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March 10, 2012 – SFGate.com- [Judge's ruling makes Oak Knoll's future a mystery](#)

By [Carolyn Jones](#)



Photo: Lea Suzuki, The Chronicle

The Oak Knoll Hospital is imploded on Friday, April 8, 2011 in Oakland, Calif. The main hospital building at the 167-acre, former Oak Knoll U.S. Naval Medical Center in Oakland, Calif. is the last Navy structure to be demolished.

Oak Knoll, the sweeping, picturesque Oakland hills property that once housed a storied Navy hospital, is once again in flux.

As part of the huge Lehman Bros. bankruptcy proceedings, a federal judge recently granted control of the 167-acre site to the liquidation estate handling the Lehman remnants.

The settlement means SunCal, the Orange County developer that bought the property in 2006 for \$100 million, is no longer involved in the project - and the project itself may be dead.

"We were at the 1-yard line on this. It's a great disappointment not to see it through," said SunCal spokesman [David Soyka](#). "It's a great piece of property, and it's really unfortunate this happened the way it did."

SunCal and Lehman Bros. were financial partners on 28 development projects around the Western United States, including Oak Knoll. When Lehman Bros. filed for bankruptcy in fall 2008, Oak Knoll's future slipped into limbo.

SunCal had planned to build 960 homes and retail, set aside 50 acres as open space and restore Rifle Creek, which has flowed through an underground culvert since the Navy built its sprawling medical facility prior to World War II.

Last year, for liability and safety purposes, a judge released some Lehman funds to demolish the Navy buildings at Oak Knoll, including the 11-story main hospital. Currently the site is vacant except for roads, oak trees, shrubs and grass.

Pay back creditors

The purpose of the recent settlement is to enable Lehman Bros. to pay back some of its creditors, said Dean Ziehl, a Los Angeles attorney who represented Lehman in the SunCal case.

In all, Lehman loaned SunCal more than \$2 billion for 33 properties, which in the depths of the mortgage crisis came to be worth less than \$500 million collectively, Ziehl said.

In the settlement, the judge gave 28 of the properties to the Lehman estate and SunCal got to keep five. "The properties were completely underwater," he said. "It was like a foreclosure. If you can't pay your mortgage, your house goes back to the bank."

What happens now to Oak Knoll is a mystery. The Lehman estate may decide to sell it immediately, or try to recoup some of its loss by adopting SunCal's plan and moving forward with the development, Ziehl said.

The Lehman estate could not be reached for comment.

No contact since 2008

City Councilman Larry Reid, who represents the Oak Knoll area, has talked to Lehman and said it intends to move ahead on development plans, but city planning staff have not heard from either SunCal or Lehman since 2008.

The permits and other paperwork are somewhat outdated and may need to be updated or completely overhauled, depending on what the new owner wants to do, said Eric Angstadt, the city's deputy director of planning.

SunCal, meanwhile, hopes to keep a presence in the East Bay. The developer is still fighting with Alameda in court over another former Navy site, the old air station at Alameda Point, where SunCal hoped to build hundreds of homes, offices, retail shops and other structures.

But losing Oak Knoll hurts, Soyka said.

"We loved working with the city of Oakland. This was a great project," he said. "We still think we were the best equipped to get this project done."