

November 23, 2007 – San Francisco Business Times - [SunCal rolls \\$200M dice on Oak Knoll hospital site](#)

Oakland Structures

San Francisco Business Times – by Steve Ginsberg, San Francisco Business Times Contributor

Demolition has begun on **SunCal Cos.**' first Bay Area project, a \$200 million gamble on Oakland's former Oak Knoll Naval Hospital. But a steep acquisition price, rising construction costs and a battered housing market leave the development's future in doubt.

Before Oak Knoll closed in 1996, it had a rich history treating veterans from World War II, Vietnam, and the first Gulf War. SunCal hopes a massive transfusion of resources and expertise can create a thriving residential community with 960 homes.

SunCal Cos. took a gamble at the height of the residential market in 2005 when it bought the 167-acre East Oakland property for an exorbitant \$100.5 million, leaving local developers "astounded and amazed," as one put it.

The Bay Area's housing market has changed dramatically since then, with declining home values and rising foreclosures. East Oakland is now among the softest Bay Area markets. The 94605 zip code that abuts Oak Knoll had 119 foreclosures through August, among the highest in Alameda County. The uncertain residential market puts the timing of Oak Knoll's phases and the overall success of the development above I-580 at 8750 Mountain Blvd. in some doubt.

Oak Knoll's land costs are also well above what other developers have paid to develop former military tracts in the Bay Area. **TMG Partners**, by contrast, paid around \$10 million to acquire 400 acres at the former Hamilton Air Force Base in Novato in the 1990s.

In addition, some local developers say Oak Knoll's infrastructure costs could well exceed the projected \$100 million.

"I live near there and have looked at that site over the last 20 years. There is an earthquake fault there and that makes construction complex," says Rick Holliday, who has done infill housing projects in Emeryville and Oakland. "Oak Knoll is not fish nor fowl -- it's a 'tweener. It's not the Oakland Hills and doesn't have the prestige to get the real premiums like the \$2 million homes you need to validate the high land costs."

Irvine-based SunCal's formula is to build master-planned communities with a new urbanism twist that emphasizes walkable community centers. Single-family homes ring the commercial hubs where live/work units and condos are clustered. Pat Keliher, vice president operations for

SunCal's Northern California operation, says there will be no delay in building the first phase but is less definitive on the subsequent three phases.

"The subprime situation will not delay the first phase, not at all. We have very high interest from home builders and we hope to have deals prior to the start of construction," Keliher says. "As to phases two, three and four, I wish I had a crystal ball, but we will be flexible and adjust to market conditions. We need to be smart in how we design this and how we build the infrastructure. We need the flexibility to change."

SunCal began demolition in October and hopes to start infrastructure construction next April with the first homes hitting the market in 2010. Phase I will be built on the west side of Rifle Range Creek and will comprise between 300 and 400 units.

"The beauty of Oak Knoll is it hits the entire spectrum of housing," Keliher said. "The range is from affordable up to estate view lots with senior housing and small-lot bungalows in between. There is full diversity of product."

Pricing of the units has yet to be determined and will be shaped by the evolving housing market. The project includes 72 affordable units, but the most expensive homes will sit on the man-made knoll that rises above the flats and provides bay views. These homes will likely sell for excess of \$1 million. The surrounding neighborhood has homes up to \$10 million sprinkled throughout the Oakland Hills. SunCal is negotiating with the city's redevelopment agency to acquire an additional 5.5 acres that will be part of the project.

"SunCal has been able to get the community to buy into its plan. We badly need retail in Oakland and in this part of my district there is only Foothill Square, a deteriorating shopping center. Since SunCal's involvement, other developers have looked at Foothill Square to possibly add homes there and there is other interest in the MacArthur corridor," says Councilman Larry Reid.

"I love the market-rate element of SunCal's plan," Reid added. "It brings stability to my district and sends a signal to other developers."