

UNIVERSAL HEALTH REALTY INCOME TRUST
Form 10-Q
May 06, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(MARK ONE)

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

For the quarterly period ended March 31, 2016

OR

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

For the transition period from _____ to _____

Commission file number 1-9321

UNIVERSAL HEALTH REALTY INCOME TRUST

(Exact name of registrant as specified in its charter)

MARYLAND	23-6858580
(State or other jurisdiction of	(I. R. S. Employer
incorporation or organization)	Identification No.)

UNIVERSAL CORPORATE CENTER

367 SOUTH GULPH ROAD

KING OF PRUSSIA, PENNSYLVANIA 19406

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(Address of principal executive offices) (Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated Filer

Non-accelerated filer Smaller reporting company

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

Number of common shares of beneficial interest outstanding at April 30, 2016—13,328,083

UNIVERSAL HEALTH REALTY INCOME TRUST

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This Quarterly Report on Form 10-Q is for the quarter ended March 31, 2016. In this Quarterly Report, “we,” “us,” “our” and the “Trust” refer to Universal Health Realty Income Trust and its subsidiaries.

As disclosed in this Quarterly Report, including in Part I, Item 1.—Relationship with Universal Health Services, Inc. (“UHS”) and Related Party Transactions, a wholly-owned subsidiary of UHS (UHS of Delaware, Inc.) serves as our Advisor pursuant to the terms of an annually renewable Advisory Agreement dated December 24, 1986. Our officers are all employees of UHS through its wholly-owned subsidiary, UHS of Delaware, Inc. In addition, three of our hospital facilities are leased to subsidiaries of UHS and fourteen medical office buildings and two free-standing emergency departments, that are either wholly or jointly-owned by us, include tenants which are subsidiaries of UHS. Any reference to “UHS” or “UHS facilities” in this report is referring to Universal Health Services, Inc.’s subsidiaries, including UHS of Delaware, Inc.

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

Part I. Financial Information

Item I. Financial Statements

Universal Health Realty Income Trust

Condensed Consolidated Statements of Income

For the Three Months Ended March 31, 2016 and 2015

(amounts in thousands, except per share amounts)

(unaudited)

	Three Months Ended March 31,	
	2016	2015
Revenues:		
Base rental - UHS facilities	\$4,081	\$3,906
Base rental - Non-related parties	8,815	8,869
Bonus rental - UHS facilities	1,246	1,218
Tenant reimbursements and other - Non-related parties	1,873	2,009
Tenant reimbursements and other - UHS facilities	211	200
	16,226	16,202
Expenses:		
Depreciation and amortization	5,436	5,523
Advisory fees to UHS	767	666
Other operating expenses	4,400	4,722
Transaction costs	82	57
	10,685	10,968
Income before equity in income of unconsolidated limited liability		
companies ("LLCs"), and interest expense	5,541	5,234
Equity in income of unconsolidated LLCs	1,059	592
Interest expense, net	(2,172)	(2,130)
Net income	\$4,428	\$3,696
Basic earnings per share	\$0.33	\$0.28
Diluted earnings per share	\$0.33	\$0.28
Weighted average number of shares outstanding – Basic	13,307	13,283
Weighted average number of share equivalents	7	11
Weighted average number of shares and equivalents		
outstanding – Diluted	13,314	13,294

See accompanying notes to these condensed consolidated financial statements.

Universal Health Realty Income Trust

Condensed Consolidated Statements of Comprehensive Income

For the Three Months Ended March 31, 2016 and 2015

(dollar amounts in thousands)

(unaudited)

	Three Months Ended March 31,	
	2016	2015
Net Income	\$4,428	\$3,696
Other comprehensive income/(loss):		
Unrealized derivative losses on interest rate caps	(2)	(61)
Amortization of interest rate cap fees	23	23
Total other comprehensive income/(loss):	21	(38)
Total comprehensive income	\$4,449	\$3,658

See accompanying notes to these condensed consolidated financial statements.

Universal Health Realty Income Trust

Condensed Consolidated Balance Sheets

(dollar amounts in thousands)

(unaudited)

	March 31, 2016	December 31, 2015
Assets:		
Real Estate Investments:		
Buildings and improvements	\$478,405	\$ 469,933
Accumulated depreciation	(125,287)	(121,161)
	353,118	348,772
Land	44,053	41,724
Net Real Estate Investments	397,171	390,496
Investments in and advances to limited liability companies ("LLCs")	36,835	31,597
Other Assets:		
Cash and cash equivalents	4,316	3,894
Base and bonus rent receivable from UHS	2,350	2,116
Rent receivable - other	4,569	4,292
Intangible assets (net of accumulated amortization of \$23.3 million and \$25.1 million at March 31, 2016 and December 31, 2015, respectively)	19,736	19,757
Deferred charges and other assets, net	6,130	6,351
Total Assets	\$471,107	\$ 458,503
Liabilities:		
Line of credit borrowings	\$ 159,650	\$ 142,150
Mortgage and other notes payable, non-recourse to us, net	109,332	110,156
Accrued interest	538	504
Accrued expenses and other liabilities	6,107	6,807
Tenant reserves, escrows, deposits and prepaid rents	4,418	3,844
Total Liabilities	280,045	263,461
Equity:		
Preferred shares of beneficial interest, \$.01 par value; 5,000,000 shares authorized; none issued and outstanding	—	—
Common shares, \$.01 par value; 95,000,000 shares authorized; issued and outstanding: 2016 - 13,328,033; 2015 -13,327,020	133	133
Capital in excess of par value	241,867	241,700
Cumulative net income	559,714	555,286
Cumulative dividends	(610,579)	(601,983)
Accumulated other comprehensive loss	(73)	(94)
Total Equity	191,062	195,042
Total Liabilities and Equity	\$471,107	\$ 458,503

See accompanying notes to these condensed consolidated financial statements.

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Universal Health Realty Income Trust

Condensed Consolidated Statement of Cash Flows

(dollar amounts in thousands)

(unaudited)

	Three months ended March 31,	
	2016	2015
Cash flows from operating activities:		
Net income	\$4,428	\$3,696
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,458	5,545
Amortization of debt premium	(56)	(57)
Stock-based compensation expense	111	101
Income in excess of cash distributions from LLCs	—	(64)
Changes in assets and liabilities:		
Rent receivable	(511)	(194)
Accrued expenses and other liabilities	(1,014)	(658)
Tenant reserves, escrows, deposits and prepaid rents	574	136
Accrued interest	34	(48)
Other, net	70	(228)
Net cash provided by operating activities	9,094	8,229
Cash flows from investing activities:		
Investments in LLCs	(5,386)	(321)
Repayments of advances made to LLC	209	—
Cash distributions in excess of income from LLCs	147	—
Cash distribution of refinancing proceeds from LLCs	—	1,045
Additions to real estate investments, net	(1,841)	(2,168)
Net cash paid for acquisition of properties	(9,910)	(16,765)
Cash paid to acquire minority interests in majority-owned LLCs	—	(2,250)
Net cash used in investing activities	(16,781)	(20,459)
Cash flows from financing activities:		
Net borrowings on line of credit	17,500	26,250
Repayments of mortgages and other notes payable	(790)	(5,743)
Financing costs paid	(35)	(913)
Dividends paid	(8,596)	(8,446)
Issuance of shares of beneficial interest, net	30	1,172
Net cash provided by financing activities	8,109	12,320
Increase in cash and cash equivalents	422	90
Cash and cash equivalents, beginning of period	3,894	3,861
Cash and cash equivalents, end of period	\$4,316	\$3,951
Supplemental disclosures of cash flow information:		
Interest paid	\$2,072	\$2,115

See accompanying notes to these condensed consolidated financial statements.

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UNIVERSAL HEALTH REALTY INCOME TRUST

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2016

(unaudited)

(1) General

This Quarterly Report on Form 10-Q is for the quarter ended March 31, 2016. In this Quarterly Report, “we,” “us,” “our” and the “Trust” refer to Universal Health Realty Income Trust and its subsidiaries.

In this Quarterly Report on Form 10-Q, the term “revenues” does not include the revenues of the unconsolidated limited liability companies (“LLCs”) in which we have various non-controlling equity interests ranging from 33% to 95%. As of March 31, 2016, we had investments in five jointly-owned LLCs which own medical office buildings, all of which are accounted for by the equity method (see Note 5). These LLCs are included in our financial statements for all periods presented on an unconsolidated basis since they are not variable interest entities for which we are the primary beneficiary, nor do we hold a controlling voting interest.

The financial statements included herein have been prepared by us, without audit, pursuant to the rules and regulations of the SEC and reflect all normal and recurring adjustments which, in our opinion, are necessary to fairly present results for the interim periods. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although we believe that the accompanying disclosures are adequate to make the information presented not misleading. It is suggested that these financial statements be read in conjunction with the financial statements, the notes thereto and accounting policies included in our Annual Report on Form 10-K for the year ended December 31, 2015.

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

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

The combined revenues generated from the leases on the UHS hospital facilities accounted for approximately 25% of our consolidated revenues for each of the three months ended March 31, 2016 and 2015. Including 100% of the revenues generated at the unconsolidated LLCs in which we have various non-controlling equity interests ranging

from 33% to 95%, the leases on the UHS hospital facilities accounted for approximately 20% of the combined consolidated and unconsolidated revenue for each of the three months ended March 31, 2016 and 2015. In addition, we have sixteen medical office buildings (“MOBs”) or free-standing emergency departments (“FEDs”), that are either wholly or jointly-owned by us, include tenants which are subsidiaries of UHS.

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

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

Hospital Name	Annual		Renewal	
	Minimum	End of	Term	
	Rent	Lease Term	(years)	
McAllen Medical Center	\$5,485,000	December, 2016	15	(a)
Wellington Regional Medical Center	\$3,030,000	December, 2016	15	(b)
Southwest Healthcare System, Inland Valley Campus	\$2,648,000	December, 2016	15	(b)

(a) UHS has three 5-year renewal options at existing lease rates (through 2031).

(b) UHS has one 5-year renewal option at existing lease rates (through 2021) and two 5-year renewal options at fair market value lease rates (2022 through 2031).

Management cannot predict whether the leases with subsidiaries of UHS, which have renewal options at existing lease rates or fair market value lease rates, or any of our other leases, will be renewed at the end of their lease term. If the leases are not renewed at their current rates or the fair market value lease rates, we would be required to find other operators for those facilities and/or enter into leases on terms potentially less favorable to us than the current leases. In addition, if subsidiaries of UHS exercise their options to purchase the respective leased hospital and FED facilities upon expiration of the lease terms, our future revenues could decrease if we were unable to earn a favorable rate of return on the sale proceeds received, as compared to the rental revenue currently earned pursuant to the these leases. The existing lease terms for our three acute care hospitals operated by wholly-owned subsidiaries of UHS are scheduled to expire in December, 2016 and we can provide no assurance that these leases will be renewed at the existing lease rates.

During the first quarter of 2016, we committed to invest up to \$21.1 million in the development and construction of the Henderson Medical Plaza, an MOB located on the campus of the Henderson Hospital Medical Center which is owned by a UHS subsidiary and also currently under construction. The hospital and MOB are both scheduled to be completed and opened during the fourth quarter of 2016.

Advisory Agreement: UHS of Delaware, Inc. (the "Advisor"), a wholly-owned subsidiary of UHS, serves as Advisor to us under an Advisory Agreement (the "Advisory Agreement") dated December 24, 1986. Pursuant to the Advisory Agreement, the Advisor is obligated to present an investment program to us, to use its best efforts to obtain investments suitable for such program (although it is not obligated to present any particular investment opportunity to us), to provide administrative services to us and to conduct our day-to-day affairs. All transactions between us and UHS must be approved by the Trustees who are unaffiliated with UHS (the "Independent Trustees"). In performing its services under the Advisory Agreement, the Advisor may utilize independent professional services, including accounting, legal, tax and other services, for which the Advisor is reimbursed directly by us. The Advisory Agreement may be terminated for any reason upon sixty days written notice by us or the Advisor. The Advisory Agreement expires on December 31 of each year; however, it is renewable by us, subject to a determination by the Independent Trustees, that the Advisor's performance has been satisfactory. In December of 2015, based upon a review of our advisory fee and other general and administrative expenses, as compared to an industry peer group, the Advisory agreement was renewed for 2016 pursuant to the same terms as the Advisory Agreement in place during 2015.

The average real estate assets for advisory fee calculation purposes exclude certain items from our consolidated balance sheet such as, among other things, accumulated depreciation, cash and cash equivalents, base and bonus rent receivables, deferred charges and other assets. The advisory fee is payable quarterly, subject to adjustment at year-end based upon our audited financial statements. 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 our equity as shown on our consolidated balance sheet, determined in accordance with generally accepted accounting principles without reduction for return of capital dividends. The Advisory Agreement defines cash available for distribution to shareholders as net cash flow from operations less deductions for, among other things, amounts required to discharge our debt and liabilities and reserves for replacement and capital improvements to our properties and investments. No incentive fees were paid during the first three months of 2016 or 2015 since the incentive fee requirements were not achieved. Advisory fees incurred and paid (or payable) to UHS amounted to \$767,000 and \$666,000 for the three months ended March 31, 2016 and 2015, respectively, and were based upon average invested real estate assets of \$438 million and \$381 million for the three-month periods ended March 31, 2016 and 2015, respectively.

Officers and Employees: Our officers are all employees of a wholly-owned subsidiary of UHS and although as of March 31, 2016 we had no salaried employees, our officers do typically receive annual stock-based compensation awards in the form of restricted stock. In special circumstances, if warranted and deemed appropriate by the Compensation Committee of the Board of Trustees, our officers may also receive one-time special compensation awards in the form of restricted stock and/or cash bonuses.

Share Ownership: As of March 31, 2016 and December 31, 2015, UHS owned 5.9% of our outstanding shares of beneficial interest.

SEC reporting requirements of UHS: UHS is subject to the reporting requirements of the SEC and is required to file annual reports containing audited financial information and quarterly reports containing unaudited financial information. Since the leases on the hospital facilities leased to wholly-owned subsidiaries of UHS comprised approximately 25% of our consolidated revenues during each of the three month periods ended March 31, 2016 and 2015, and since a subsidiary of UHS is our Advisor, you are encouraged to obtain the publicly available filings for Universal Health Services, Inc. from the SEC's website. These filings are the sole responsibility of UHS and are not incorporated by reference herein.

(3) Dividends and Equity Issuance Program

Dividends:

We declared and paid dividends of \$8.6 million, or \$.645 per share, during the first quarter of 2016 and \$8.4 million, or \$.635 per share, during the first quarter of 2015.

Equity Issuance Program:

Subsequent to the first quarter of 2016, we recommenced our at-the-market ("ATM") equity issuance program, pursuant to the terms of which we may sell, from time-to-time, common shares of our beneficial interest up to an aggregate sales price of approximately \$23.3 million to or through Merrill Lynch, Pierce, Fenner and Smith, Incorporated ("Merrill Lynch"), as sales agent and/or principal. The common shares will be offered pursuant to the Registration Statement filed with the Securities and Exchange Commission, which became effective in December, 2015.

There were no shares issued pursuant to the ATM program during the first three months of 2016. Since inception of this ATM program, we have issued 580,900 shares at an average price of \$45.97 per share, which generated approximately \$25.6 million of net proceeds (net of approximately \$1.1 million, consisting of compensation of \$667,000 to Merrill Lynch as well as \$391,000 of other various fees and expenses). Included in cash received for the issuance of shares of beneficial interest, net, on the Condensed Consolidated Statement of Cash Flows for the three months ended March 31, 2015, was approximately \$1.1 million received in connection with shares issued in late December, 2014.

(4) Acquisitions, Dispositions and New Construction

Three Months Ended March 31, 2016:

Acquisition:

In March, 2016, we purchased the Madison Professional Office Building located in Madison, Alabama for approximately \$10.1 million. This multi-tenant property consists of approximately 30,100 rentable square feet and is fully occupied with an average remaining lease term of approximately 6.2 years at the time of acquisition.

The aggregate purchase price for this MOB was allocated to the assets acquired and liabilities assumed consisting of tangible property and identified intangible assets, based on the fair value estimated at acquisition as detailed in the table below. Substantially all of the intangible assets include the value of the in-place leases at the MOB at the time of acquisition which will be amortized over the average remaining lease term of approximately 6.2 years at the time of acquisition.

Land	\$2,328
Buildings and improvements	6,523
Intangible assets	1,209
Deposit	(150)
Net cash paid	\$9,910

New Construction:

During the first quarter of 2016, we committed to invest up to \$21.1 million in the development and construction of the Henderson Medical Plaza, an MOB located on the campus of the Henderson Hospital Medical Center which is owned by a UHS subsidiary and also currently under construction. The hospital and MOB are both scheduled to be completed and opened during the fourth quarter of 2016.

Dispositions:

There were no divestitures during the first three months of 2016.

Three Months Ended March 31, 2015:

Acquisitions:

In February, 2015, we purchased the Haas Medical Office Park, two single story buildings having an aggregate of approximately 16,000 rentable square feet, located in Ottumwa, Iowa, for approximately \$4.1 million.

In January and February of 2015, we purchased from wholly-owned subsidiaries of UHS, the real property of two newly-constructed and recently opened FEDs located in Weslaco and Mission, Texas, for an aggregate acquisition cost of approximately \$12.8 million. Each FED consists of approximately 13,600 square feet and is operated by wholly-owned subsidiaries of UHS. In connection with these acquisitions, ten-year lease agreements with six 5-year renewal terms were executed with UHS for each FED. In connection with the lease agreements, the lessee shall have the option to purchase the leased property upon the expiration of the fixed term and each five-year extended term at the fair market value at that time.

Dispositions:

There were no divestitures during the first three months of 2015.

(5) Summarized Financial Information of Equity Affiliates

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

At March 31, 2016, we have non-controlling equity investments or commitments in five jointly-owned LLCs/LPs which own MOBs. As of March 31, 2016, we accounted for these LLCs/LPs on an unconsolidated basis pursuant to the equity method since they are not variable interest entities and we do not have a controlling voting interest. The majority of these entities are joint-ventures between us and non-related parties that manage and hold minority ownership interests in the entities. Each entity is generally self-sustained from a cash flow perspective and generates

sufficient cash flow to meet its operating cash flow requirements and service the third-party debt (if applicable) that is non-recourse to us. Although there is typically no ongoing financial support required from us to these entities since they are cash-flow sufficient, we may, from time to time, provide funding for certain purposes such as, but not limited to, significant capital expenditures, leasehold improvements and debt financing. Although we are not obligated to do so, if approved by us at our sole discretion, additional cash fundings are typically advanced as equity or member loans. These entities maintain property insurance on the properties.

Effective February 1, 2016, we purchased an additional 10% ownership interest in the Arlington Medical Properties, LLC from the third-party minority member, subject to certain agreed upon terms and conditions. Including this additional ownership interest, we currently own 85% of this LLC which is accounted for on an unconsolidated basis pursuant to the equity method.

The following property table represents the five LLCs in which we own a noncontrolling interest and were accounted for under the equity method as of March 31, 2016:

Name of LLC/LP	Ownership	Property Owned by LLC
Suburban Properties	33 %	St. Matthews Medical Plaza II
Brunswick Associates (a.)	74 %	Mid Coast Hospital MOB
Arlington Medical Properties (b.)	85 %	Saint Mary's Professional Office Building
Grayson Properties (c.)	95 %	Texoma Medical Plaza
FTX MOB Phase II (d.)	95 %	Forney Medical Plaza II

- (a.) This LLC has a third-party term loan, which is non-recourse to us, of \$8.7 million outstanding as of March 31, 2016.
- (b.) We have funded \$5.2 million in equity as of March 31, 2016 and are committed to invest an additional \$623,000. During the fourth quarter of 2015, we advanced this LLC a member loan, the funds of which were utilized to repay its \$22.8 million outstanding third-party mortgage loan on its scheduled maturity date. The terms of the member loan are similar to those in place pursuant to the third-party mortgage loan that was repaid. Additionally, pursuant to the terms and conditions of an agreement executed in February, 2016, we purchased an additional 10% of the ownership interest in this LLC from the existing third-party member for approximately \$4.8 million in cash, thereby increasing our ownership interest to 85%.
- (c.) We have funded \$2.8 million in equity as of March 31, 2016, and are committed to fund an additional \$100,000. This building is on the campus of a UHS hospital and has tenants that include subsidiaries of UHS. This LLC has a third-party term loan, which is non-recourse to us, of \$14.6 million outstanding as of March 31, 2016.
- (d.) We have committed to invest up to \$2.5 million in equity and debt financing, of which \$2.0 million has been funded as of March 31, 2016. This LLC has a third-party term loan, which is non-recourse to us, of \$5.4 million outstanding as of March 31, 2016.

Below are the condensed combined statements of income (unaudited) for the LLCs accounted for under the equity method at March 31, 2016 and 2015.

	Three Months Ended	
	March 31, 2016	2015
	(amounts in thousands)	
Revenues	\$3,736	\$3,585
Operating expenses	1,353	1,337
Depreciation and amortization	613	580
Interest, net	657	619
Net income	\$1,113	\$1,049
Our share of net income (a.)	\$1,059	\$592

(a.) Our share of net income for the three months ended March 31, 2016 includes interest income earned by us on an advance made to Arlington Medical Properties, LLC of approximately \$296,000. There were no advances outstanding during the first three months of 2015, therefore there was no interest income earned by us for the three months ended March 31, 2015. Also, as mentioned above, effective February 1, 2016, we purchased an additional 10% of the ownership interest in Arlington Medical Properties, LLC thereby increasing our ownership interest to 85%, from 75% in 2015.

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Below are the condensed combined balance sheets (unaudited) for the five above-mentioned LLCs in which we hold noncontrolling ownership interests and that were accounted for under the equity method as of March 31, 2016 and December 31, 2015:

	March 31, December 31,	
	2016	2015
	(amounts in thousands)	
Net property, including CIP	\$61,838	\$ 61,668
Other assets	5,415	5,264
Total assets	\$67,253	\$ 66,932
Liabilities	\$2,657	\$ 2,538
Mortgage notes payable, non-recourse to us	28,763	28,895
Advances payable to us	22,280	22,489
Equity	13,553	13,010
Total liabilities and equity	\$67,253	\$ 66,932
Our share of equity in and advances to LLCs reflected as:		
Investments in LLCs (a.)	\$14,555	\$ 9,108
Advances to LLCs	22,280	22,489
Subtotal-Investments in and advances to LLCs before		
amounts included in accrued expenses and other liabilities	36,835	31,597
Amounts included in accrued expenses and other liabilities	(1,311)	(1,105)
Our share of equity in and advances to LLCs, net	\$35,524	\$ 30,492

(a.) As mentioned above, effective February 1, 2016, we purchased an additional 10% of the ownership interest in Arlington Medical Properties, LLC thereby increasing our ownership interest to 85%, from 75% in 2015.

As of March 31, 2016, and December 31, 2015, aggregate principal amounts due on mortgage notes payable by unconsolidated LLCs, which are accounted for under the equity method and are non-recourse to us, are as follows (amounts in thousands):

Name of LLC/LP	Mortgage Loan		Maturity Date
	3/31/2016	12/31/2015	
FTX MOB Phase II	\$5,396	\$ 5,427	August, 2017
Grayson Properties	14,612	14,670	September, 2021
Brunswick Associates	8,755	8,798	December, 2024
	\$28,763	\$ 28,895	

(a.)

All mortgage loans, other than construction loans, require monthly principal payments through maturity and include a balloon principal payment upon maturity.

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

(6) Recent Accounting Pronouncements

In March, 2016, the FASB issued ASU 2016-07, Investments – Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting, which requires an investor to initially apply the equity method of accounting from the date it qualified for that method. The ASU eliminates the previous requirement to retroactively adjust the investment and record a cumulative catch up for the periods that the investment had been held, but did not qualify for the equity method of accounting. The

amendments are effective for annual reporting periods beginning after December 15, 2016, with early adoption permitted. We are currently in the process of evaluating the impact of adoption of this ASU on our consolidated financial statements.

In February 2016, the Financial Accounting Standards Board (“FASB”) issued ASU 2016-02, Leases (Topic 842), which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. ASU 2016-02 supersedes the previous leases standard, Leases (Topic 840). The standard is effective on January 1, 2019, with early adoption permitted. We are currently in the process of evaluating the impact the adoption of ASU 2016-02 will have on our financial position or results of operations.

In April 2015, the FASB issued ASU No. 2015-03, Simplifying the Presentation of Debt Issuance Costs, an update to the accounting standard relating to the presentation of debt issuance costs. Under the new guidance, debt issuance costs related to a recognized debt liability will be presented on the balance sheet as a direct deduction from the debt liability. In the event that there is not an associated debt liability recorded in the consolidated financial statements, the debt issuance costs will continue to be recorded on the consolidated balance sheet as an asset until the debt liability is recorded. The new standard became effective for the Trust on January 1, 2016. The adoption of this guidance did not have a material impact on our consolidated financial position or results of operations as the update only related to changes in financial statement presentation.

In February 2015, the FASB issued ASU No. 2015-02, Consolidation – Amendments to the Consolidation Analysis, which amends the current consolidation guidance affecting both the variable interest entity (“VIE”) and voting interest entity (“VOE”) consolidation models. The standard does not add or remove any of the characteristics in determining if an entity is a VIE or VOE, but rather enhances the way the Company assesses some of these characteristics. The new standard became effective for the Trust on January 1, 2016 and did not have a material impact on our consolidated financial position or results of operations as none of its existing consolidation conclusions were changed.

(7) Debt and Financial Instruments

Debt:

Management routinely monitors and analyzes the Trust's capital structure in an effort to maintain the targeted balance among capital resources including the level of borrowings pursuant to our \$185 million revolving credit facility, the level of borrowings pursuant to non-course mortgage debt secured by the real property of our properties and our level of equity including consideration of additional equity issuances pursuant to our at-the-market equity issuance program. This ongoing analysis considers factors such as the current debt market and interest rate environment, the current/projected occupancy and financial performance of our properties, the current loan-to-value ratio of our properties, the Trust's current stock price, the capital resources required for anticipated acquisitions and the expected capital to be generated by anticipated divestitures. This analysis, together with consideration of the Trust's current balance of revolving credit facility borrowings, non-recourse mortgage borrowings and equity, assists management in deciding which capital resource to utilize when events such as refinancing of specific debt components occur or additional funds are required to finance the Trust's growth.

On March 27, 2015, we entered into a new \$185 million revolving credit agreement ("Credit Agreement"). The Credit Agreement, which will mature in March, 2019, replaced our previous revolving credit facility which was scheduled to mature in July, 2015. The Credit Agreement includes a \$50 million sub limit for letters of credit and a \$20 million sub limit for swingline/short-term loans. The Credit Agreement also provides a one-time option to extend the maturity date for an additional one year period, and an option to increase the total facility borrowing capacity up to an additional \$50 million, subject to lender agreement. Borrowings under the new facility are guaranteed by certain subsidiaries of the Trust. In addition, borrowings under the new facility are secured by first priority security interests in and liens on all equity interests in the Trust's wholly-owned subsidiaries. Borrowings made pursuant to the Credit Agreement will bear interest, at our option, at one, two, three, or six month LIBOR plus an applicable margin ranging from 1.50% to 2.00% or at the Base Rate plus an applicable margin ranging from 0.50% to 1.00%. The Credit Agreement defines "Base Rate" as the greatest of: (a) the administrative agent's prime rate; (b) the federal funds effective rate plus 1/2 of 1%, and; (c) one month LIBOR plus 1%. A commitment fee of 0.20% to 0.40% (depending on our total leverage ratio) will be charged on the average unused portion of the revolving credit commitments. The margins over LIBOR, Base Rate and the commitment fee are based upon our ratio of debt to total capital. At March 31, 2016, the applicable margin over the LIBOR rate was 1.625%, the margin over the Base Rate was 0.625%, and the commitment fee was 0.25%.

At March 31, 2016, we had \$159.7 million of outstanding borrowings and \$3.0 million of letters of credit outstanding against our revolving credit agreement. We had \$22.3 million of available borrowing capacity, net of the outstanding borrowings and letters of credit outstanding as of March 31, 2016. At December 31, 2015, we had \$142.2 million of outstanding borrowings and \$3.5 million of letters of credit outstanding against our revolving credit agreement. We had \$39.3 million of available borrowing capacity, net of the outstanding borrowings and letters of credit outstanding as of December 31, 2015. There are no compensating balance requirements.

The Credit Agreement contains customary affirmative and negative covenants, including limitations on certain indebtedness, liens, acquisitions and other investments, fundamental changes, asset dispositions and dividends and other distributions. The Credit Agreement also contains restrictive covenants regarding the Trust's ratio of total debt to total assets, the fixed charge coverage ratio, the ratio of total secured debt to total asset value, the ratio of total unsecured debt to total unencumbered asset value, and minimum net worth, as well as customary events of default, the occurrence of which may trigger an acceleration of amounts outstanding under the Credit Agreement. We are in compliance with all of the covenants at March 31, 2016. We also believe that we would remain in compliance if the full amount of our commitment was borrowed.

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

	March 31,		
	Covenant	2016	
Tangible net worth	\$125,000	\$171,326	
Total leverage	< 60%	46.6	%
Secured leverage	< 30%	19.4	%
Unencumbered leverage	< 60%	46.2	%
Fixed charge coverage	> 1.50x	3.5x	

As indicated on the following table, we have fourteen mortgages, all of which are non-recourse to us, included on our condensed consolidated balance sheet as of March 31, 2016, with a combined outstanding balance of \$109.5 million, excluding net debt premium of \$242,000 and net of net financing fees of \$376,000 (amounts in thousands):

Facility Name	Outstanding		
	Balance	Interest	Maturity
	(in thousands)(a)	Rate	Date
Summerlin Hospital Medical Office Building III			
floating rate mortgage loan (b.)	\$ 10,616	3.69 %	December, 2016
Peace Health fixed rate mortgage loan (b.)	20,671	5.64 %	April, 2017
Auburn Medical II floating rate mortgage loan (b.)	6,897	3.19 %	April, 2017
Medical Center of Western Connecticut fixed rate	4,631	6.00 %	June, 2017

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mortgage loan			
Summerlin Hospital Medical Office Building II fixed rate mortgage loan	11,339	5.50	% October, 2017
Phoenix Children's East Valley Care Center fixed rate mortgage loan	6,312	5.88	% December, 2017
Centennial Hills Medical Office Building floating rate mortgage loan	10,266	3.69	% January, 2018
Sparks Medical Building/Vista Medical Terrace floating rate mortgage loan	4,320	3.69	% February, 2018
Rosenberg Children's Medical Plaza fixed rate mortgage loan	8,275	4.85	% May, 2018
Vibra Hospital-Corpus Christi fixed rate mortgage loan	2,793	6.50	% July, 2019
700 Shadow Lane and Goldring MOBs fixed rate mortgage loan	6,384	4.54	% June, 2022
BRB Medical Office Building fixed rate mortgage loan	6,453	4.27	% December, 2022
Desert Valley Medical Center fixed rate mortgage loan	5,179	3.62	% January, 2023
Tuscan Professional Building fixed rate mortgage loan	5,330	5.56	% June, 2025
Total	\$ 109,466		

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

(b.) This loan is scheduled to mature within the next twelve months, at which time we will decide whether to refinance pursuant to a new mortgage loan or by utilizing borrowings under our revolving credit facility.

The mortgages are secured by the real property of the buildings as well as property leases and rents. The mortgages have a combined fair value of approximately \$112 million as of March 31, 2016. Changes in market rates on our fixed rate debt impacts the fair value of debt, but it has no impact on interest incurred or cash flow.

At December 31, 2015, we had fourteen mortgages, all of which were non-recourse to us, included in our consolidated balance sheet. The combined outstanding balance of these fourteen mortgages was \$110.3 million (excluding net debt premium of \$298,000 and net of net financing fees of \$398,000), and had a combined fair value of approximately \$112.4 million.

Financial Instruments:

During the third quarter of 2013, we entered into an interest rate cap on a total notional amount of \$10 million whereby we paid a premium of \$136,000. During the first quarter of 2014, we entered into two additional interest rate cap agreements on a total notional amount of \$20 million whereby we paid premiums of \$134,500. In exchange for the premium payments, the counterparties agreed to pay us the difference between 1.50% and one-month LIBOR if one-month LIBOR rises above 1.50% during the term of the cap. From inception through March 31, 2016, no payments have been made to us by the counterparties pursuant to the terms of these caps which expire in January, 2017.

(8) Segment Reporting

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

Our portfolio is located throughout the United States, however, we do not distinguish or group our operations on a geographical basis for purposes of allocating resources or measuring performance. We review operating and financial data for each property on an individual basis; therefore, we define an operating segment as our individual properties. Individual properties have been aggregated into one reportable segment based upon their similarities with regard to both the nature and economics of the facilities, tenants and operational processes, as well as long-term average financial performance.

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

Overview

We are a real estate investment trust ("REIT") that commenced operations in 1986. We invest in healthcare and human service related facilities currently including acute care hospitals, rehabilitation hospitals, sub-acute facilities, surgery centers, free-standing emergency departments, childcare centers and medical office buildings ("MOBs"). As of March 31, 2016, we have sixty-three real estate investments located in nineteen states consisting of:

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

Forward Looking Statements and Certain Risk Factors

You should carefully review all of the information contained in this Quarterly Report, and should particularly consider any risk factors that we set forth in this Quarterly Report and in other reports or documents that we file from time to time with the Securities and Exchange Commission (the "SEC"). In this Quarterly Report, we state our beliefs of future events and of our future financial performance. In some cases, you can identify those so-called "forward-looking statements" by words such as "may," "will," "should," "could," "would," "predicts," "potential," "continue," "expects," "anticipates," "intends," "plans," "believes," "estimates," "appears," "projects" and similar expressions, as well as statements in future tense. You should be aware that those statements are only our predictions. Actual events or results may differ materially. In evaluating those statements, you should specifically consider various factors, including the risks outlined herein and in our Annual Report on Form 10-K for the year ended December 31, 2015 in Item 1A Risk Factors and in Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations—Forward Looking Statements. Those factors may cause our actual results to differ materially from any of our forward-looking statements.

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

- a substantial portion of our revenues are dependent upon one operator, Universal Health Services, Inc. ("UHS"). We cannot assure you that subsidiaries of UHS will renew the leases on our three acute care hospitals (which are scheduled to expire in December, 2016) and two FEDs at existing lease rates or fair market value lease rates. In addition, if subsidiaries of UHS exercise their options to purchase the respective leased hospital facilities upon expiration of the lease terms, our future revenues and results of operations could decrease if we were unable to earn a favorable rate of return on the sale proceeds received, as compared to the rental revenue currently earned pursuant to these leases;
- in certain of our markets, the general real estate market has been unfavorably impacted by increased competition/capacity and decreases in occupancy and rental rates which may adversely impact our operating results and the underlying value of our properties;
- a number of legislative initiatives have recently been passed into law that may result in major changes in the health care delivery system on a national or state level to the operators of our facilities, including UHS. No assurances can be given that the implementation of these new laws will not have a material adverse effect on the business, financial condition or results of operations of our operators;
 - a subsidiary of UHS is our Advisor and our officers are all employees of a wholly-owned subsidiary of UHS, which may create the potential for conflicts of interest;

- lost revenues resulting from the exercise of purchase options, lease expirations and renewals, loan repayments and other restructuring;
- our ability to continue to obtain capital on acceptable terms, including borrowed funds, to fund future growth of our business;
- the outcome of known and unknown litigation, government investigations, and liabilities and other claims asserted against us or the operators of our facilities;

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- failure of the operators of our hospital facilities to comply with governmental regulations related to the Medicare and Medicaid licensing and certification requirements could have a material adverse impact on our future revenues and the underlying value of the property;
- the potential unfavorable impact on our business of deterioration in national, regional and local economic and business conditions, including a worsening of credit and/or capital market conditions, which may adversely affect, our ability to obtain capital which may be required to fund the future growth of our business and refinance existing debt with near term maturities;
- a deterioration in general economic conditions which could result in increases in the number of people unemployed and/or insured and likely increase the number of individuals without health insurance; as a result, the operators of our facilities may experience decreases in patient volumes which could result in decreased occupancy rates at our medical office buildings;
- a worsening of the economic and employment conditions in the United States could materially affect the business of our operators, including UHS, which may unfavorably impact our future bonus rentals (on the UHS hospital facilities) and may potentially have a negative impact on the future lease renewal terms and the underlying value of the hospital properties;
- real estate market factors, including without limitation, the supply and demand of office space and market rental rates, changes in interest rates as well as an increase in the development of medical office condominiums in certain markets;
- government regulations, including changes in the reimbursement levels under the Medicare and Medicaid program resulting from, among other things, the various health care reform initiatives being implemented;
- there have been several attempts in Congress to repeal or modify various provisions of the Patient Protection and Affordable Care Act (the “PPACA”). We cannot predict whether or not any of these proposed changes to the PPACA will become law and therefore can provide no assurance that changes to the PPACA, as currently implemented, will not have a material adverse effect on the future operating results of the tenants/operators of our properties and, thus, our business;
- the issues facing the health care industry that affect the operators of our facilities, including UHS, such as: changes in, or the ability to comply with, existing laws and government regulations; unfavorable changes in the levels and terms of reimbursement by third party payors or government programs, including Medicare (including, but not limited to, the potential unfavorable impact of future reductions to Medicare reimbursements resulting from the Budget Control Act of 2011, as discussed below) and Medicaid (most states have reported significant budget deficits that have, in the past, resulted in the reduction of Medicaid funding to the operators of our facilities, including UHS); demographic changes; the ability to enter into managed care provider agreements on acceptable terms; an increase in uninsured and self-pay patients which unfavorably impacts the collectability of patient accounts; decreasing in-patient admission trends; technological and pharmaceutical improvements that may increase the cost of providing, or reduce the demand for, health care, and; the ability to attract and retain qualified medical personnel, including physicians;
- in August, 2011, the Budget Control Act of 2011 (the “2011 Act”) was enacted into law. The 2011 Act imposed annual spending limits for most federal agencies and programs aimed at reducing budget deficits by \$917 billion between 2012 and 2021, according to a report released by the Congressional Budget Office. The 2011 Act provides for new spending on program integrity initiatives intended to reduce fraud and abuse under the Medicare program. Among its other provisions, the law established a bipartisan Congressional committee, known as the Joint Select Committee on Deficit Reduction (the “Joint Committee”), which was tasked with making recommendations aimed at reducing future federal budget deficits by an additional \$1.5 trillion over 10 years. The Joint Committee was unable to reach an agreement by the November 23, 2011 deadline and, as a result, across-the-board cuts to discretionary, national defense and Medicare spending were implemented on March 1, 2013 resulting in Medicare payment reductions of up to 2% per fiscal year with a uniform percentage reduction across all Medicare programs. The Bipartisan Budget Act of 2015, enacted on November 2, 2015, continued the 2% reductions to Medicare reimbursement imposed under the 2011 Act. We cannot predict whether Congress will restructure the implemented Medicare payment reductions or what federal other deficit reduction initiatives may be proposed by Congress going forward. We also cannot

predict the effect these enactments will have on operators (including UHS), and, thus, our business;
· in March, 2010, the Health Care and Education Reconciliation Act of 2010 and the Patient Protection and Affordable Care Act were enacted into law and created significant changes to health insurance coverage for U.S. citizens as well as material revisions to the federal Medicare and state Medicaid programs. The two combined primary goals of these acts are to provide for increased access to coverage for healthcare and to reduce healthcare-related expenses. Medicare, Medicaid and other health care industry changes are scheduled to be implemented at various times during this decade. We cannot predict the effect, if any, these enactments will have on operators (including UHS) and, thus, our business;

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- competition for our operators from other REITs;
- the operators of our facilities face competition from other health care providers, including physician owned facilities and other competing facilities, including certain facilities operated by UHS but the real property of which is not owned by us. Such competition is experienced in markets including, but not limited to, McAllen, Texas, the site of our McAllen Medical Center, a 430-bed acute care hospital, and Riverside County, California, the site of our Southwest Healthcare System-Inland Valley Campus, a 132-bed acute care hospital;
- changes in, or inadvertent violations of, tax laws and regulations and other factors than can affect REITs and our status as a REIT;
- should we be unable to comply with the strict income distribution requirements applicable to REITs, utilizing only cash generated by operating activities, we would be required to generate cash from other sources which could adversely affect our financial condition;
- our ownership interests in five LLCs/LPs in which we hold non-controlling equity interests. In addition, pursuant to the operating and/or partnership agreements of the five entities in which we continue to hold non-controlling ownership interests, the third-party member and/or the Trust, at any time, potentially subject to certain conditions, have the right to make an offer (“Offering Member”) to the other member(s) (“Non-Offering Member”) in which it either agrees to: (i) sell the entire ownership interest of the Offering Member to the Non-Offering Member (“Offer to Sell”) at a price as determined by the Offering Member (“Transfer Price”), or; (ii) purchase the entire ownership interest of the Non-Offering Member (“Offer to Purchase”) at the equivalent proportionate Transfer Price. The Non-Offering Member has 60 to 90 days to either: (i) purchase the entire ownership interest of the Offering Member at the Transfer Price, or; (ii) sell its entire ownership interest to the Offering Member at the equivalent proportionate Transfer Price. The closing of the transfer must occur within 60 to 90 days of the acceptance by the Non-Offering Member;
- fluctuations in the value of our common stock, and;
- other factors referenced herein or in our other filings with the Securities and Exchange Commission.

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

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

Critical Accounting Policies and Estimates

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

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

Revenue Recognition: Our revenues consist primarily of rentals received from tenants, which are comprised of minimum rent (base rentals), bonus rentals and reimbursements from tenants for their pro-rata share of expenses such as common area maintenance costs, real estate taxes and utilities.

The minimum rent for all hospital facilities is fixed over the initial term or renewal term of the respective leases. Rental income recorded by our properties, including our consolidated and unconsolidated MOBs, relating to leases in

excess of one year in length, is recognized using the straight-line method under which contractual rents are recognized evenly over the lease term regardless of when payments are due. The amount of rental revenue resulting from straight-line rent adjustments is dependent on many factors including the nature and amount of any rental concessions granted to new tenants, stipulated rent increases under existing leases, as well as the acquisitions and sales of properties that have existing in-place leases with terms in excess of one year. As a result, the straight-line adjustments to rental revenue may vary from period-to-period. Bonus rents are recognized when earned based upon increases in each facility's net revenue in excess of stipulated amounts. Bonus rentals are determined and paid each quarter based upon a computation

that compares the respective facility's current quarter's net revenue to the corresponding quarter in the base year. Tenant reimbursements for operating expenses are accrued as revenue in the same period the related expenses are incurred.

Real Estate Investments: On the date of acquisition, the purchase price of a property is allocated to the property's land, buildings and intangible assets based upon our estimates of their fair values. Depreciation is computed using the straight-line method over the useful lives of the buildings and capital improvements. The value of intangible assets is amortized over the remaining lease term.

Asset Impairment: Real estate investments and related intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the property might not be recoverable. A property to be held and used is considered impaired only if management's estimate of the aggregate future cash flows, less estimated capital expenditures, to be generated by the property, undiscounted and without interest charges, are less than the carrying value of the property. This estimate takes into consideration factors such as expected future operating income, trends and prospects, as well as the effects of demand, competition, local market conditions and other factors.

The determination of undiscounted cash flows requires significant estimates by management, including the expected course of action at the balance sheet date that would lead to such cash flows. Subsequent changes in estimated undiscounted cash flows arising from changes in anticipated action to be taken with respect to the property could impact the determination of whether an impairment exists and whether the effects could materially impact our net income. To the extent estimated undiscounted cash flows are less than the carrying value of the property, the loss will be measured as the excess of the carrying amount of the property over the fair value of the property.

Assessment of the recoverability by us of certain lease related costs must be made when we have reason to believe that a tenant might not be able to perform under the terms of the lease as originally expected. This requires us to make estimates as to the recoverability of such costs. If we determine that the intangible assets are not recoverable from future cash flows, the excess of carrying value of the intangible asset over its estimated fair value is charged to income.

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

Federal Income Taxes: No provision has been made for federal income tax purposes since we qualify as a REIT under Sections 856 to 860 of the Internal Revenue Code of 1986, and intend to continue to remain so qualified. As such, we are exempt from federal income taxes and we are required to distribute at least 90% of our real estate investment taxable income to our shareholders.

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

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

Relationship with Universal Health Services, Inc. (“UHS”) and Related Party Transactions—UHS is our principal tenant and through UHS of Delaware, Inc., a wholly owned subsidiary of UHS, serves as our advisor (the “Advisor”) under an Advisory Agreement dated December 24, 1986 between the Advisor and us (the “Advisory Agreement”). Our officers are all employees of UHS (through UHS of Delaware, Inc.) and although as of March 31, 2016 we had no salaried employees, our officers do receive stock-based compensation from time-to-time.

Pursuant to the Advisory Agreement, the Advisor is obligated to present an investment program to us, to use its best efforts to obtain investments suitable for such program (although it is not obligated to present any particular investment opportunity to us), to provide administrative services to us and to conduct our day-to-day affairs. All transactions between us and UHS must be approved by the Trustees who are unaffiliated with UHS (the “Independent Trustees”). In performing its services under the Advisory Agreement, the Advisor may utilize independent professional services, including accounting, legal, tax and other services, for which the Advisor is reimbursed directly by us. The Advisory Agreement may be terminated for any reason upon sixty days written notice by us or the Advisor. The Advisory Agreement expires on December 31 of each year; however, it is renewable by us, subject to a determination by the Independent Trustees, that the Advisor’s performance has been satisfactory. In December of 2015, based upon a review of our advisory fee and other general and administrative expenses, as compared to an industry peer group, the Advisory Agreement was renewed for 2016 pursuant to the same terms as the Advisory Agreement in place during 2015.

The combined revenues generated from the leases on the UHS hospital facilities comprised approximately 25% of our consolidated revenues for each of the three months ended March 31, 2016 and 2015. Including 100% of the revenues generated at the unconsolidated LLCs in which we have various non-controlling equity interests ranging from 33% to 95%, the leases on the UHS hospital facilities accounted for approximately 20% of the combined consolidated and unconsolidated revenue for each of the three months ended March 31, 2016 and 2015. In addition, sixteen MOBs and FEDs, that are either wholly or jointly-owned by UHT, include tenants which are subsidiaries of UHS.

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

Management cannot predict whether the leases with subsidiaries of UHS, which have renewal options at existing lease rates or fair market value lease rates, or any of our other leases, will be renewed at the end of their lease term. If the leases are not renewed at their current rates or the fair market value lease rates, we would be required to find other operators for those facilities and/or enter into leases on terms potentially less favorable to us than the current leases. In addition, if subsidiaries of UHS exercise their options to purchase the respective leased hospital and FED facilities upon expiration of the lease terms, our future revenues could decrease if we were unable to earn a favorable rate of return on the sale proceeds received, as compared to the rental revenue currently earned pursuant to the these leases. The existing lease terms for our three acute care hospitals operated by wholly-owned subsidiaries of UHS are scheduled to expire in December, 2016 and we can provide no assurance that these leases will be renewed at the existing lease rates.

Officers and Employees: Our officers are all employees of a wholly-owned subsidiary of UHS and although as of March 31, 2016 we had no salaried employees, our officers do typically receive annual stock-based compensation awards in the form of restricted stock. In special circumstances, if warranted and deemed appropriate by the Compensation Committee of the Board of Trustees, our officers may also receive one-time special compensation awards in the form of restricted stock and/or cash bonuses.

For additional disclosure related to our relationship with UHS, please refer to Note 2 to the condensed consolidated financial statements, Relationship with Universal Health Services, Inc. ("UHS") and Related Party Transactions.

Results of Operations

For the three months ended March 31, 2016, net income was \$4.4 million as compared to \$3.7 million during the comparable prior year quarter. The \$732,000 increase in net income during the first quarter of 2016, as compared to the comparable prior year quarter, was attributable to:

- an increase attributable to the property exchange transaction completed during the second quarter of 2015;
- an increase resulting from lower cost of borrowings related to a previously outstanding third-party mortgage loan of an unconsolidated LLC which was repaid during the fourth quarter of 2015 utilizing funds borrowed under our

· revolving credit facility which were advanced to the LLC in the form of a member loan, and;
· increased net income generated at various properties.

Included in our other operating expenses are expenses related to the consolidated medical office buildings, which totaled \$3.9 million and \$4.3 million for the three-month periods ended March 31, 2016 and 2015, respectively. A large portion of the expenses associated with our consolidated medical office buildings is passed on directly to the tenants either directly as tenant reimbursements of common area maintenance expenses or included in base rental amounts. Tenant reimbursements for operating expenses are accrued as revenue in the same period the related expenses are incurred and are included as tenant reimbursement revenue in our condensed consolidated statements of income.

Funds from operations (“FFO”) is a widely recognized measure of performance for Real Estate Investment Trusts (“REITs”). We believe that FFO and FFO per diluted share, and adjusted funds from operations (“AFFO”) and AFFO per diluted share, which are

non-GAAP financial measures (“GAAP” is Generally Accepted Accounting Principles in the United States of America), are helpful to our investors as measures of our operating performance. We compute FFO, as reflected below, in accordance with standards established by the National Association of Real Estate Investment Trusts (“NAREIT”), which may not be comparable to FFO reported by other REITs that do not compute FFO in accordance with the NAREIT definition, or that interpret the NAREIT definition differently than we interpret the definition. AFFO was also computed for the three-month periods ended March 31, 2016 and 2015, as reflected below, since we believe it is helpful to our investors since it adjusts for the effect of the transaction costs related to acquisitions. FFO/AFFO do not represent cash generated from operating activities in accordance with GAAP and should not be considered to be an alternative to net income determined in accordance with GAAP. In addition, FFO/AFFO should not be used as: (i) an indication of our financial performance determined in accordance with GAAP; (ii) an alternative to cash flow from operating activities determined in accordance with GAAP; (iii) a measure of our liquidity, or; (iv) an indicator of funds available for our cash needs, including our ability to make cash distributions to shareholders.

Below is a reconciliation of our reported net income to FFO and AFFO for the three-month periods ended March 31, 2016 and 2015 (in thousands):

	Three Months Ended	
	March 31, 2016	2015
Net income	\$4,428	\$3,696
Depreciation and amortization expense on consolidated		
investments	5,333	5,410
Depreciation and amortization expense on unconsolidated		
affiliates	450	410
Funds From Operations	10,211	9,516
Transaction costs	82	57
Adjusted Funds From Operations	\$10,293	\$9,573

Our FFO and AFFO increased by \$695,000 and \$720,000, respectively, during the three-month period ended March 31, 2016, as compared to the comparable period of 2015. The increases in FFO and AFFO during the first quarter of 2016, as compared to the first quarter of 2015, were primarily due to the increase in net income, as discussed above.

Liquidity and Capital Resources

Net cash provided by operating activities

Net cash provided by operating activities was \$9.1 million and \$8.2 million during the three-month periods ended March 31, 2016 and 2015, respectively. The \$865,000 net increase was attributable to:

- a favorable change of \$720,000 due to an increase in net income plus/minus the adjustments to reconcile net income to net cash provided by operating activities (depreciation and amortization, amortization of debt net premium,

stock-based compensation expense and income in excess of cash distributions from LLCs), as discussed above in Results of Operations, and;

· other combined net favorable changes of \$145,000.

Net cash used in investing activities

Net cash used in investing activities was \$16.8 million during the three months ended March 31, 2016 as compared to \$20.5 million during the three months ended March 31, 2015.

During the three-month period ended March 31, 2016, we funded: (i) \$5.4 million in equity investments in various unconsolidated LLCs, including \$4.8 million to purchase an additional 10% equity interest in the Arlington Medical Plaza LLC, as discussed above; (ii) \$1.8 million in capital additions to real estate investments primarily related to tenant improvements at various MOBs, and; (iii) \$9.9 million to acquire the real estate assets of a medical office building, as discussed above. In addition, during the three-month period ended March 31, 2016, we received: (i) \$209,000 as an installment repayment of an outstanding member loan advanced to an unconsolidated LLC, and; (ii) \$147,000 of cash distributions in excess of income received from our unconsolidated LLCs.

During the three-month period ended March 31, 2015, we funded: (i) \$321,000 in equity investments in various unconsolidated LLCs; (ii) \$2.2 million in capital additions to real estate investments primarily related to tenant improvements at various MOBs; (iii) \$16.8 million to acquire the real estate assets of a medical office building and two free-standing emergency departments, and; (iv) \$2.3

million payment of a note payable related to the purchase of third-party minority ownership interests in six majority-owned LLCs during the third quarter of 2014. In addition, during the three-month period ended March 31, 2015, we received \$1.0 million of cash proceeds in connection with the refinancing of third-party debt by an unconsolidated LLC.

Net cash provided financing activities

Net cash provided by financing activities was \$8.1 million during the three months ended March 31, 2016, as compared to \$12.3 million during the three months ended March 31, 2015.

During the three-month period ended March 31, 2016, we received \$17.5 million of additional net borrowings on our revolving line of credit. Additionally, during the three months ended March 31, 2016, we paid: (i) \$790,000 on mortgages and other notes payable that are non-recourse to us; (ii) \$35,000 of financing costs related to the revolving credit facility, and; (iii) \$8.6 million of dividends.

During the three-month period ended March 31, 2015, we: (i) received \$26.3 million of additional net borrowings on our revolving line of credit, and; (ii) received \$1.2 million of net cash from the issuance of shares of beneficial interest (primarily relating to shares issued pursuant to our at-the-market equity issuance program in late December, 2014). Additionally, during the three months ended March 31, 2015, we paid: (i) \$5.7 million on mortgages and other notes payable that are non-recourse to us, (including the pay-off of the \$4.9 million third-party mortgage on the Spring Valley Medical Office Building utilizing funds borrowed under our revolving credit facility); (ii) \$913,000 of financing costs paid on the new revolving credit facility, and; (iii) \$8.4 million of dividends.

Subsequent to the first quarter of 2016, we recommenced our at-the-market (“ATM”) equity issuance program, pursuant to the terms of which we may sell, from time-to-time, common shares of our beneficial interest up to an aggregate sales price of approximately \$23.3 million to or through Merrill Lynch, Pierce, Fenner and Smith, Incorporated (“Merrill Lynch”), as sales agent and/or principal. The common shares will be offered pursuant to the Registration Statement filed with the Securities and Exchange Commission, which became effective in December, 2015.

There were no shares issued pursuant to the ATM program during the first three months of 2016. Since inception of this ATM program, we have issued 580,900 shares at an average price of \$45.97 per share, which generated approximately \$25.6 million of net proceeds (net of approximately \$1.1 million, consisting of compensation of \$667,000 to Merrill Lynch as well as \$391,000 of other various fees and expenses). Included in cash received for the issuance of shares of beneficial interest, net, on the Condensed Consolidated Statement of Cash Flows for the three months ended March 31, 2015, was approximately \$1.1 million received in connection with shares issued in late December, 2014.

Additional cash flow and dividends paid information for the three-month periods ended March 31, 2016 and 2015:

As indicated on our condensed consolidated statement of cash flows, we generated net cash provided by operating activities of \$9.1 million and \$8.2 million during the three-month periods ended March 31, 2016 and 2015, respectively. As also indicated on our statement of cash flows, noncash expenses including depreciation and amortization, amortization of debt premium and stock-based compensation, as well as the income in excess of cash distributions from LLCs, are the primary differences between our net income and net cash provided by operating activities during each period. In addition, as reflected in the cash flows from investing activities section, we received \$147,000 during the three months ended March 31, 2016 of cash distributions in excess of income from various unconsolidated LLCs which represents our share of the net cash flow distributions from these entities. The cash distributions in excess of income represent operating cash flows net of capital expenditures and debt repayments made by the LLCs.

We generated \$9.2 million and \$8.2 million of net cash during the three months ended March 31, 2016 and 2015, respectively, related to the operating activities of our properties recorded on a consolidated and an unconsolidated basis. We paid dividends of \$8.6 million and \$8.4 million during the three months ended March 31, 2016 and 2015, respectively. During the first three months of 2016, the \$9.2 million of net cash generated related to the operating activities of our properties was approximately \$645,000 greater than the \$8.6 million of dividends paid during the first quarter of 2016. During the first three months of 2015, the \$8.2 million of net cash generated related to operating activities of our properties was approximately \$217,000 less than the \$8.4 million of dividends paid during the first quarter of 2015.

As indicated in the cash flows from investing activities and cash flows from financing activities sections of the statements of cash flows, there were various other sources and uses of cash during the three months ended March 31, 2016 and 2015. From time to time, various other sources and uses of cash may include items such as investments and advances made to/from LLCs, additions to real estate investments, acquisition/divestiture of properties, net borrowings/repayments of debt, and proceeds generated from the issuance of equity. Therefore, in any given period, the funding source for our dividend payments is not wholly dependent on the operating cash flow generated by our properties. Rather, our dividends as well as our capital reinvestments into our existing properties, acquisitions of real property and other investments are funded based upon the aggregate net cash inflows or outflows from all sources and uses of cash from the properties we own either in whole or through LLCs, as outlined above.

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

We expect to finance all capital expenditures and acquisitions and pay dividends utilizing internally generated and additional funds. Additional funds may be obtained through: (i) borrowings under our existing \$185 million revolving credit facility agreement (which has \$22.3 million of available borrowing capacity, net of outstanding borrowings and letters of credit, as of March 31, 2016); (ii) the issuance of equity pursuant to an at-the-market equity issuance program; (iii) borrowings under or refinancing of existing third-party debt pursuant to mortgage and construction loan agreements entered into by our LLCs, and/or; (iv) the issuance of other long-term debt.

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

Credit facilities and mortgage debt

Management routinely monitors and analyzes the Trust's capital structure in an effort to maintain the targeted balance among capital resources including the level of borrowings pursuant to our \$185 million revolving credit facility, the level of borrowings pursuant to non-course mortgage debt secured by the real property of our properties and our level of equity including consideration of additional equity issuances pursuant to our at-the-market equity issuance program. This ongoing analysis considers factors such as the current debt market and interest rate environment, the current/projected occupancy and financial performance of our properties, the current loan-to-value ratio of our properties, the Trust's current stock price, the capital resources required for anticipated acquisitions and the expected capital to be generated by anticipated divestitures. This analysis, together with consideration of the Trust's current balance of revolving credit facility borrowings, non-recourse mortgage borrowings and equity, assists management in deciding which capital resource to utilize when events such as refinancing of specific debt components occur or additional funds are required to finance the Trust's growth.

On March 27, 2015, we entered into a new \$185 million revolving credit agreement ("Credit Agreement"). The Credit Agreement, which will mature in March, 2019, replaced our previous revolving credit facility which was scheduled to mature in July, 2015. The Credit Agreement includes a \$50 million sub limit for letters of credit and a \$20 million sub limit for swingline/short-term loans. The Credit Agreement also provides a one-time option to extend the maturity date for an additional one year period, and an option to increase the total facility borrowing capacity up to an additional \$50 million, subject to lender agreement. Borrowings under the new facility are guaranteed by certain subsidiaries of the Trust. In addition, borrowings under the new facility are secured by first priority security interests

in and liens on all equity interests in the Trust's wholly-owned subsidiaries. Borrowings made pursuant to the Credit Agreement will bear interest, at our option, at one, two, three, or six month LIBOR plus an applicable margin ranging from 1.50% to 2.00% or at the Base Rate plus an applicable margin ranging from 0.50% to 1.00%. The Credit Agreement defines "Base Rate" as the greatest of: (a) the administrative agent's prime rate; (b) the federal funds effective rate plus 1/2 of 1%, and; (c) one month LIBOR plus 1%. A commitment fee of 0.20% to 0.40% (depending on our total leverage ratio) will be charged on the average unused portion of the revolving credit commitments. The margins over LIBOR, Base Rate and the commitment fee are based upon our ratio of debt to total capital. At March 31, 2016, the applicable margin over the LIBOR rate was 1.625%, the margin over the Base Rate was 0.625%, and the commitment fee was 0.25%.

At March 31, 2016, we had \$159.7 million of outstanding borrowings and \$3.0 million of letters of credit outstanding against our revolving credit agreement. We had \$22.3 million of available borrowing capacity, net of the outstanding borrowings and letters of credit outstanding as of March 31, 2016. At December 31, 2015, we had \$142.2 million of outstanding borrowings and \$3.5 million of letters of credit outstanding against our revolving credit agreement. We had \$39.3 million of available borrowing capacity, net of the outstanding borrowings and letters of credit outstanding as of December 31, 2015. There are no compensating balance requirements.

The Credit Agreement contains customary affirmative and negative covenants, including limitations on certain indebtedness, liens, acquisitions and other investments, fundamental changes, asset dispositions and dividends and other distributions. The Credit Agreement also contains restrictive covenants regarding the Trust's ratio of total debt to total assets, the fixed charge coverage ratio, the ratio of total secured debt to total asset value, the ratio of total unsecured debt to total unencumbered asset value, and minimum net worth, as well as customary events of default, the occurrence of which may trigger an acceleration of amounts outstanding under the Credit Agreement. We are in compliance with all of the covenants at March 31, 2016. We also believe that we would remain in compliance if the full amount of our commitment was borrowed.

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

	March 31,		
	Covenant	2016	
Tangible net worth	\$125,000	\$171,326	
Total leverage	< 60%	46.6	%
Secured leverage	< 30%	19.4	%
Unencumbered leverage	< 60%	46.2	%
Fixed charge coverage	> 1.50x	3.5x	

As indicated on the following table, we have fourteen mortgages, all of which are non-recourse to us, included on our condensed consolidated balance sheet as of March 31, 2016, with a combined outstanding balance of \$109.5 million, excluding net debt premium of \$242,000 and net of net financing fees of \$376,000 (amounts in thousands):

Facility Name	Outstanding		
	Balance	Interest	Maturity
	(in thousands)(a)	Rate	Date
Summerlin Hospital Medical Office Building III			
floating rate mortgage loan (b.)	\$ 10,616	3.69 %	December, 2016
Peace Health fixed rate mortgage loan (b.)	20,671	5.64 %	April, 2017
Auburn Medical II floating rate mortgage loan (b.)	6,897	3.19 %	April, 2017
Medical Center of Western Connecticut fixed rate			
mortgage loan	4,631	6.00 %	June, 2017
Summerlin Hospital Medical Office Building II fixed			
rate mortgage loan	11,339	5.50 %	October, 2017
Phoenix Children's East Valley Care Center fixed rate			
mortgage loan	6,312	5.88 %	December, 2017
Centennial Hills Medical Office Building floating rate	10,266	3.69 %	January, 2018

mortgage loan			
Sparks Medical Building/Vista Medical Terrace			
floating rate mortgage loan	4,320	3.69	% February, 2018
Rosenberg Children's Medical Plaza fixed rate			
mortgage loan	8,275	4.85	% May, 2018
Vibra Hospital-Corpus Christi fixed rate mortgage loan	2,793	6.50	% July, 2019
700 Shadow Lane and Goldring MOB's fixed rate			
mortgage loan	6,384	4.54	% June, 2022
BRB Medical Office Building fixed rate mortgage loan	6,453	4.27	% December, 2022
Desert Valley Medical Center fixed rate mortgage loan	5,179	3.62	% January, 2023
Tuscan Professional Building fixed rate mortgage loan	5,330	5.56	% June, 2025
Total	\$ 109,466		

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

(b.) This loan is scheduled to mature within the next twelve months, at which time we will decide whether to refinance pursuant to a new mortgage loan or by utilizing borrowings under our revolving credit facility.

Off Balance Sheet Arrangements

As of March 31, 2016, we are party to certain off balance sheet arrangements consisting of standby letters of credit and equity and debt financing commitments. Our outstanding letters of credit at March 31, 2016 totaled \$3.0 million consisting of: (i) \$1.9 million

related to Centennial Hills Medical Properties; (ii) \$450,000 related to FTX MOB Phase II, LP, and; (iii) \$650,000 related to Banburry Medical Properties.

Acquisition and Divestiture Activity

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Reference is made to Item 7A in our Annual Report on Form 10-K for the year ended December 31, 2015. There have been no material changes in the quantitative and qualitative disclosures during the first three months of 2016.

Item 4. Controls and Procedures

As of March 31, 2016, under the supervision and with the participation of our management, including the Trust's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), we performed an evaluation of the effectiveness of our disclosure controls and procedures as defined in Rule 13a-15(e) or Rule 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "1934 Act").

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

There have been no changes in our internal control over financial reporting or in other factors during the first three months of 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

UNIVERSAL HEALTH REALTY INCOME TRUST

Item 1A. Risk Factors

Our Annual Report on Form 10-K for the year ended December 31, 2015 includes a listing of risk factors to be considered by investors in our securities. There have been no material changes in our risk factors from those set forth in our Annual Report on Form 10-K for the year ended December 31, 2015.

Item 6. Exhibits

(a.) Exhibits:

31.1 Certification of the Chief Executive Officer pursuant to Rule 13a-14(a)/15(d)-14(a) under the Securities Exchange Act of 1934, as amended.

31.2 Certification of the Chief Financial Officer pursuant to Rule 13a-14(a)/15(d)-14(a) under the Securities Exchange Act of 1934, as amended.

32.1 Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema Document

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

101.LAB XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

Signatures

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

Date: May 6, 2016 UNIVERSAL HEALTH REALTY INCOME TRUST

(Registrant)

/s/ Alan B. Miller
Alan B. Miller,
Chairman of the Board,

President and Chief Executive Officer

(Principal Executive Officer)

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

(Principal Financial Officer)

EXHIBIT INDEX

Exhibit

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