



Holston Medical Group Portfolio

“Working with Montecito was a pleasure. They were very proactive and supportive of all the solutions to the complexity of the deal. They made it all very simple.”

Scott Fowler, MD, FACOG
President, Holston Medical Group



Situation

Holston Medical Group (HMG), which includes roughly 150 primary care physicians and providers, occupied six buildings comprising more than 300,000 square feet in the Tri-Cities area of Upper East Tennessee. HMG Med Plaza, the group’s trophy asset adjacent to the 505-bed Holston Valley Medical Center, was tenanted under a short-term ground lease that required lengthy discussion with the land owner and hospital. The seller was challenged by a very punitive defeasance on the loan. Meanwhile, concern by some physicians in the group about rent increases hindered support for the sale.

The Solution

Montecito Medical took the lead in negotiating an agreement that satisfied the needs of all parties involved: tenant/owners, the lender, the landowner and the hospital. Under the agreement, Montecito acquired all six buildings in the HMG portfolio while postponing the close on three of the properties until a later date – a provision that helped address the seller’s defeasance concerns. Physicians were relieved when Montecito actually reduced rents. In addition, the company not only paid top dollar for the portfolio but created a vehicle whereby physicians could re-invest a portion of the sale proceeds back into the asset on a tax-deferred basis.

The Result

HMG voted to support the sale because of Montecito’s unique, creative deal structure. The group master-leased all six buildings in the portfolio on a triple-net (NNN) basis. Many physicians elected to reinvest in the entity that Montecito created, maintaining an ownership stake in the buildings where they work and enjoying a quarterly cash distribution plus proceeds based on their share of equity when the properties eventually were resold.