

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, 1996

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 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,  
1997: \$163,009,548. Number of shares of beneficial interest outstanding of  
registrant as of January 31, 1997: 8,952,340.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for its 1997 Annual  
Meeting of Shareholders, which will be filed with the Securities and Exchange  
Commission within 120 days after December 31, 1996 (incorporated by reference  
under Part III).

PART I

Item 1. BUSINESS

General

The Trust commenced operations on December 24, 1986. As of December 31, 1996,  
the Trust had investments in twenty-six facilities located in thirteen states  
consisting of the following:

Facility Name	Location	Type of Facility	Guarantor
Chalmette Medical Centers:			
Patricia Street Campus	(A) Chalmette, LA	Acute Care	Universal Health Services, Inc.
Virtue Street Campus	(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.
THC-Chicago	(B) Chicago, IL	Sub-Acute Care	Community Psychiatric Ctrs.
Tri-State Rehabilitation Hospital	(B) Evansville, IN	Rehabilitation	HEALTHSOUTH Corporation
Madison Irving Medical Center	(C) Syracuse, NY	Ambulatory Trmt. Ctr.	Crouse Irving Memorial Hospital
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.
The Southern Crescent Center	(B)	Riverdale, GA	Medical Office Bldg.	---
Desert Samaritan Hospital MOBs	(D)	Phoenix, AZ	Medical Office Bldg.	---
Suburban Medical Plaza II	(E)	Louisville, KY	Medical Office Bldg.	---
Maryvale Samaritan Hospital MOBs	(D)	Phoenix, AZ	Medical Office Bldg.	---
Desert Valley Medical Center MOB	(F)	Phoenix, AZ	Medical Office Bldg.	---
Cypresswood Professional Center	(G)	Houston, TX	Medical Office Bldg.	---
Samaritan West Valley Medical Ctr.	(H)	Goodyear, AZ	MOB, Imaging Ctr.	---
Lake Shore Hospital	(I)	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 holds a mortgage loan with Crouse Irving Memorial Properties on the real estate assets of this facility.
- (D) The Trust has 50% equity interest in a limited liability corporation ("LLC") which owns the real estate assets of this facility.
- (E) The Trust has 33% equity interest in a LLC which owns the real estate assets of this facility. Construction on this facility 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 lender providing the construction financing. The construction loan matures in November, 1997 and the Trust expects the LLC to arrange for permanent financing prior to that date.
- (F) Trust has 95% equity interest in a LLC which owns the real estate assets of this facility.
- (G) The Trust is providing construction financing to a limited partnership in which the Trust has a 77% controlling equity interest during the construction period, which increases to 98% upon completion and occupancy of the building. The construction is scheduled to be completed in the third quarter of 1997. In connection with this investment, the Trust made a capital contribution of \$343,000 to the limited partnership that will develop and own this facility.
- (H) The Trust is providing construction financing to a LLC in which the Trust has 50% equity interest during the construction period, which increases to 70% upon completion and occupancy of the building. The construction is scheduled to be completed in the fourth quarter of 1997.

- (I) The Trust received free and clear title to the real estate assets of Lake Shore Hospital during 1995. The Trust continues to actively negotiate with third parties interested in purchasing or leasing the real estate assets of the Lake Shore facility.

As of December 31, 1996, the Trust has invested an aggregate of \$174 million in various real estate assets, mortgage loans, construction loans and limited liability corporations 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 have fixed terms with an average of four years remaining and provide for renewal options for up to six five-year terms. The initial terms of these leases expire beginning in 1999. 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 THC-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. 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 5.0, 5.3, and 4.3 for the years ended December 31, 1996, 1995 and 1994, respectively. The coverage ratio for individual facilities varies (see "Relationship to Universal Health Services, Inc.").

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, 1996, subsidiaries of UHS leased seven of the nine hospital facilities owned by the Trust with initial terms expiring in 1999 through 2003. 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 5-year periods. These leases accounted for 83% of the total revenue of the Trust for the five years ended December 31, 1996.

For the year ended December 31, 1996, two of the UHS facilities did not generate sufficient EBITDAR to cover the 1996 rent expense payable to the Trust. The leases on these facilities, which mature in 2000 and 2001, generated 18% of the Trust's 1996 rental income. One additional UHS facility had 1996 EBITDAR which was less than 1.5 times the 1996 rent payable to the Trust. The lease on this facility, which matures in 2001, generated 10% of the Trust's 1996 rental income. One additional UHS facility had 1996 EBITDAR (excluding a favorable prior year net revenue adjustment) which was less than 2.0 times the 1996 rent expense payable to the Trust. The lease on this facility, which matures in 1999 generated 6% of the Trust's 1996 rental income. All of the Trust's remaining hospital facilities, including the facilities operated by non-related parties, had a combined 1996 EBITDAR of 7.5 times (ranging from 2.1 times to 8.9 times) the 1996 rent expense payable to the Trust.

In recent years, an increasing number of legislative initiatives have been introduced or proposed in Congress and in state legislatures that would effect major changes in the healthcare system, either nationally or at the state level. In addition, the healthcare industry has been characterized in recent years by increased competition and consolidation. Management of the Trust is unable to predict the effect, if any, these industry factors will have on the operating results of its leasees, 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. As mentioned above, certain of the Trust's facilities leased to subsidiaries of UHS have had EBITDAR of less than 1.5 times the rent payable to the Trust. 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 lease terms. If the leases are not renewed at their current rates, the Trust would be required to find other operators for those facilities and/or enter into leases on terms potentially less favorable to the Trust than the current leases.

For the year ended December 31, 1995, one of the UHS facilities did not generate sufficient earnings before interest, taxes, depreciation, amortization and lease and rental expense (EBITDAR) to cover the 1995 rent expense payable to the Trust. The lease on this facility, which matures in 2001, generated 12% of the Trust's 1995 rental income. Three additional UHS facilities had 1995 EBITDAR which was less than 1.5 times the 1995 rent expense payable to the Trust. The leases on these three facilities, which mature in 1999, 2000 and 2001, generated on a combined basis, 22% of the Trust's 1995 rental income. All of the Trust's remaining hospital facilities, including the facilities operated by non-related parties, had a combined 1995 EBITDAR of 8.1 times (ranging from 2.8 times to 10.5 times) the 1995 rent expense payable to 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 Trustees who are unaffiliated with UHS (the "Independent Trustees"). However, the purchase options and rights of first refusal granted to the respective lessees to purchase or lease, after the expiration of the lease term, the respective leased facilities may, in addition to adversely affecting the Trust's ability to sell or lease a facility, 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 1997. 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 1996, 1995 and 1994. 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, 1996, UHS owned 8% of the outstanding shares of beneficial interest.

#### Competition

The Trust believes that it is one of thirteen 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 competitive position of a hospital is also affected by alternative healthcare delivery systems such as preferred provider organizations, health maintenance organizations and indemnity insurance programs. Such systems normally involve a discount from a hospital's established charges. Outpatient treatment and diagnostic facilities, outpatient surgical centers, and freestanding ambulatory surgical centers also impact the healthcare marketplace.

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

#### Regulation

Private as well as Federal and state payment programs, and the impact of other laws and regulations, could have a significant effect on the utilization of the Trust's properties and its revenues. A number of legislative initiatives have been proposed that could result in major changes in the healthcare system, either nationally or at the state level. See "Management's Discussion and Analysis of Financial Condition and Results of Operations".

# Executive Officers of the Registrant

The executive officers of the Trust are as follows:

Name	Age	Position
Alan B. Miller	59	Chairman of the Board and Chief Executive Officer
Kirk E. Gorman	46	President, Chief Financial Officer, Secretary and Trustee
Charles F. Boyle	37	Vice President and Controller
Cheryl K. Ramagano	34	Vice President and Treasurer
Timothy J. Fowler	41	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 - 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 has no salaried employees and the Trust's officers are all employees of UHS and receive no cash compensation from the Trust.

Item 2. Properties

The following table shows the Trust's individual investments by the type of facility, capacity in terms of beds, and five-year occupancy levels based on the information provided by the lessees or mortgagors.

Facility Name and Location	Type of facility	Number of available beds @ 12/31/96	Average Occupancy (1)					Minimum rent	End of initial term	Lease Term Renewal term (years)
			1996	1995	1994	1993	1992			
Chalmette Medical Centers	Rehabilitation Acute Care	45	61%	57%	92%	81%	81%	\$1,261,000	1999	25
Virtue Street Campus		118	66%	67%	66%	68%	69%	879,000	2003	15
Patricia Street Campus										
Chalmette, Louisiana (2)										
Inland Valley Regional Medical Center	Acute Care	80	49%	49%	45%	50%	53%	1,857,000	2001	30
Wildomar, California (3)										
McAllen Medical Center	Acute Care	407	88%	87%	89%	86%	91%	5,485,000	2001	30
McAllen, Texas (3)										
Wellington Regional Medical Center	Acute Care	120	36%	30%	32%	35%	33%	2,495,000	2001	30
West Palm Beach, Florida (3)										
The BridgeWay	Behavioral Health	70	62%	65%	61%	57%	54%	683,000	1999	25
North Little Rock, Arkansas										
Meridell Achievement Center	Behavioral Health	114	45%	65%	47%	44%	61%	1,071,000	2000	20
Austin, Texas										
Tri-State Regional Rehabilitation Hospital	Rehabilitation	80	59%	59%	61%	71%	78%	1,113,000	1999	25
Evansville, Indiana (4)										
THC - Chicago	Sub-Acute Care	86	45%	38%	38%	-	-	1,065,000	2001	25
Chicago, Illinois (5)										
Fresno - Herndon Medical Plaza	Medical Office Building	-	100%	100%	-	-	-	704,000	1999 - 2003	various
Fresno, California (6)										
Family Doctor's Medical Office Building	Medical Office Building	-	100%	100%	-	-	-	175,000	2001	10
Shreveport, Louisiana (7)										



Item 2. Properties (continued)

Facility Name and Location	Type of Facility	Number of available beds @ 12/31/96	1996	Average Occupancy (1)				Minimum rent	End of initial term	Lease Term Renewal term (years)
				1995	1994	1993	1992			
Kelsey-Seybold Clinic at King's Crossing	Medical Office Buildings	-	100%	100%	-	-	-	\$242,000	2005	various
Professional Center at King's Crossing Kingwood, Texas (8)		-	93%	100%	-	-	-	255,000	2000-2005	various
Chesterbrook Academy Audubon, Pennsylvania (9)	Preschool & Childcare	-	100%	-	-	-	-	155,000	2010	14
Carefree Learning Center New Britian, Pennsylvania (9)	Preschool & Childcare	-	100%	-	-	-	-	118,000	2010	14
Carefree Learning Center Newtown, Pennsylvania (9)	Preschool & Childcare	-	100%	-	-	-	-	113,000	2010	14
Carefree Learning Center Uwchlan, Pennsylvania (9)	Preschool & Childcare	-	100%	-	-	-	-	118,000	2010	14
The Southern Crescent Center Riverdale, Georgia (10)	Medical Office Buildings	-	89%	-	-	-	-	716,000	1999-2006	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, 1996. Average occupancy rate for the preschool and childcare centers and 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) Chalmette Medical Centers, which was formed at the end of 1989 by the consolidation of two acute care hospitals (Chalmette General Hospital and De La Ronde Hospital), consists of two facilities separated by approximately one mile. Each facility is leased pursuant to a separate lease. The Patricia Street Campus is a 118-bed medical/surgical facility. The Virtue Street Campus is a 73-bed facility made up of a physical rehabilitation unit, skilled nursing and inpatient behavioral health services. No assurance can be given as to the effect of the consolidation on the underlying value of the Virtue Street and Patricia Street Campuses. Rental commitments and the guarantee by UHS under the existing leases continue for the remainder of the respective terms of the leases.

(3) During the third quarter of 1995, UHS purchased the assets of Westlake Medical Center, ("Westlake") a 126-bed hospital of which the majority of real estate assets were owned by the Trust and leased to UHS. In exchange for the real estate assets of Westlake and the termination of the lease, the Trust received substitution properties valued at approximately \$19 million (the Trust's original purchase price of Westlake) consisting of additional real estate assets which were owned by UHS but related to three acute care facilities, of which the Trust owns the real estate and which are operated by UHS (McAllen Medical Center, Inland Valley Regional Medical Center and Wellington Regional Medical Center). These additional real estate assets represent major additions and expansions made to these facilities by UHS since the purchase of the facilities by the Trust from UHS in 1986. The Trust also purchased from UHS, additional real estate assets related to McAllen Medical Center for approximately \$1.9 million in cash. Total annual base rental payments from UHS to the Trust on the substituted properties will be \$2.4 million which equals the total base and bonus rental earned by the Trust on the Westlake facility during 1994 (\$2.1 million base and \$300,000 bonus). Total annual base rental payments on the additional real estate assets purchased related to McAllen Medical Center will be approximately \$200,000. Bonus rental on the substituted and purchased real estate assets will be equal to 1% of the growth in revenues, in excess of base year amounts, generated by these additional assets. The guarantee by UHS under the existing leases, as amended to include the additional property, will continue.

(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.

(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. ("THC"), 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 \$1,082,000 at December 31, 1996. 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 1996 financial results is approximately \$61,000 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, which is guaranteed by CPC, for the real property of this facility, now operating as THC-Chicago.

(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) During the third quarter of 1995, the Trust purchased for \$1.6 million, a medical office building on the campus of a hospital owned by Columbia/HCA Healthcare Corporation located in Shreveport, Louisiana. The medical office building is currently being leased under the terms of a master lease agreement with Columbia/HCA Healthcare Corporation.

(8) 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.

(9) During the second quarter of 1996, the Trust purchased four preschool and childcare centers located in southeast Pennsylvania for a total of \$3.9 million. The childcare centers, which were purchased from a subsidiary of Nobel Education Dynamics, Inc. ("Nobel"), were leased back to Nobel pursuant to the terms of long-term, triple net leases.

(10) During the second quarter of 1996, the Trust purchased The Southern Crescent Center, 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.

#### 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, 1996 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, 1996 and 1995 are summarized below:

	1996		1995	
	High Price	Low Price	High Price	Low Price
First Quarter	\$ 20	\$ 17 1/2	\$ 16 7/8	\$ 15 7/8
Second Quarter	\$ 19 7/8	\$ 18 1/8	\$ 16 7/8	\$ 15 7/8
Third Quarter	\$ 19 7/8	\$ 18 3/8	\$ 16 7/8	\$ 16
Fourth Quarter	\$ 20 1/2	\$ 18 1/2	\$ 17 7/8	\$ 16 1/2

As of January 31, 1997 there were approximately 1,135 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 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:

	1996	1995	1994	1993	1992
First Quarter	\$ .420	\$ .42	\$ .415	\$ .415	\$ .40
Second Quarter	.425	.42	.415	.415	.41
Third Quarter	.425	.42	.415	.415	.41
Fourth Quarter	.425	.42	.420	.415	.41
	-----	-----	-----	-----	-----
	\$1.695	\$1.68	\$1.665	\$1.66	\$1.63
	=====	=====	=====	=====	=====

Item 6. SELECTED FINANCIAL DATA

Financial highlights for the Trust for the five years ended December 31, 1996 were as follows:

	1996 (1)	1995 (1)	1994 (1)	1993	1992
Revenues	\$21,923,000	\$20,417,000	\$18,826,000	\$18,263,000	\$19,047,000
Net income (loss)	\$14,158,000	\$13,584,000	\$14,312,000	\$12,259,000	(\$1,782,000)
Funds from Operations (2)	\$17,837,000	\$17,024,000	\$17,501,000	\$14,911,000	\$13,737,000
Per Share Data:					
Net income (loss)	\$1.58	\$1.52	\$1.60	\$1.45	(\$0.25)
Dividends	\$1.695	\$1.68	\$1.665	\$1.66	\$1.63

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

(2) Funds from operations, which does not represent cash provided by operating activities 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, is calculated as follows:

	1996	1995	1994	1993	1992
Net income (loss)	\$14,158,000	\$13,584,000	\$14,312,000	\$12,259,000	(\$1,782,000)
Depreciation expense	3,554,000	3,315,000	3,127,000	3,023,000	3,052,000
Amortization of interest rate cap	125,000	125,000	62,000	--	--
Provision for investment losses	--	--	--	--	12,467,000
Gain on disposal of assets	--	--	--	(371,000)	--
Total	<u>\$17,837,000</u>	<u>\$17,024,000</u>	<u>\$17,501,000</u>	<u>\$14,911,000</u>	<u>\$13,737,000</u>
At End of Period	1996	1995	1994	1993	1992
Total Assets	\$148,566,000	\$132,770,000	\$128,907,000	\$126,657,000	\$126,885,000
Debt	\$43,082,000	\$26,396,000	\$21,283,000	\$18,947,000	\$49,600,000

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

Liquidity and Capital Resources

The Trust commenced operations on December 24, 1986. As of December 31, 1996, the Trust had investments in twenty-six facilities located in thirteen states consisting of the following:

Facility Name		Location	Type of Facility	Guarantor
Chalmette Medical Centers:				
Patricia Street Campus	(A)	Chalmette, LA	Acute Care	Universal Health Services, Inc.
Virtue Street Campus	(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.
THC-Chicago	(B)	Chicago, IL	Sub-Acute Care	Community Psychiatric Ctrs.
Tri-State Rehabilitation Hospital	(B)	Evansville, IN	Rehabilitation	HEALTHSOUTH Corporation
Madison Irving Medical Center	(C)	Syracuse, NY	Ambulatory Trmt. Ctr	Crouse Irving Memorial Hospital
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.
The Southern Crescent Center	(B)	Riverdale, GA	Medical Office Bldg.	---
Desert Samaritan Hospital MOBs	(D)	Phoenix, AZ	Medical Office Bldg.	---
Suburban Medical Plaza II	(E)	Louisville, KY	Medical Office Bldg.	---
Maryvale Samaritan Hospital MOBs	(D)	Phoenix, AZ	Medical Office Bldg.	---
Desert Valley Medical Center MOB	(F)	Phoenix, AZ	Medical Office Bldg.	---
Cypresswood Professional Center	(G)	Houston, TX	Medical Office Bldg.	---
Samaritan West Valley Medical Ctr.	(H)	Goodyear, AZ	MOB, Imaging Ctr.	---
Lake Shore Hospital	(I)	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 holds a mortgage loan with Crouse Irving Memorial Properties on the real estate assets of this facility.
- (D) The Trust has 50% equity interest in a limited liability corporation ("LLC") which owns the real estate assets of this facility.
- (E) The Trust has 33% equity interest in a LLC which owns the real estate assets of this facility. Construction on this facility 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 lender providing the construction financing. The construction loan matures in November, 1997 and the Trust expects the LLC to arrange for permanent financing prior to that date.
- (F) Trust has 95% equity interest in a LLC which owns the real estate assets of this facility.
- (G) The Trust is providing construction financing to a limited partnership in which the Trust has a 77% controlling equity interest during the construction period, which increases to 98% upon completion and occupancy of the building. The construction is scheduled to be completed in the third quarter of 1997. In connection with this investment, the Trust made a capital contribution of \$343,000 to the limited partnership that will develop and own this facility.
- (H) The Trust is providing construction financing to a LLC in which the Trust has 50% equity interest during the construction period, which increases to 70% upon completion and occupancy of the building. The construction is scheduled to be completed in the fourth quarter of 1997.

- (I) The Trust received free and clear title to the real estate assets of Lake Shore Hospital during 1995. The Trust continues to actively negotiate with third parties interested in purchasing or leasing the real estate assets of the Lake Shore facility.

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 1996, dividends of \$1.695 per share, or \$15,174,000 in the aggregate, were declared and paid.

Net cash generated by operating activities was \$18.0 million in 1996, \$17.1 million in 1995 and \$18.2 million in 1994. The \$900,000 net increase in 1996 as compared to 1995 was due primarily to a \$1 million increase in net income plus the addback of the non-cash charges (depreciation, amortization, reserve for investment losses and amortization of interest rate cap expense). The \$1.1 million net decrease in 1995 as compared to 1994 was attributable to: (i) the \$1.5 million of cash received during 1994 related to the settlement agreement on Lake Shore Hospital; (ii) a \$300,000 increase in the payment of expenses related to Lake Shore Hospital during 1995 as compared to 1994, and; (iii) a \$700,000 favorable increase in 1995 over 1994 in operating cash flows generated from the remainder of the Trust's portfolio.

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 corporations (\$7.6 million, see Note 3), and; (iv) begin construction on two new medical office buildings which will be owned by limited liability corporations and limited partnerships in which the Trust will own equity interests (\$1.6 million, see Note 3).

During 1995, the \$17.1 million of cash flows generated from operations and the \$5.1 million of additional borrowings were used primarily to: (i) pay dividends (\$15.0 million); (ii) purchase additional real property including three medical office buildings (\$4.8 million, net, see Note 3), and; (iii) purchase additional assets at hospitals operated by UHS and owned by the Trust (\$1.9 million, see Note 3). During 1994, the \$18.2 million of cash flows generated from operations were used primarily to pay dividends (\$14.9 million) and purchase the real property of a medical building held for lease (\$6.3 million, see Note 3).

The Trust amended and restated its unsecured non-amortizing revolving credit agreement (the "Agreement") in 1996. The Agreement, which expires on September 30, 2001, provides for \$70 million in borrowing capacity. The Agreement provides for interest at the Trust's option, at the certificate of deposit rate plus 3/4% to 1 1/8%, Eurodollar rate plus 5/8% to 1 1/8% or the prime rate. A fee of .15% 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 cash flow ratio as defined by the agreement. At December 31, 1996 the applicable margin over the certificate of deposit and Eurodollar rates were 7/8% and 3/4%, 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, 1996, the Trust had approximately \$25 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, two in the amount of \$5 million each which mature in April, 1997, and May, 1999, and another in the amount of \$1,580,000 which matures May, 2001. These swap agreements effectively fix the interest rate on \$11,580,000 of variable rate debt at 7.55%. The interest rate cap, for which the Trust paid \$622,750, (unamortized premium of \$311,000 at December 31, 1996) matures in June, 1999 and fixes the maximum rate on \$15 million of variable rate revolving credit notes at 7.75%. The interest rate swap and cap agreements were entered into in anticipation of certain borrowing transactions made by the Trust during 1994, 1995 and 1996. The effective rate on the Trust's revolving credit notes including commitment fees and interest rate swap expense was 6.8%, 7.5% and 6.7% during 1996, 1995 and 1994, respectively. Additional interest expense recorded as a result of the Trust's hedging activity was \$130,000, \$69,000 and \$109,000 in 1996, 1995 and 1994, 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, 1996 would have resulted in payments to the counterparties of approximately \$202,000 and termination of the interest rate cap would have resulted in a payment to the Trust of approximately \$73,000. The fair value of the interest rate swap and cap agreements at December 31, 1996 reflects the estimated amounts that the Trust would pay or receive to terminate the contracts and are based on quotes from the counterparties.

#### General

The matters discussed in this report as well as the news releases issued from time to time by the Trust contain certain forward-looking statements that involve risks and uncertainties, including the fact that a substantial portion of the Trust's revenues are dependent on one operator, Universal Health Services, Inc., and that a substantial portion of the Trust's leases and mortgagors are involved in the healthcare industry which is undergoing substantial changes and is subject to pressure from government reimbursement programs and other third party payors. In recent years, an increasing number of legislative initiatives have been introduced or proposed in Congress and in state legislatures that would effect major changes in the healthcare system, either nationally or at the state level. In addition, the healthcare industry has been characterized in recent years by increased competition and consolidation. Management of the Trust is unable to predict the effect, if any, these industry factors will have on the operating results of its lessees, including the facilities leased to subsidiaries of UHS, or on their ability to meet their obligations under the terms of their leases with the Trust. In addition, certain of the Trust's facilities leased to subsidiaries of UHS have had EBITDAR of less than 1.5 times the rent payable to the Trust. (see Note 2). 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 lease terms. If the leases are not renewed at their current rates, the Trust would be required to find other operators for those facilities and/or enter into leases on terms potentially less favorable to the Trust than the current leases.

#### Results of Operations

Total revenues increased 7% or \$1.5 million to \$21.9 million in 1996 as compared to 1995 and 9% or \$1.6 million to \$20.4 million in 1995 as compared to 1994. The \$1.5 million increase during 1996 over 1995 was primarily attributable to an increase in base rentals from non-related parties due to the various acquisitions made by the Trust during the fourth quarter of 1995 and the second quarter of 1996 (see Note 3). The \$1.6 million increase during 1995 as compared to 1994 was attributable to: (i) a \$224,000 increase in base rental from UHS facilities resulting from the purchase by the Trust of additional real estate assets related to McAllen Medical Center and additional base rental generated from the Westlake Medical Center swap transaction (see Note 3), (ii) a \$1.1 million increase in base rental from non-related parties resulting from the acquisitions of office buildings in November of 1994 and the third and fourth quarters of 1995 (see Note 3), (iii) a \$144,000 increase in bonus rentals, which are computed as a percentage of each facility's revenue in excess of base year amounts or CPI increases in excess of base year amounts, and; (iv) a \$125,000 increase in interest income.

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 facilities. The Trust's facilities have experienced growth in outpatient utilization over the past several years. The increase is primarily the result of advances in medical technologies, which allow more services 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 Trust expects growth in outpatient services to continue, although the rate of growth may be moderated in the future.

An increased proportion of the Trust's hospitals revenue is derived from fixed payment services, including Medicare and Medicaid. Management of the Trust's hospitals expects the Medicare and Medicaid revenues to continue to increase as a larger portion of the general population qualifies for coverage as a result of the aging population and expansion of the state Medicaid programs. The Medicare program reimburses the Trust's hospitals primarily based on established rates by a diagnosis related group for acute care hospitals and by a cost based formula for behavioral health facilities. In addition to the Medicare and Medicaid programs, other payors continue to actively negotiate the amounts they will pay for services performed. In general, management of the Trust's hospitals expects the percentage of its business from managed care programs, including HMOs and PPOs to grow. The consequent growth in managed networks and the resulting impact of these networks on the operating results of the Trust's facilities vary among the market 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, because the 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.

In addition to the trends described above that continue to have an impact on the revenues of the Trust's facilities, there are a number of other, more general factors affecting the Trust's facilities. In February 1997, the President submitted his fiscal year 1998 budget plan which calls for a \$100 billion reduction in the rate of increase in Medicare spending over the next five years and a \$138 billion reduction over six years. Included in this proposal are reductions in the future rate of increases to payments made to hospitals. Both Republicans and Democrats are working towards a balanced budget by the year 2002 and it is likely that future budgets will contain certain reductions in the rate of increase of Medicare and Medicaid spending. The Trust cannot predict whether the above proposal or any other proposals will be adopted, and if adopted, no assurance can be given that the implementation of such plans will not have a material adverse effect on the operating results of the Trust's facilities.

Interest expense increased \$740,000 or 41% in 1996 as compared to 1995 due primarily to the additional borrowings used to finance the purchase of equity interests in various limited liability corporations and limited partnerships during the first and second quarters of 1996, the purchase of the four preschool and child-care centers during the second quarter of 1996, and the medical office buildings acquired by the Trust during the third and fourth quarters of 1996 (see Note 3). Interest expense increased \$679,000 or 59% in 1995 over 1994 due primarily to the increased borrowings used to finance the purchase of the medical office buildings in Kingwood, Texas and Shreveport, Louisiana and the purchase of an additional \$1.9 million of real assets related to McAllen Medical Center. Also contributing to the increased interest expense in 1995 as compared to 1994 was the \$6.3 million of additional borrowings used to finance the purchase of the Fresno-Herndon Medical Plaza in November of 1994.

Depreciation and amortization expense increased \$254,000 or 8% in 1996 as compared to 1995 due primarily to the depreciation expense related to the 1996 and 1995 acquisitions described in Note 3. Depreciation and amortization expense increased \$100,000 or 3% in 1995 as compared to 1994 due to: (i) a \$188,000 increase in depreciation expense related primarily to the purchase of the medical office buildings and additional real estate assets purchased in 1995, as mentioned above, and a full year of depreciation expense recorded on the Fresno-Herndon MOB which was purchased by the Trust in December of 1994, and; (ii) an \$88,000 decrease in amortization of financing costs related to the old revolving credit agreement.

Other operating expenses increased \$476,000 or 70% in 1996 as compared to 1995 due primarily to the expenses related to the medical office buildings acquired by the Trust during the fourth quarter of 1995 and the second quarter of 1996 and a \$220,000 increase in the reserve established for future expenses related to the settlement of Lake Shore Hospital. As of December 31, 1996, the balance in the Lake Shore Hospital reserve account was \$151,000. The expenses related to the medical office buildings, which totaled \$551,000 in 1996 and \$290,000 in 1995, are passed on directly to the tenants and are included as revenue in the Trust's statements of income. Other operating expenses increased \$262,000 or 64% in 1995 as compared to 1994 due primarily to the expenses related to the Fresno-Herndon Medical Plaza which was acquired by the Trust in November of 1994.

Included in the financial results for 1994, and recorded as recovery of investment losses was \$1,234,000 consisting of \$1.5 million of cash payments received related to the Lake Shore Hospital settlement agreement and \$184,000 of proceeds received during 1994 related to an investment in marketable equity securities which was written down to zero in a prior year. Partially offsetting these amounts was a \$450,000 increase in the reserve established for future expenses related to the settlement of Lake Shore Hospital.

Net income for 1996 was \$14.2 million or \$1.58 per share compared to \$13.6 million or \$1.52 per share in 1995 and \$14.3 million or \$1.60 per share in 1994.

Funds from operations ("FFO"), which is the sum of net income plus depreciation expense and amortization of interest rate cap expense, totaled \$17.8 million in 1996, \$17.0 million in 1995 and \$17.5 million in 1994. 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.

#### 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, 1996. 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, 1996.

#### 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, 1996.

#### 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, 1996.

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, 1996 and December 31, 1995.  
Consolidated Statements of Income - Years Ended December 31, 1996, 1995 and 1994.  
Consolidated Statements of Shareholders' Equity - Years Ended December 31, 1996, 1995 and 1994.  
Consolidated Statements of Cash Flows - Years Ended December 31, 1996, 1995 and 1994.  
Notes to Consolidated Financial Statements - December 31, 1996
- (3) Schedules  
Schedule II - Valuation and Qualifying Accounts - Years Ended December 31, 1996, 1995 and 1994.  
Schedule III - Real Estate and Accumulated Depreciation - December 31, 1996.  
Notes to Schedule III - December 31, 1996.

(b) Reports on Form 8-K:

No reports on Form 8-K were filed during the last quarter of the year ended December 31, 1996.

(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 3.2 to the Trust's Annual Report on Form 10-K for the year ended December 31, 1988, 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, 1997, 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.

#### 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 6, 1997

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 6, 1997	/s/ Alan B. Miller Alan B. Miller, Chairman of the Board and Chief Executive Officer
March 6, 1997	/s/ Kirk E. Gorman Kirk E. Gorman, President, Chief Financial Officer, Secretary and Trustee
March 10, 1997	/s/ Peter Linneman Peter Linneman, Trustee
March 10, 1997	/s/ Myles H. Tanenbaum Myles H. Tanenbaum, Trustee
March 10, 1997	/s/ Michael R. Walker Michael R. Walker, Trustee
March 10, 1997	/s/ Daniel M. Cain Daniel M. Cain, Trustee
March 7, 1997	/s/ Charles F. Boyle Charles F. Boyle, Vice President and Controller
March 7, 1997	/s/ Cheryl K. Ramagano Cheryl K. Ramagano, Vice President and Treasurer
March 10, 1997	/s/ Timothy J. Fowler Timothy J. Fowler, Vice President, Acquisitions and Development



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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 (a Maryland real estate investment trust) as of December 31, 1996 and 1995 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, 1996. 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Universal Health Realty Income Trust, as of December 31, 1996 and 1995 and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1996, 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 17, 1997

Universal Health Realty Income Trust  
Consolidated Balance Sheets

	December 31, 1996	1995
Assets:		
Real Estate Investments:		
Buildings & improvements	\$138,400,000	\$129,961,000
Accumulated depreciation	(26,540,000)	(22,986,000)
	-----	-----
	111,860,000	106,975,000
Land	19,683,000	17,927,000
Mortgage loans receivable, net	6,405,000	6,444,000
Construction loan receivable	391,000	--
Construction in progress	1,246,000	--
Reserve for investment losses	(151,000)	(158,000)
	-----	-----
Net Real Estate Investments	139,434,000	131,188,000
Other Assets:		
Cash	137,000	139,000
Bonus rent receivable from UHS	634,000	606,000
Rent receivable from non-related parties	32,000	13,000
Construction and mortgage loan interest receivable	7,000	--
Investments in limited liability corporations	7,932,000	308,000
Deferred charges, net	390,000	516,000
	-----	-----
	\$148,566,000	\$132,770,000
	=====	=====
Liabilities and Shareholders' Equity:		
Liabilities:		
Bank borrowings	\$42,000,000	\$25,375,000
Note payable to UHS	1,082,000	1,021,000
Accrued interest	234,000	157,000
Accrued expenses & other liabilities	753,000	676,000
Tenant reserves, escrows, deposits and deferred rental	515,000	544,000
Commitments and Contingencies		
Shareholders' Equity:		
Preferred shares of beneficial interest, \$.01 par value; 5,000,000 shares authorized; none outstanding	--	--
Common shares, \$.01 par value; 95,000,000 shares authorized; issued and outstanding: 8,952,340 shares in 1996 and 8,947,192 shares in 1995	90,000	89,000
Capital in excess of par value	128,643,000	128,643,000
Cumulative net income	98,154,000	83,996,000
Cumulative dividends	(122,905,000)	(107,731,000)
	-----	-----
Total Shareholders' Equity	103,982,000	104,997,000
	-----	-----
	\$148,566,000	\$132,770,000
	=====	=====

The accompanying notes are an integral part of these financial statements

Universal Health Realty Income Trust  
Consolidated Statements of Income

	Year ended December 31,		
	1996	1995	1994
Revenues (Note 2):			
Base rental - UHS facilities	\$13,731,000	\$13,491,000	\$13,267,000
Base rental - Non-related parties	4,706,000	3,195,000	2,097,000
Bonus rental	2,735,000	2,773,000	2,629,000
Interest	751,000	958,000	833,000
	-----	-----	-----
	21,923,000	20,417,000	18,826,000
	-----	-----	-----
Expenses:			
Depreciation & amortization	3,636,000	3,382,000	3,282,000
Interest expense	2,565,000	1,825,000	1,146,000
Advisory fees to UHS (Note 2)	1,044,000	953,000	909,000
Other operating expenses	1,149,000	673,000	411,000
Recovery of investment losses	--	--	(1,234,000)
	-----	-----	-----
	8,394,000	6,833,000	4,514,000
	-----	-----	-----
Income before equity in limited liability corporations	13,529,000	13,584,000	14,312,000
Equity in income of limited liability corporations	629,000	--	--
	-----	-----	-----
Net Income	\$14,158,000	\$13,584,000	\$14,312,000
	=====	=====	=====
Net Income Per Share	\$1.58	\$1.52	\$1.60
	=====	=====	=====
Weighted average number of shares and equivalents	8,960,000	8,947,000	8,947,000
	=====	=====	=====

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, 1996, 1995 and 1994

	Common Shares Number of Shares	Amount	Capital in excess of par value	Cumulative net income	Cumulative dividends
January 1, 1994	8,947,192	\$89,000	\$128,643,000	\$56,100,000	(\$77,802,000)
Net Income	--	--	--	14,312,000	--
Dividends (\$1.665/share)	--	--	--	--	(14,897,000)
-----					
January 1, 1995	8,947,192	89,000	128,643,000	70,412,000	(92,699,000)
Net Income	--	--	--	13,584,000	--
Dividends (\$1.68/share)	--	--	--	--	(15,032,000)
-----					
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)
=====					
December 31, 1996	8,952,340	\$90,000	\$128,643,000	\$98,154,000	(\$122,905,000)
=====					

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

Universal Health Realty Income Trust  
Consolidated Statements of Cash Flows

	1996	Year ended December 31, 1995	1994
Cash flows from operating activities:			
Net income	\$14,158,000	\$13,584,000	\$14,312,000
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation & amortization	3,636,000	3,382,000	3,282,000
Reserve for investment losses	220,000	--	450,000
Amortization of interest rate cap	125,000	125,000	62,000
Loss on disposal of assets	--	--	15,000
Gain on investment in marketable securities	--	--	(184,000)
Changes in assets and liabilities:			
Rent receivable	(47,000)	70,000	80,000
Accrued expenses & other liabilities	77,000	(22,000)	57,000
Tenant escrows, deposits & deferred rents	(29,000)	180,000	92,000
Construction & mortgage loan interest receivable	(7,000)	3,000	11,000
Accrued interest	77,000	40,000	78,000
Reserve for investment losses	(227,000)	(332,000)	(37,000)
Deferred charges & other	20,000	43,000	(19,000)
Net cash provided by operating activities	18,003,000	17,073,000	18,199,000
Cash flows from investing activities:			
Acquisition of real property	(10,195,000)	(7,794,000)	(6,340,000)
Investments in limited liability corporations	(7,624,000)	(308,000)	--
Payments made for construction in progress	(1,246,000)	--	--
Advances under construction note receivable	(391,000)	(3,190,000)	(1,727,000)
Repayments under construction note receivable	--	4,333,000	2,759,000
Proceeds from investments in marketable securities	--	--	184,000
Sale of real property	--	--	40,000
Other	--	--	272,000
Net cash used in investing activities	(19,456,000)	(6,959,000)	(4,812,000)
Cash flows from financing activities:			
Additional borrowings, net of financing costs	16,625,000	5,055,000	2,091,000
Purchase of interest rate cap	--	--	(623,000)
Dividends paid	(15,174,000)	(15,032,000)	(14,897,000)
Net cash provided by (used in) financing activities	1,451,000	(9,977,000)	(13,429,000)
(Decrease) increase in cash	(2,000)	137,000	(42,000)
Cash, beginning of period	139,000	2,000	44,000
Cash, end of period	\$137,000	\$139,000	\$2,000
Supplemental disclosures of cash flow information:			
Interest paid	\$2,302,000	\$1,602,000	\$1,012,000
Supplemental disclosures of non-cash investing and financing activities:			
See Notes 3 and 5			

The accompanying notes are an integral part of these financial statements

Universal Health Realty Income Trust  
Notes to the Consolidated Financial Statements  
December 31, 1996

(1) Summary of Significant Accounting Policies

Nature of Operations

Universal Health Realty Income Trust (the "Trust") is organized as a Maryland real estate investment trust. As of December 31, 1996 the Trust had investments in twenty-six facilities located in thirteen 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. In 1995, the Financial Accounting Standards Board released Statement of Financial Accounting Standards (SFAS) No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." The Statement requires the recognition of an impairment loss for an asset held for use when the estimate of undiscounted future cash flows expected to be generated by the asset is less than its carrying amount. Measurement of the impairment loss is based on fair value of the asset. Generally, fair value will be determined using valuation techniques such as the present value of expected future cash flows. The Trust adopted the provisions of SFAS No. 121 in 1996, however, the adoption of the pronouncement did not have any effect on its financial statements.

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 in connection with the adoption of SFAS No. 121 in 1996, management reviewed estimates of future cash flows expected from each of its facilities and evaluated 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. 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 legislative proposals are adopted or if certain of the leases are not renewed at the end of their initial lease terms.

#### Investments in Limited Liability Corporations

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", the Trust accounts for its investment in limited liability corporations which it does not control using the equity method of accounting. These investments, which represent 33% to 95% 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.

#### Per Share Data

Net income per share is based on the weighted average number of shares of beneficial interest outstanding during the year adjusted to give effect to share equivalents, consisting of stock options.

#### 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 is accrued as a reduction of interest expense.



## 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.

## 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 1997. 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 1996, 1995 and 1994. 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, 1996, 1995 and 1994, 74%, 79% and 83%, respectively, of the Trust's gross 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.

For the year ended December 31, 1996, two of the UHS facilities did not generate sufficient earnings before interest, taxes, depreciation, amortization and lease and rental expense (EBITDAR) to cover the 1996 rent expense payable to the Trust. The leases on these facilities, which mature in 2000 and 2001, generated 18% of the Trust's 1996 rental income. One

additional UHS facility had 1996 EBITDAR which was less than 1.5 times the 1996 rent payable to the Trust. The lease on this facility, which matures in 2001, generated 10% of the Trust's 1996 rental income. One additional UHS facility had 1996 EBITDAR (excluding a favorable prior year net revenue adjustment) which was less than 2.0 times the 1996 rent expense payable to the Trust. The lease on this facility, which matures in 1999 generated 6% of the Trust's 1996 rental income. All of the Trust's remaining hospital facilities, including the facilities operated by non-related parties, had a combined 1996 EBITDAR of 7.5 times (ranging from 2.1 times to 8.9 times) the 1996 rent expense payable to the Trust.

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. As mentioned above, certain of the Trust's facilities leased to subsidiaries of UHS have had EBITDAR of less than 1.5 times the rent payable to the Trust. 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 lease terms. If the leases are not renewed at their current rates, the Trust would be required to find other operators for those facilities and/or enter into leases on terms potentially less favorable to the Trust than the current leases.

For the year ended December 31, 1995, one of the UHS facilities did not generate sufficient earnings before interest, taxes, depreciation, amortization and lease and rental expense (EBITDAR) to cover the 1995 rent expense payable to the Trust. The lease on this facility, which matures in 2001, generated 12% of the Trust's 1995 rental income. Three additional UHS facilities had 1995 EBITDAR which was less than 1.5 times the 1995 rent expense payable to the Trust. The leases on these three facilities, which mature in 1999, 2000 and 2001, generated on a combined basis, 22% of the Trust's 1995 rental income. All of the Trust's remaining hospital facilities, including the facilities operated by non-related parties, had a combined 1995 EBITDAR of 8.1 times (ranging from 2.8 times to 10.5 times) the 1995 rent expense payable to the Trust.

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

	Year Ended December 31,		
	1996	1995	1994
Base rental - UHS facilities	\$13,731,000	\$13,491,000	\$13,267,000
Base rental - Non-related parties	4,706,000	3,195,000	2,097,000
	-----	-----	-----
Total base rental	18,437,000	16,686,000	15,364,000
	-----	-----	-----
Bonus rental - UHS facilities	2,506,000	2,552,000	2,414,000
Bonus rental - Non-related parties	229,000	221,000	215,000
	-----	-----	-----
Total bonus rental	2,735,000	2,773,000	2,629,000
	-----	-----	-----
Interest - Non-related parties	751,000	958,000	833,000
	-----	-----	-----
Total revenues	\$21,923,000	\$20,417,000	\$18,826,000
	=====	=====	=====

At December 31, 1996, 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 has no salaried employees and the Trust's officers are all employees of UHS and receive no cash compensation from the Trust.

### (3) Acquisitions and Dispositions

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 limited liability corporation ("LLC") which owns three medical office buildings located on the campus of Desert Samaritan Hospital in Phoenix, Arizona totaling approximately 219,000 gross square feet and leased to several tenants (\$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 94,000 square foot 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 a 41,400 square foot, 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 54,000 net square foot 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) the agreement to provide up to \$4.1 million of construction financing to a limited partnership, of which the Trust owns a 77% initial equity interest, for the construction of Cypresswood Professional Center located in Houston, Texas (\$1.2 million advanced as of December 31, 1996 including a \$343,000 capital contribution), and; (viii) the agreement to provide up to \$5.1 million of construction financing 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 construction financing. The construction loan matures in November, 1997 and the Trust expects the LLC, which owns the medical office building, to arrange for permanent financing prior to that date. The Trust expects the construction of the Cypresswood Professional Center and the Samaritan West Valley Medical Center to be completed in the third quarter of 1997 and of the fourth quarter of 1997, respectively.

1995 - During the third quarter of 1995, the Trust sold the real estate assets of Westlake Medical Center ("Westlake") a 126-bed hospital, of which the majority of real estate assets were owned by the Trust and leased to UHS. In exchange for the real estate assets of Westlake and the termination of the lease, the Trust received substitution properties valued at approximately \$19 million (the Trust's original purchase price of Westlake) consisting of additional real estate assets which were owned by UHS but related to three acute care facilities, of which the Trust owns the real estate and which are operated by UHS (McAllen Medical Center, Inland Valley Regional Medical Center and Wellington Regional Medical Center). These additional real estate assets represent major additions and expansions made to these facilities by UHS since the purchase of the facilities by the Trust from UHS in 1986. The Trust also purchased from UHS, additional real estate assets related to McAllen Medical Center for approximately \$1.9 million in cash.

Total annual base rental payments from UHS to the Trust on substituted properties will be \$2.4 million which equals the total base and bonus rental earned by the Trust on the Westlake facility during 1994 (\$2.1 million base and \$300,000 bonus). Total annual base rental payments on the additional real estate assets purchased related to McAllen Medical Center will be approximately \$200,000. Bonus rental on the substituted and purchased real estate assets will be equal to 1% of the growth in revenues, in excess of base year amounts, generated by these additional assets. The guarantee by UHS under the existing leases, as amended to include the additional property, will continue.

During the third quarter of 1995, the Trust purchased for \$1.6 million, a medical office building located on the campus of a hospital owned by Columbia/HCA Healthcare Corporation located in Shreveport, Louisiana. The medical office building is currently being leased under the terms of a master lease agreement with Columbia/HCA Healthcare Corporation.

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. Interest accrued monthly at a margin over the one month LIBOR. 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.

1994 - 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 seven 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.

#### (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 5-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 facility 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.

Minimum future base rents on noncancelable leases are as follows:

1997	\$18,505,000
1998	18,545,000
1999	18,585,000
2000	15,285,000
2001	14,096,000
Later Years	9,795,000
	-----
Total Minimum Base Rents	\$94,811,000
	=====

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 are required to pay their pro-rata share of the property's operating costs above a stipulated amount.

#### (5) Debt

The Trust amended and restated its unsecured non-amortizing revolving credit agreement (the "Agreement") in 1996. The Agreement, which expires on September 30, 2001, provides for \$70 million in borrowing capacity. The Agreement provides for interest at the Trust's option, at the certificate of deposit rate plus 3/4% to 1 1/8%, Eurodollar rate plus 5/8% to 1 1/8% or the prime rate. A fee of .15% 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 cash flow ratio. At December 31, 1996 the applicable margin over the certificate of deposit and Eurodollar rates were 7/8% and 3/4% 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, 1996, the Trust had approximately \$25 million of available borrowing capacity.

The average amounts outstanding under the revolving credit agreement during 1996, 1995 and 1994 were \$34,410,000, \$21,589,000, and \$15,218,000, respectively, with corresponding effective interest rates, including commitment fees but not including the effect of interest rate swaps of 6.3%, 7.2%, and 5.3%. The maximum amounts outstanding at any month end were \$42,200,000, \$25,375,000 and \$20,320,000 during 1996, 1995 and 1994, 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, two in the amount of \$5 million each which mature in April, 1997, and May, 1999, and another in the amount of \$1,580,000 which matures May, 2001. These swap agreements effectively fix the interest rate on \$11,580,000 of variable rate debt at 7.55%. The interest rate cap, for which the Trust paid \$622,750,

(unamortized premium of \$311,000 at December 31, 1996) matures in June, 1999 and fixes the maximum rate on \$15 million of variable rate revolving credit notes at 7.75%. The interest rate swap and cap agreements were entered into in anticipation of certain borrowing transactions made by the Trust during 1994, 1995 and 1996. The effective rate on the Trust's revolving credit notes including commitment fees and interest rate swap expense was 6.8%, 7.5% and 6.7% during 1996, 1995 and 1994, respectively. Additional interest expense recorded as a result of the Trust's hedging activity was \$130,000, \$69,000 and \$109,000 in 1996, 1995 and 1994, 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, 1996 would have resulted in payments to the counterparties of approximately \$202,000 and termination of the interest rate cap would have resulted in a payment to the Trust of approximately \$73,000. The fair value of the interest rate swap and cap agreements at December 31, 1996 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 \$1.695 per share were declared and paid in 1996, of which \$1.622 was ordinary income and \$.073 was a return of capital distribution. Dividends of \$1.68 per share were declared and paid in 1995, of which \$1.575 per share was ordinary income and \$.105 was a return of capital distribution. Dividends of \$1.665 per share were declared and paid in 1994, of which \$1.528 was ordinary income and \$0.137 was a return of capital distribution.

#### (7) Financing

During the fourth quarter of 1993, the Trust funded \$6.5 million for the purchase of the real assets of the Madison Irving Medical Center, by Crouse Irving Memorial Properties, located in Syracuse, New York. The loan, which can be prepaid without penalty at any time, has a fifteen-year repayment term. The Trust has received prepaid commitment fees related to this mortgage note receivable totaling \$65,000. The unearned portion (\$52,000 as of December 31, 1996) is being recognized as income over the fifteen-year repayment term. The loan accrues interest monthly at a margin over the one month LIBOR or at a margin over the five-year Treasury rate. The interest rate is selected at the borrower's option. Interest on the mortgage loan, including amortization of prepaid commitment fees, accrued at an average rate of 11.3% during 1996 and 11.5% during 1995.

During 1995, the Trust received free and clear title to Lake Shore Hospital, on which the Trust held a mortgage loan receivable. During 1994, the Trust reached a settlement agreement with Lake Shore Hospital, Inc. and Community Care Systems, Inc. concerning the default of their obligations under the Trust's mortgage loan with Lake Shore Hospital. Under the terms of the settlement agreement, the Trust received \$1.5 million in cash payments during 1994, of which \$1,050,000 was included in net income as recovery of investment losses and \$450,000 was reserved for future expenses related to the settlement of the facility. The carrying value of this facility was reduced to zero in 1992. The Trust continues to actively negotiate with third parties interested in purchasing or leasing the real estate assets of the Lake Shore facility.

#### (8) Incentive Plans

During 1988, the Trustees approved a Key Employees' Restricted Share Purchase Plan. Under the terms of this plan, which expires in 1998, up to 50,000 shares have been reserved for issuance to key employees (47,500 shares available for grant as of December 31, 1996). Eligible employees may purchase shares of the Trust at par value subject to certain restrictions. The restrictions lapse over four years if the employee remains employed by the Trust.

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, 1996, no shares have been issued under the terms of this plan.

During 1992, the Trust amended the 1988 Non-Statutory Stock Option Plan to increase the number of shares reserved under the plan from 50,000 to 200,000. As of December 31, 1996, options to purchase 95,000 shares of beneficial interest were granted, of which 85,000 were granted to officers of the Trust during 1992 at an exercise price of \$16.875 per share and 10,000 were granted to an officer of the Trust during 1993 at an exercise price of \$16.125. During 1996, 36,976 options were exercised. As of December 31, 1996 all 58,024 remaining options were exercisable at an aggregate purchase price of \$973,137.

In October 1995, the Financial Accounting Standards Board issued Statement No. 123 "Accounting for Stock-Based Compensation" (SFAS 123). SFAS 123 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 an entity's financial statements. The statement also allows an entity to continue to account for stock-based employee compensation using the intrinsic value for equity instruments using APB Opinion No. 25. The Trust has adopted the disclosure-only provisions of SFAS 123. Accordingly no compensation cost has been recognized for the stock option plans. Because the SFAS 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.

#### (9) Summarized Financial Information of Equity Affiliates

The following table represents summarized unaudited financial information of the limited liability corporations ("LLC") accounted for by the equity method. Amounts presented include investments in the following LLCs: DSMB Properties, LLC (50%); DVMC Properties, LLC (95%); Parkvale Properties, LLC (50%), and; Suburban Properties, LLC (33%).

	1996
	(000s)
Net property	\$42,236
Other assets	2,889
Debt	(33,302)
Other liabilities	(962)
	-----
Equity	\$10,861
	=====
Revenue	\$5,371
	=====

(10) Sale of Marketable Securities

During 1994, the Trust received \$107,000 related to a class action lawsuit settlement filed against a real estate investment trust in which the Trust owned marketable securities. Also during the year, the Trust sold the remainder of its investment in the marketable securities of the real estate investment trust for total net proceeds of \$77,000. The entire \$184,000 generated from the settlement and sale transactions are included in net income (recovery of investment losses) since the carrying value of this investment was reduced to zero in 1990.

(11) Quarterly Results (Unaudited)

	1996				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Revenues	\$5,343,000	\$5,379,000	\$5,611,000	\$5,590,000	\$21,923,000
Net Income	\$3,583,000	\$3,590,000	\$3,466,000	\$3,519,000	\$14,158,000
Earnings Per Share	\$0.40	\$0.40	\$0.39	\$0.39	\$1.58
	1995				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Revenues	\$4,914,000	\$5,129,000	\$5,215,000	\$5,159,000	\$20,417,000
Net Income	\$3,303,000	\$3,452,000	\$3,451,000	\$3,378,000	\$13,584,000
Earnings Per Share	\$0.37	\$0.39	\$0.38	\$0.38	\$1.52



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

Description	Balance at beginning of period	Charged to costs and expenses	Other	Balance at end of period
Reserve for Investment Losses:				
Year ended December 31, 1996	\$158,000 =====	\$220,000 =====	(\$227,000) (a) =====	\$151,000 =====
Year ended December 31, 1995	\$490,000 =====	-- =====	(\$332,000) (a) =====	\$158,000 =====
Year ended December 31, 1994	\$77,000 =====	\$450,000 =====	(\$37,000) (a) =====	\$490,000 =====

(a) Amounts charged against the reserve.

Schedule III  
Universal Health Realty Income Trust  
Real Estate and Accumulated Depreciation - December 31, 1996  
(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, 1996	Date of construction or most significant expansion or renovation	Date Acquired	Average Deprec- iable Life
	Land	Building & Improv.	Land & Improv.	Carrying Costs	Land	Building & Improv.	Total				
Chalmette Medical Centers											
Virtue Street Campus	\$1,825	\$9,445	--	-	\$1,770	\$9,445	\$11,215	\$2,704	1975	1986	35 Years
Patricia Street Campus	2,000	7,473	--	-	2,000	7,473	9,473	1,925	1981	1988	34 Years
Chalmette, Louisiana											
Inland Valley Regional Medical Center											
Wildomar, California	2,050	10,701	2,868	-	2,050	13,569	15,619	2,506	1986	1986	43 Years
McAllen Medical Center											
McAllen, Texas	4,720	31,442	10,188	-	6,281	40,069	46,350	7,371	1994	1986	42 Years
Wellington Regional Medical Center											
West Palm Beach, Florida	1,190	14,652	4,822	-	1,663	19,001	20,664	3,449	1986	1986	42 Years
The Bridgeway											
North Little Rock, Arkansas	150	5,395	499	-	150	5,894	6,044	1,665	1983	1986	35 Years
Meridell Achievement Center											
Austin, Texas	1,350	3,782	4,139	-	1,350	7,921	9,271	2,160	1991	1986	28 Years
Tri-State Rehabilitation Hospital											
Evansville, Indiana	500	6,945	1,062	-	500	8,007	8,507	1,413	1993	1989	40 Years
THC - Chicago											
Chicago, Illinois	158	6,404	1,907	-	158	8,311	8,469	2,856	1993	1986	25 Years
Fresno-Herndon Medical Plaza											
Fresno, California	1,073	5,266	24	-	1,073	5,290	6,363	245	1992	1994	45 Years
Family Doctor's Medical Office Building											
Shreveport, Louisiana	54	1,526	--	-	54	1,526	1,580	51	1991	1995	45 Years
Kelsey-Seybold Clinic at King's Crossing	439	1,618	--	-	439	1,618	2,057	45	1995	1995	45 Years
Professional Center at King's Crossing	439	1,837	43	-	439	1,880	2,319	45	1995	1995	45 Years
Kingwood, Texas											
Chesterbrook Academy											
Audubon, Pennsylvania	--	996	--	-	--	996	996	15	1996	1996	45 Years
Carefree Learning Center											
New Britian, Pennsylvania	250	744	--	-	250	744	994	11	1991	1996	45 Years
Carefree Learning Center											
Uwchlan, Pennsylvania	180	815	--	-	180	815	995	12	1992	1996	45 Years
Carefree Learning Center											
Newtown, Pennsylvania	195	749	--	-	195	749	944	11	1992	1996	45 Years
The Southern Crescent Center											
Riverdale, Georgia	1,130	5,092	--	-	1,131	5,092	6,223	56	1994	1996	45 Years
TOTALS	\$17,703	\$114,882	\$25,552	\$--	\$19,683	\$138,400	\$158,083	\$26,540			
	=====	=====	=====	===	=====	=====	=====	=====			

Universal Health Realty Income Trust  
Notes to Schedule III  
December 31, 1996

(1) Reconciliation of Real Estate Properties

The following table reconciles the Real Estate Properties from January 1, 1994 to December 31, 1996:

	1996	1995	1994
Balance at January 1	\$147,888,000	\$143,069,000	\$136,784,000
Acquisitions	10,195,000	7,794,000	6,340,000
Dispositions	--	(2,975,000) (a)	(55,000)
	-----	-----	-----
Balance at December 31	\$158,083,000	\$147,888,000	\$143,069,000
	=====	=====	=====

(2) Reconciliation of Accumulated Depreciation

The following table reconciles the Accumulated Depreciation from January 1, 1994 to December 31, 1996:

	1996	1995	1994
Balance at January 1	\$22,986,000	\$22,646,000	\$19,519,000
Current year depreciation expense	3,554,000	3,315,000	3,127,000
Dispositions	--	(2,975,000) (a)	--
	-----	-----	-----
Balance at December 31	\$26,540,000	\$22,986,000	\$22,646,000
	=====	=====	=====

(a) The real property of Westlake Medical Center (original cost of approximately \$20 million and accumulated depreciation of approximately \$3 million) was exchanged during 1995 for additional real estate assets (valued at approximately \$20 million) of three acute care facilities owned by the Trust and operated by UHS. The swapping of these assets was accounted for as an exchange, and therefore no gain was recognized.

The aggregate cost basis and net book value of the properties for Federal income tax purposes at December 31, 1996 are approximately \$146,000,000 and \$118,000,000, respectively.

INDEX TO EXHIBITS

- 10.2 Agreement effective January 1, 1997, to renew Advisory Agreement,  
dated as of December 24, 1986, between Universal Health Realty Income  
Trust and UHS of Delaware, Inc.
- 27. Financial Data Schedule

January 10, 1997

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 2, 1996, 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, 1997, 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,

Kirk E. Gorman  
President and Secretary

cc: Warren J. Nimetz, Esquire  
Charles Boyle

Agreed to and Accepted:

UHS OF DELAWARE, INC.

By: Alan B. Miller, President

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

YEAR		
	DEC-31-1996	
	JAN-01-1996	
	DEC-31-1996	
	1	137
		0
	12,469	
	5,151	
	0	
	0	159,329
	26,540	
	148,566	
	0	
		43,082
	0	
		0
		90
	103,892	
148,566		0
	22,552	
		0
	1,973	
	3,636	
	220	
	2,565	
	14,158	
		0
14,158		
	0	
	0	
		0
	14,158	
	1.58	
	1.58	