



“We were able to maximize our return on the building by selling to Montecito Medical and to do so where we were able to re-invest back into the new entity buying it. It was important to many of our physicians to continue to have some level of ownership in the properties where they practice.”

Richard Panek
Chief Executive Officer



The Challenge

State of Franklin Healthcare Associates (“SOFHA”) is the leading physician owned primary care group in the Tri-Cities market of Tennessee. The group was looking to monetize two of their campus-adjacent assets to take advantage of favorable market conditions, but was worried about relinquishing total control and management of the assets to an institutional buyer with little interest in structuring a deal that would accommodate physician needs.

The Solution

Montecito Medical made several trips to meet with SOFHA executives and listened intently to their reservations in order to draft a deal structure that would accommodate physician needs. In order to keep all physician’s interest aligned, Montecito personally presented their proposal to a group of 65+ SOFHA doctors. The proposal included:

- SOFHA physicians could re-invest up to 10% of the required equity back into the deal and hold a passive non-voting position in the to-be-formed joint venture.
- SOFHA physicians would receive a quarterly distribution and participate in disposition proceeds based on their pro-rata share of equity contributed.
- SOFHA physicians would be able to trade equity shares internally, allowing retiring doctors the option to cash out and new doctors the opportunity to buy in.
- SOFHA would be able to maintain all property management duties at the assets to ensure the current standard of operational care and maintenance continued.

The Result

SOFHA physicians voted to sell the assets to Montecito Medical under the proposed deal structure. The group re-invested 10% of their proceeds back into the assets alongside Montecito, with both parties interest closely aligned. In exchange, SOFHA master-leased both buildings on a NNN lease for a 15-year term.

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