether any of the leases will be renewed on their current terms or at all. As a result, management's estimate of future cash flows from its leased properties could be materially affected in the near term, if certain of the leases are not renewed at the end of their lease terms.

Investments in Limited Liability Companies

The consolidated financial statements of the Trust include the accounts of its controlled investments. In accordance with the American Institute of Certified Public Accountants' Statement of Position 78-9 "Accounting for Investments in Real Estate Ventures" and Emerging Issues Task Force Issue 96-16, "Investor's Accounting for an Investee When the Investor Has a Majority of the Voting Interest but the Minority Shareholder or Shareholders Have Certain Approval or Veto Rights", the Trust accounts for its investment in limited liability companies which it does not control using the equity method of accounting. These investments, which represent 33% to 99% non-controlling ownership interests, are recorded initially at the Trust's cost and subsequently adjusted for the Trust's net equity in income and cash contributions and distributions.

Earnings Per Share

Basic earnings per share are based on the weighted average number of common shares outstanding during the year. Diluted earnings per share are based on the weighted average number of common shares during the year adjusted to give effect to common stock equivalents.

Stock-Based Compensation

Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation" encourages a fair value based method of accounting for employee stock options and similar equity instruments, which generally would result in the recording of additional compensation expense in the Trust's financial statements. The Statement also allows the Trust to continue to account for stock-based employee compensation using the intrinsic value-based method of accounting as prescribed by Accounting Principals Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." The Trust has adopted the disclosure-only provisions of SFAS No. 123. Accordingly, no compensation cost has been recognized for the stock option plans in the accompanying financial statements.

Statements of Cash Flows

For purposes of the Consolidated Statements of Cash Flows, the Trust considers all highly liquid investment instruments with original maturities of three months or less to be cash equivalents.

Interest Rate Protection Agreements

In managing interest rate exposure, the Trust at times enters into interest rate swap agreements and interest rate cap agreements. When interest rates change, the differential to be paid or received under the Trust's interest rate swap agreements is accrued as interest expense. Premiums paid for purchased interest rate cap agreements are amortized to interest expense over the terms of the caps. Unamortized premiums are included in deferred charges in the accompanying balance sheet. Amounts receivable under the cap agreements are accrued as a reduction of interest expense.

Fair Value of Financial Instruments

The fair value of the Trust's interest rate swap agreements and investments are based on quoted market prices. The carrying amounts reported in the balance sheet for cash, accrued liabilities, and short-term borrowings approximate their fair values due to the short-term nature of these instruments. Accordingly, these items have been excluded from the fair value disclosures included elsewhere in these notes to consolidated financial statements.

Comprehensive Income

In June 1997, the Financial Accounting Standards Board ("FASB") issued SFAS No. 130, "Reporting Comprehensive Income". The standard establishes additional disclosure for the elements of comprehensive income and a total comprehensive income calculation. Net income as reported by the Trust reflects total comprehensive income for the years ended December 31, 1998, 1997 and 1996.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounting Pronouncement Not Yet Adopted

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The Statement establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. The Statement requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement, and requires that a company must formally document, designate, and assess the effectiveness of transactions that receive hedge accounting.

SFAS No. 133 is effective as of the beginning of fiscal years beginning after June 15, 1999. A company may also implement the SFAS No. 133 as of the beginning of any fiscal quarter after issuance. SFAS No. 133 cannot be applied retroactively. SFAS No. 133 must be applied to: (a) derivative instruments, and; (b) certain derivative instruments embedded in hybrid contracts that were issued, acquired, or substantially modified after December 31, 1997 (and at the Trust's election, before January 1, 1998).

The Trust has not yet quantified the impact of adopting SFAS No. 133 on its financial statements and has not determined the timing of or method of adoption of SFAS No. 133. However, SFAS No. 133 could increase the volatility in earnings and other comprehensive income.

Reclassifications

Certain prior year amounts have been reclassified to conform with current year financial statement presentation.

(2) Related Party Transactions

UHS of Delaware, Inc. (the "Advisor"), a wholly-owned subsidiary of UHS, serves as Advisor to the Trust under an Advisory Agreement dated December 24, 1986 between the Advisor and the Trust (the "Advisory Agreement"). Under the Advisory Agreement, the Advisor is obligated to present an investment program to the Trust, to use its best efforts to obtain investments suitable for such program (although it is not obligated to present any particular investment opportunity to the Trust), to provide administrative services to the Trust and to conduct the Trust's day-to-day affairs. In performing its services under the Advisory Agreement, the Advisor may utilize independent professional services, including accounting, legal and other services, for which the Advisor is reimbursed directly by the Trust. The Advisory Agreement expires on December 31 of each year; however, it is renewable by the Trust, subject to a determination by the Independent Trustees that the Advisor's performance has been satisfactory. The Advisory Agreement may be terminated for any reason upon sixty days written notice by the Trust or the Advisor. The Advisory Agreement has been renewed for 1999. All transactions with UHS must be approved by the Independent Trustees.

The Advisory Agreement provides that the Advisor is entitled to receive an annual advisory fee equal to .60% of the average invested real estate assets of the Trust, as derived from its consolidated balance sheet from time to time. In addition, the Advisor is entitled to an annual incentive fee equal to 20% of the amount by which cash available for distribution to shareholders, as defined in the Advisory Agreement, for each year exceeds 15% of the Trust's equity as shown on its balance sheet, determined in accordance with generally accepted accounting principles without reduction for return of capital dividends. No incentive fees were paid during 1998, 1997 and 1996. The advisory fee is payable quarterly, subject to adjustment at year end based upon audited financial statements of the Trust.

For the years ended December 31, 1998, 1997 and 1996, 71%, 72% and 74%, respectively, of the Trust's revenues were earned under the terms of the leases with wholly-owned subsidiaries of UHS. The leases to subsidiaries of UHS are guaranteed by UHS and cross-defaulted with one another.

During the third quarter of 1998, wholly-owned subsidiaries of UHS exercised five-year renewal options on four hospitals owned by the Trust which were scheduled to expire in 1999 through 2001 (Virtue Street Pavilion, The Bridgeway, Inland Valley Regional Medical Center and Wellington Regional Medical Center). The leases on these facilities were renewed at the same lease rates and terms as the initial leases and these renewals remove the majority of the previously disclosed uncertainty regarding the lease renewals with subsidiaries of UHS. As part of the renewal agreement, the Trust also agreed to grant additional fixed rate renewal options to a wholly-owned subsidiary of UHS commencing in 2022 on the real property of McAllen Medical Center. The leases on the four renewed facilities represented 30% of the Trust's rental revenue for the twelve month period ended December 31, 1998. On a combined basis, these four facilities had earnings before interest, taxes, depreciation, amortization and lease and rental expense (EBITDAR) for the twelve month period ended December 31, 1998 of 1.8 times the total annual rent payable to the Trust in 1998 (ranging from 1.2 to 3.0). The remaining UHS facilities, including McAllen Medical Center, had a combined EBITDAR for the twelve month period ended December 31, 1998 of 7.7 times the total annual rent payable to the Trust in 1998 (ranging from 1.1 to 8.6). The lease on one UHS facility, which had EBITDAR for the twelve month period ended December 31, 1998 of 1.1 times the rent payable to the Trust, expires in 2000 and represented approximately 5% of the Trust's rental revenue for the twelve month period ended December 31, 1998. Management of the Trust can not predict whether the leases with subsidiaries of UHS, which have renewal options at existing lease rates, or any of the Trust's other leases, will be renewed at the end of their initial term or first five-year renewal term.

In recent years, an increasing number of legislative initiatives have been introduced or proposed in Congress and in state legislatures that would effect major changes in the healthcare system, either nationally or at the state level. In addition, the healthcare industry had been characterized in recent years by increased competition and consolidation. Management of the Trust is unable to predict the effect, if any, these industry factors will have on the operating results of its lessees, including the facilities leased to subsidiaries of UHS, or on their ability to meet their obligations under the terms of their leases with the Trust.

Revenues received from UHS and from other non-related parties were as follows:

	Year Ended December 31,		
	1998	1997	1996
	-----	-----	-----
Base rental - UHS facilities	\$13,764,000	\$13,731,000	\$13,731,000
Base rental - Non-related parties	6,393,000	5,605,000	4,706,000
	-----	-----	-----
Total base rental	20,157,000	19,336,000	18,437,000
	-----	-----	-----
Bonus rental - UHS facilities	2,737,000	2,615,000	2,506,000
Bonus rental - Non-related parties	229,000	229,000	229,000
	-----	-----	-----
Total bonus rental	2,966,000	2,844,000	2,735,000
	-----	-----	-----
Interest - Non-related parties	111,000	584,000	751,000
	-----	-----	-----
Total revenues	\$23,234,000	\$22,764,000	\$21,923,000
	=====	=====	=====

At December 31, 1998, approximately 8% of the Trust's outstanding shares of beneficial interest were held by UHS. The Trust has granted UHS the option to purchase Trust shares in the future at fair market value to enable UHS to maintain a 5% interest in the Trust.

The Trust's officers are all employees of UHS and as of December 31, 1998, the Trust had no salaried employees and paid no cash compensation. In 1999, the Trustees awarded a \$50,000 bonus to Mr. Kirk E. Gorman, President, Chief Financial Officer, Secretary and Trustee of the Trust. UHS agreed to a \$50,000 reduction in the 1999 advisory fee paid by the Trust.

(3) Acquisitions and Dispositions

1998 - During 1998, the Trust added five new investments to its portfolio consisting of the following: (i) the purchase of a 99% equity interest in a limited liability company ("LLC"), that owns Desert Springs Medical Plaza located in Las Vegas, Nevada (\$10.1 million); (ii) the purchase of a 95% equity interest in a LLC that owns the Edwards Medical Plaza located in Phoenix, Arizona (\$3.8 million); (iii) the purchase of a 95% equity interest in a LLC that owns the Pacifica Palms Medical Plaza located in Torrance, California (\$1.7 million); (iv) the purchase of a 48% equity interest in a LLC that owns the St. Jude Heritage Health Complex located in Fullerton, California (\$1.4 million), and; (v) the purchase of an 80% equity interest in a LLC that owns the Rio Rancho Medical Center, a medical office building located in Rio Rancho, New Mexico (\$900,000). In connection with the purchase of equity interest in LLCs that own the Pacifica Palms Medical Plaza, the St. Jude Heritage Health Complex and the Rio Rancho Medical Center, the Trust advanced a total of \$10.0 million of short term loans to three separate LLCs. The loans, which earned interest at a combined average annual rate of 9% during 1998, are expected to be fully repaid to the Trust during 1999.

1997 - During 1997, the Trust added new investments to its portfolio consisting of the following: (i) the purchase of a capital addition to one of its medical office buildings and two additional properties located in Louisiana and Georgia (\$1.4 million); (ii) the purchase of a 75% equity interest in a LLC that purchased the Thunderbird Paseo Medical Plaza (\$1.9 million); (iii) the completion of construction of The Cypresswood Professional Center, located in Houston, Texas in which the Trust has a 77% controlling equity interest (\$4.4 million including \$1.2 million of construction in progress capitalized during 1996), and; (iv) the completion of construction of Samaritan West Valley Medical Center located in Goodyear, Arizona in which the Trust owns a 89% equity interest in a LLC which owns the real estate assets of the facility (\$1.8 million).

1996 - During 1996, the Trust added eleven new investments to its portfolio consisting of the following: (i) the purchase of a 50% equity interest in a LLC which owns three medical office buildings located on the campus of Desert Samaritan Hospital in Phoenix, Arizona (\$5.0 million); (ii) the purchase of four preschool and child-care centers located in southeastern Pennsylvania (\$3.9 million); (iii) the acquisition of a 33% equity interest in a LLC which owns a medical office building located on the campus of Columbia/HCA Healthcare Corporation's 260-bed Suburban Medical Center in Louisville, Kentucky; (iv) the purchase of multi-tenant medical office building adjacent to the Southern Regional Medical Center in Riverdale, Georgia (\$6.2 million); (v) the purchase of a 50% equity interest in a LLC which owns two medical office buildings on the campus of Maryvale Samaritan Hospital located in Phoenix, Arizona (\$1.4 million); (vi) the purchase of a 95% equity interest in a LLC which purchased the Desert Valley Medical Center, a medical office building located on the campus of the Columbia Paradise Valley Hospital in Phoenix, Arizona (\$4.3 million including \$2.7 million of long-term, non-recourse debt); (vii) construction financing provided to a limited partnership, of which the Trust owns a 77% controlling equity interest, for the construction of The Cypresswood Professional Center located in Houston, Texas (\$1.2 million advanced as of December 31, 1996 including a \$343,000 capital contribution), and; (viii) construction financing provided to a LLC (excluding

\$525,000 of capital to be contributed by the Trust upon completion of the center in the fourth quarter of 1997), of which the Trust owns a 50% initial equity interest, for the construction of Samaritan West Valley Medical Center located in Goodyear, Arizona (\$391,000 advanced as of December 31, 1996). In connection with the Trust's acquisition of a 33% equity interest in the LLC which owns the medical office building on the campus of Suburban Medical Center, the Trust posted a \$3.5 million standby letter of credit for the benefit of the lender providing the financing. Construction on The Cypresswood Professional Center and the Samaritan West Valley Medical Center was completed in the third and fourth quarters of 1997, respectively.

(4) Leases

All of the Trust's leases are classified as operating leases with initial terms ranging from 5 to 15 years with up to six five-year renewal options. Under the terms of the leases, the Trust earns fixed monthly base rents and may earn periodic additional rents (see Note 2). The additional rent payments are generally computed as a percentage of the facility's net patient revenue or CPI increase in excess of a base amount. The base year amount is typically net patient revenue for the first full year of the lease. The Trust records these additional rents on a pro rata basis over the annual lease period if the achievement of the specific net patient revenue target amounts is probable.

Minimum future base rents on non-cancelable leases are as follows:

1999	\$ 19,373,000
2000	19,180,000
2001	18,116,000
2002	11,442,000
2003	10,616,000
Later Years	24,360,000

Total Minimum Base Rents	\$103,087,000
=====	

Under the terms of the hospital leases, the lessees are required to pay all operating costs of the properties including property insurance and real estate taxes. Tenants of the medical office buildings generally are required to pay their pro-rata share of the property's operating costs above a stipulated amount.

(5) Debt

The Trust has a \$80 million unsecured non-amortizing revolving credit agreement (the "Agreement"), which expires on June 24, 2003. The Agreement provides for interest at the Trust's option, at the certificate of deposit rate plus 5/8% to 1 1/8%, Eurodollar rate plus 1/2% to 1 1/8% or the prime rate. A fee of .175% to .375% is required on the unused portion of this commitment. The margins over the certificate of deposit rate, Eurodollar rate and the commitment fee are based upon the Trust's debt to total capital ratio as defined by the Agreement. At December 31, 1998 the applicable margin over the certificate of deposit and Eurodollar rates were 7/8% and 5/8%, respectively, and the commitment fee was .20%. There are no compensating balance requirements. The Agreement contains a provision whereby the commitments will be reduced by 50% of the proceeds generated from any new equity offering.

At December 31, 1998, the Trust had approximately \$12 million of available borrowing capacity.

The average amounts outstanding under the revolving credit agreement during 1998, 1997 and 1996 were \$49,195,000, \$40,774,000 and \$34,410,000, respectively, with corresponding effective interest rates, including commitment fees but not including the effect of interest rate swaps of 6.3%, 6.4% and 6.3%. The maximum amounts outstanding at any month end were \$64,800,000, \$44,300,00 and \$42,200,000 during 1998, 1997 and 1996, respectively.

Covenants relating to the revolving credit facility require the maintenance of a minimum tangible net worth and specified financial ratios, limit the Trust's ability to incur additional debt, limit the aggregate amount of mortgage receivables and limit the Trust's ability to increase dividends in excess of 95% of cash available for distribution, unless additional distributions are required to comply with the applicable section of the Internal Revenue Code and related regulations governing real estate investment trusts.

The Trust has entered into interest rate swap agreements and an interest rate cap agreement which are designed to reduce the impact of changes in interest rates on its floating rate revolving credit notes. The Trust has three outstanding swap agreements for notional principal amounts of \$5 million, \$4 million and \$1,580,000 which mature in May, 1999, July, 2002 and May, 2001, respectively. These swap agreements effectively fix the interest rate on \$10,580,000 of variable rate debt at 7.56% including the revolver spread of .625%. The interest rate cap, for which the Trust paid \$622,750, (unamortized premium of \$62,000 at December 31, 1998) matures in June, 1999 and fixes the maximum rate on \$15 million of variable rate revolving credit notes at 7.625% including the revolver spread of .625%. The interest rate swap and cap agreements were entered into in anticipation of certain borrowing transactions made by the Trust during 1995, 1996 and 1997. The effective rate on the Trust's revolving credit notes including commitment fees and interest rate swap expense was 6.7%, 6.9% and 6.8% during 1998, 1997 and 1996, respectively. Additional interest expense recorded as a result of the Trust's hedging activity, which is included in the effective interest rates shown above, was \$136,000, \$118,000 and \$130,000 in 1998, 1997 and 1996, respectively. The Trust is exposed to credit loss in the event of nonperformance by the counterparties to the interest rate swap and cap agreements. These counterparties are major financial institutions and the Trust does not anticipate nonperformance by the counterparties which are rated A or better by Moody's Investors Service. Termination of the interest rate swaps at December 31, 1998 would have resulted in payments to the counterparties of approximately \$322,000 and termination of the interest rate cap would have had no impact on the Trust. The fair value of the interest rate swap and cap agreements at December 31, 1998 reflects the estimated amounts that the Trust would pay or receive to terminate the contracts and are based on quotes from the counterparties.

(6) Dividends

Dividends of \$1.755 per share were declared and paid in 1998, of which \$1.682 per share was ordinary income and \$.073 per share was a return of capital distribution. Dividends of \$1.705 per share were declared and paid in 1997, of which \$1.624 per share was ordinary income and \$.081 per share was a return of capital distribution. Dividends of \$1.695 per share were declared and paid in 1996, of which \$1.622 per share was ordinary income and \$.073 per share was a return of capital distribution.

(7) Incentive Plans

In 1991, the Trustees adopted a share compensation plan for Trustees who are neither employees nor officers of the Trust ("Outside Trustees"). Pursuant to the plan, each Outside Trustee may elect to receive, in lieu of all or a portion of the quarterly cash compensation for services as a Trustee, shares of the Trust based on the closing price of the shares on the date of issuance. As of December 31, 1998 no shares have been issued under the terms of this plan.

During 1992 and 1993, the Trust granted options pursuant to the 1988 Non-Statutory Stock Option Plan. Pursuant to the terms of this plan, which expired in December of 1998, the granted options vested ratably 25% per year beginning one year after the date of grant and expired ten years from the grant date. As of December 31, 1998, 58,024 options were outstanding and exercisable at an aggregate purchase price of \$973,137 or \$16.77 per share.

During 1997, the Trust's Board of Trustees approved the Universal Health Realty Income Trust 1997 Incentive Plan ("The Plan"), which is a newly created stock option and dividend equivalents rights plan for employees of the Trust, including officers and directors. There are 400,000 shares reserved for issuance under The Plan. All stock options were granted with an exercise price equal to the fair market value on the date of the grant. The options granted vest ratably at 25% per year beginning one year after the date of grant, and expire in ten years. Dividend equivalent rights reduce the exercise price of the 1997 Incentive Plan options by an amount equal to the cash or stock dividends distributed subsequent to the date of grant. On June 23, 1997, there were 70,000 stock options with dividend equivalent rights granted to officers and trustees of the Trust. The Trust recorded expenses relating to the dividend equivalent rights of \$123,000 in 1998 and \$60,000 in 1997. As of December 31, 1998, there were 16,250 options exercisable under The Plan with an average exercise price, adjusted to give effect to the dividend equivalent rights, of \$16.02 per share.

SFAS No. 123 requires the Trust to disclose pro-forma net income and pro-forma earnings per share as if compensation expense were recognized for options granted beginning in 1995. Because the SFAS No. 123 method of accounting has not been applied to options granted prior to January 1, 1995 and since there were no stock options granted by the Trust during 1995 or 1996, no pro forma disclosures are required. Using this approach, the Trust's net earnings and earnings per share would have been the pro forma amounts indicated below:

Year Ended December 31	1998	1997

Net Income:		
As Reported	\$14,337,000	\$13,967,000
Pro Forma	\$14,201,000	\$13,898,000
Earnings Per Share:		
As Reported:		
Basic	\$ 1.60	\$ 1.56
Diluted	\$ 1.60	\$ 1.56
Pro Forma:		
Basic	\$ 1.59	\$ 1.55
Diluted	\$ 1.58	\$ 1.55

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following range of assumptions used for the three option grants that occurred during 1998 and 1997:

Year Ended December 31	1998	1997
Volatility	15%	15%
Interest rate	5% - 6%	6.5%
Expected life (years)	7.9	7.9
Forfeiture rate	2%	2%

Stock-based compensation costs on a pro forma basis would have reduced net income by \$136,000 in 1998 and \$69,000 in 1997. Because the SFAS No. 123 method of accounting has not been applied to options granted prior to January 1, 1995, the resulting pro forma disclosures may not be representative of that to be expected in future years.

Stock options to purchase shares of beneficial interest have been granted to officers and directors of the Trust under various plans. Information with respect to these options is summarized as follows:

Outstanding Options	Number of Shares	Average Option Price	Range (High-Low)
Balance, January 1, 1996	95,000	\$16.80	\$16.875/\$16.125
Granted	0	N/A	N/A
Exercised	(36,976)	\$16.84	\$16.875/\$16.125
Cancelled	0	N/A	N/A
Balance, January 1, 1997	58,024	\$16.77	\$16.875/\$16.125
Granted	70,000	\$18.625	\$18.625/\$18.625
Exercised	0	N/A	N/A
Cancelled	0	N/A	N/A
Balance, January 1, 1998	128,024	\$17.79	\$18.625/\$16.125
Granted	7,500	\$19.40	\$21.4375/\$18.375
Exercised	(625)	\$18.625	\$18.625/\$18.625
Cancelled	(4,375)	\$18.625	\$18.625/\$18.625
	130,524	\$17.85	\$21.4375/\$16.125

(8) Summarized Financial Information of Equity Affiliates

The following table represents summarized unaudited financial information of the limited liability companies ("LLCs") accounted for by the equity method. Amounts presented include investments in the following LLCs:

Name of LLC -----	Property Owned by LLC -----	
DSMB Properties	Desert Samaritan Hospital MOBs	
DVMC Properties	Desert Valley Medical Center MOBs	
Parkvale Properties	Maryvale Samaritan Hospital MOBs	
Suburban Properties	Suburban Medical Center MOBs	
Litchvan Investments	Samaritan West Valley Medical Center	
Paseo Medical Properties II	Thunderbird Paseo Medical Plaza	
Willetta Medical Properties	Edwards Medical Plaza	
DesMed	Desert Springs Medical Plaza	
PacPal Investments	Pacifica Palms Medical Plaza	
RioMed Investments	Rio Rancho Medical Center	
West Highland Holdings	St. Jude Heritage Health Complex	

	December 31, -----	
	1998	1997

	(amounts in thousands)	
Net property	\$95,732	\$54,536
Other assets	5,430	4,164
Liabilities and third-party debt	58,118	44,261
Loans payable to the Trust	9,980	-----
Equity	33,063	14,439
UHT's share of equity	28,185	11,075
	For the Year Ended December 31, -----	
	1998	1997

	(amounts in thousands)	
Revenues	\$12,942	\$8,135
Operating expenses	4,677	2,727
Depreciation & amortization	2,450	1,846
Interest, net	4,133	3,093
Net income	1,682	469
UHT's share of net income	1,537	445

As of December 31, 1998, these LLCs had \$56.1 million of non-recourse debt payable to third-party lending institutions. The loans payable to the Trust earned interest at a combined average annual rate of 9% during 1998 and are expected to be fully repaid to the Trust during 1999 once the LLCs secure long-term, third-party financing.

Aggregate maturities of non-recourse debt payable to third-parties is as follows:

1999	\$10,241
2000	914
2001	4,674
2002	934
2003	1,006
Later	38,312

Total	\$56,081
	=====

(9) Quarterly Results (unaudited)

	1998				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Revenues	\$5,857,000	\$5,793,000	\$5,694,000	\$5,890,000	\$23,234,000
Net Income	\$3,569,000	\$3,528,000	\$3,471,000	\$3,769,000	\$14,337,000
Earnings Per Share-Basic	\$0.40	\$0.39	\$0.39	\$0.42	\$1.60
Earnings Per Share-Diluted	\$0.40	\$0.39	\$0.39	\$0.42	\$1.60

	1997				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Revenues	\$5,700,000	\$5,769,000	\$5,560,000	\$5,735,000	\$22,764,000
Net Income	\$3,658,000	\$3,550,000	\$3,342,000	\$3,417,000	\$13,967,000
Earnings Per Share-Basic	\$0.41	\$0.40	\$0.37	\$0.38	\$1.56
Earnings Per Share-Diluted	\$0.41	\$0.40	\$0.37	\$0.38	\$1.56

Universal Health Realty Income Trust
Schedule II - Valuation and Qualifying Accounts

Description	Balance at beginning of period	Charged to costs and expenses	Other (a)	Balance at end of period
Reserve for Investment Losses:				
Year ended December 31, 1998	\$ 89,000 =====	\$ 300,000 =====	(\$273,000) =====	\$ 116,000 =====
Year ended December 31, 1997	\$ 151,000 =====	\$ 227,000 =====	(\$289,000) =====	\$ 89,000 =====
Year ended December 31, 1996	\$ 158,000 =====	\$ 220,000 =====	(\$227,000) =====	\$ 151,000 =====

(a) Amounts charged against the reserve.

Schedule III
Universal Health Realty Income Trust
Real Estate and Accumulated Depreciation - December 31, 1998
(amounts in thousands)

Description	Initial Cost to Universal Health Realty Income Trust			Cost capitalized Subsequent to acquisition		Gross amount at which carried at close of period		Accumulated Depreciation as of Dec. 31, 1998	Date of construction or most recent significant expansion or renovation	Date Acquired	Average Depreciable Life
	Land	Building & Improv.	Land & Improv.	Land	Building & Improvements	Total					
Virtue Street Pavilion	\$1,825	\$9,445	-	\$1,770	\$9,445	\$11,215	\$3,244	1975			35 Years
Chalmette Medical Center	2,000	7,473	-	2,000	7,473	9,473	2,365	1981	1986	1988	34 Years
Chalmette, Louisiana											
Inland Valley Regional Medical Center	2,050	10,701	2,868	2,050	13,569	15,619	3,145	1986	1986		43 Years
Wildomar, California											
McAllen Medical Center	4,720	31,442	10,188	6,281	40,069	46,350	9,262	1994	1986		42 Years
McAllen, Texas											
Wellington Regional Medical Center	1,190	14,652	4,822	1,663	19,001	20,664	4,349	1986	1986		42 Years
West Palm Beach, Florida											
The Bridgeway	150	5,395	499	150	5,894	6,044	2,004	1983	1986		35 Years
North Little Rock, Arkansas											
Meridell Achievement Center	1,350	3,782	4,139	1,350	7,921	9,271	2,743	1991	1986		28 Years
Austin, Texas											
Tri-State Rehabilitation Hospital	500	6,945	1,062	500	8,007	8,507	1,819	1993	1989		40 Years
Evansville, Indiana											
Vencor Hospital - Chicago	158	6,404	1,907	158	8,311	8,469	3,559	1993	1986		25 Years
Chicago, Illinois											
Fresno-Herndon Medical Plaza	1,073	5,266	24	1,073	5,290	6,363	481	1992	1994		45 Years
Fresno, California											
Family Doctor's Medical Office Building	54	1,526	494	54	2,020	2,074	141	1991	1995		45 Years
Shreveport, Louisiana											
Kelsey-Seybold Clinic at King's Crossing	439	1,618	-	439	1,618	2,057	117	1995	1995		45 Years
Professional Center at King's Crossing	439	1,837	43	439	1,880	2,319	127	1995	1995		45 Years
Kingwood, Texas											
Chesterbrook Academy	-	996	-	-	996	996	59	1996	1996		45 Years
Audubon, Pennsylvania											
Carefree Learning Center	250	744	-	250	744	994	43	1991	1996		45 Years
New Britain, Pennsylvania											
Carefree Learning Center	180	815	-	180	815	995	48	1992	1996		45 Years
Uwchlan, Pennsylvania											
Carefree Learning Center	195	749	-	195	749	944	44	1992	1996		45 Years
Newtown, Pennsylvania											
The Southern Crescent Center	1,130	5,092	14	1,130	5,106	6,236	285	1994	1996		45 Years
The Southern Crescent Center II			806	806	0	806	0	1998	1998		35 Years
Riverdale, Georgia											
The Cypresswood Professional Center	573	3,842	121	573	3,963	4,536	171	1997	1997		35 Years
Spring, Texas											
TOTALS	\$18,276	\$118,724	\$26,987	\$21,061	\$142,871	\$163,932	\$34,006				
	=====	=====	=====	=====	=====	=====	=====				

Universal Health Realty Income Trust
Notes to Schedule III
December 31, 1998

(1) Reconciliation of Real Estate Properties

The following table reconciles the Real Estate Properties from January 1, 1996 to December 31, 1998:

	1998	1997	1996
	-----	-----	-----
Balance at January 1	\$ 163,855,000	\$ 158,083,000	\$ 147,888,000
Additions and acquisitions	158,000	4,526,000	10,195,000
Reclasses from construction in progress	--	1,246,000	--
Dispositions (a)	(81,000)	--	--
	-----	-----	-----
Balance at December 31	\$ 163,932,000	\$ 163,855,000	\$ 158,083,000
	=====	=====	=====

(2) Reconciliation of Accumulated Depreciation

The following table reconciles the Accumulated Depreciation from January 1, 1996 to December 31, 1998:

	1998	1997	1996
	-----	-----	-----
Balance at January 1	\$ 30,280,000	\$ 26,540,000	\$ 22,986,000
Current year depreciation expense	3,807,000	3,740,000	3,554,000
Dispositions (a)	(81,000)	--	--
	-----	-----	-----
Balance at December 31	\$ 34,006,000	\$ 30,280,000	\$ 26,540,000
	=====	=====	=====

(a) Consists of accumulated depreciation on demolished houses located on land cleared for construction of The Southern Crescent Center II, a new medical office building which is scheduled to open in the first quarter of 2000.

The aggregate cost basis and net book value of the properties for Federal income tax purposes at December 31, 1998 are approximately \$153,000,000 and \$122,000,000, respectively.

January 7, 1999

Mr. Alan B. Miller
President
UHS of Delaware, Inc.
367 South Gulph Road
King of Prussia, PA 19406

Dear Alan:

The Board of Trustees of Universal Health Realty Income Trust at their December 1, 1998, meeting authorized the renewal of the current Advisory Agreement between the Trust and UHS of Delaware, Inc. ("Agreement") upon the same terms and conditions.

This letter constitutes the Trust's offer to renew the Agreement until December 31, 1999, upon the same terms and conditions. Please acknowledge UHS of Delaware, Inc.'s acceptance of this offer by signing in the space provided below and returning one copy of this letter to me.

Sincerely yours,

/s/ Kirk E. Gorman
Kirk E. Gorman
President and Secretary

cc: Warren J. Nimetz, Esquire
Charles Boyle

Agreed to and Accepted:

UHS OF DELAWARE, INC.

By: /s/ Alan B. Miller
Alan B. Miller, President

5
0000798783
UNIVERSAL HEALTH REALTY INCOME TRUST
1,000
U.S. DOLLARS

YEAR	
DEC-31-1998	
JAN-01-1998	
DEC-31-1998	
1	572
	0
5,705	
5,116	
	0
0	163,960
34,006	
169,406	
0	
	66,016
0	
	0
	90
	101,258
169,406	
	0
24,771	
	0
	3,065
3,879	
	0
3,490	
14,337	
	0
14,337	
	0
	0
	0
	14,337
	1.60
	1.60