**Harborside Update: February 10, 2014**

**This update provides Harborside "Owners" an update regarding reconstruction of B Bldg. Please refer to our January 21, 2014 Update for previous background.**

**This is a long report, but we want to provide as thorough an update as possible. Our <u>next Trustees Meeting is this Wed at 3:00 PM EST</u>. So if you have questions, feel free to call in and we will address questions as best possible.**

**<u>General Points:</u>**

- Reconstruction settlement costs continue to be negotiated by Panakio Public Adjusters (using General Contractor Paradise Construction estimates) vs. Travelers Insurance. <u>We expect these settlement negotiations to take another 30-45 days.</u>
- We expect the final insurance settlement will result in a variance between what Paradise/Panakio vs Travelers estimate the "in kind" reconstruction expenses/costs to be. Any amount greater than the settlement insurance proceeds will be shared by the Trust and affected unit owners in proportion to each entity's responsibility.
- Once the negotiations reach a conclusion, the Board of Trustees (BOT) will have the following options:
    - Accept the negotiated settlement amounts; or
    - Decide whether to request additional bids; or
    - Request an arbitration process, called "Reference." This "legally binding" process requires both sides to select three Referees (one from each side, plus an additional Referee agreed to by each side) to review the positions. We expect this process would take about 90-120 days.
        - Cost of Referees expected to be ~$175/hour (we would pay for our Referee and ½ of the third Referee).
        - The decision from this process will be "binding."
- If an affected owner disagrees with their individual unit settlement, the BOT will request a meeting between the owner and Panakio, to determine how to proceed.
- We continue to consult with our Harborside legal firm, Markus-Errico, for further recourse guidance.
- We are actively engaged in discussion with Marblehead Bank for a Bank Loan to support the reconstruction.
- As for the "prior fire" … the McBrie Structural Engineering report confirms that the 1980's construction permits and drawings were conducted appropriately and the building area is structurally sound. Three areas will require repairs (to be conducted by Paradise Construction):
    - Installation of some "hangers" to support joists/beams in the ceiling area of B10.
    - Cleaning and sistering of charred joist/beam in the southwest ceiling corner of the back bedroom in B3.
    - Cleaning and sistering of a few joists/beams in the southwest corner of the 2nd floor hallway (just above the stairway leading up to B7 & B8).
    - <u>We expect these repairs to be completed within the next 30 days</u>.

**<u>Elements of the Reconstruction Project</u> (we've broken down the reconstruction project stemming from the October 26, 2013 into four elements, discussed below):**

**<u>Reconstruction of Common Areas:</u>**

- Scope of Work:
    - All common areas to include roof and Mechanical Room.
    - All common area reconstruction necessary to support unit reconstruction, less sprinklers and 2nd means of egress (2nd & 3rd floor egress fire escapes).
    - This common area reconstruction brings units to "rough-in" state (sheet rock walls & ceilings, sub-flooring, plumbing into units, full electrical – panel, outlets, recess lighting, wiring to fixtures).
    - All common area reconstruction will be performed under "controlled construction" conditions.
- <u>The common area reconstruction is estimated to take 6-9 months after receipt of the permit</u>. This permit will cover all reconstruction up to and include unit "rough-ins" discussed above.
- This common area reconstruction will ensure that an individual unit's Occupancy Certificate can be approved once its unit interior reconstruction is completed, and the sprinklers and 2nd means of egress are completed.
- We have detailed cost estimates from Paradise for the entire reconstruction, but are now breaking them down for each of the three elements.
- The common area reconstruction costs will be partially paid by Travelers master policy insurance settlement, depending on the variance in the final settlement. Any additional costs will be paid through a Marblehead Bank Loan (which in turn will be repaid through a Harborside Special Assessment).
- The Bank Loan portion for the common area reconstruction will be secured by Condo Fees and Special Assessment (as with previous bank loans).
- The BOT must also review and approve the contract with Paradise Construction.
- <u>We are hopeful that the permit for the common area reconstruction can be drawn by Paradise this week</u>.

**<u>Reconstruction of Affected Units (B2, B5, B6, B10, Partial B4):</u>**

- Scope of Work:
    - This reconstruction effort will bring affected unit interiors from "rough-in" state (described above) to final completed state, which will support an Occupancy Certificate once the sprinkler system and 2nd means of egress are completed.
    - Affected unit interiors also include final interior designs and drawings, as approved by affected unit owners … and unit appliances, cabinets, counter tops, flooring, interior plumbing and lighting, etc.
    - The scope also will include installation of sprinklers.
    - All unit reconstruction will be performed under "controlled construction" conditions.

- Architect Bob Zarelli has completed drawings of all common areas and affected units, which are available electronically or in hard copy. Unless otherwise requested, these drawings are "in kind" (i.e., represent the original unit).
- If affected unit owners request changes to the designs/drawings, they will be handled as "change requests" and will be the responsibility of the unit owner.
- As mentioned above, we have detailed cost estimates from Paradise for the entire reconstruction, but are now breaking them down for the common areas and for each unit interior.
- These costs will be partially paid by Travelers master policy insurance settlement, depending on the variance in the final settlement and any owner's plans/designs for reconstruction. Any variance between insurance and estimated/actual expenses will be primarily paid by individual unit owners … with exception of any scope/item categorized as common area or code upgrade, such as the sprinklers.
- As mentioned above, the Bank Loan portion for the common area reconstruction will be secured by Condo Fees and Special Assessment (as with previous bank loans). While we are still is discussion with Marblehead Bank, a "guaranty mortgage" may be necessary to further secure the loan for the individual units and then discharged once the units are completed.
- The permit for each unit will be drawn separately by unit architects/contractors hired by the unit owner. Unit owners may elect to hire Architect Zarelli and Contractor Paradise … or they may hire different architects/contractors.
- <u>Depending on the timing of the common area reconstruction, the unit reconstructions may proceed in parallel</u>.

**<u>Code Compliance Upgrades for Common Areas and Units:</u>**

- Scope of Work:
    - The sprinkling system for the common areas and units is still being designed/selected by Architect Zarelli and Paradise.
    - The 2nd means of egress (fire escape systems) for 2nd floor and 3rd floor is also under design by Bob Zarelli. The design is expected to be rebuilt decks, 7 feet in width and supported with columns 4 feet from the building extending down to the ground/parking lot area. The new design has been approved by the Marblehead Building Commissioner.
    - The sprinklers and egresses are required to obtain an Occupancy Certificate. The Certificate for B10 will not require the egress, as it is a ground floor unit.
    - All of this reconstruction will be performed under "controlled construction" conditions.
- Sprinklers must be installed as part of the unit interior reconstruction … and, if required, installed in all other B Bldg units (still under discussion).
- We have asked Paradise for a rough estimate for the sprinkler system and egresses to support our Bank Loan discussions.

- These code upgrades are not covered in our Travelers master policy, so they must be paid via the Bank Loan (and repaid by the Special Assessment).
- The Bank Loan for this portion of the reconstruction will be secured by the Condo Fees and Special Assessment.
- While the sprinkler system will not be part of the original permit for the common areas reconstruction, it will be added later as an amendment to that permit.
- Permit for the egresses will be drawn by Paradise once the design is completed and approved by Town Boards & Commissions (Conservation Commission, Old & Historic District Commission, Zoning Board of Appeals):
    - ConCom and O&HC approval expected within 30-45 days.
    - ZBA approval expected to take 60-90 days (as new appeals are reviewed only once a month).
- Once the egress permit is approved, we plan to phase in the construction effort in parallel with the reconstruction of the common areas and units … so as to coincide with obtaining Occupancy Certificates.

**Prior Fire Damage Repairs:**

- Scope of Work: Repairs identified in the McBrie Structural Engineering Report, dated Feb 3, 2014 … and discussed above.
- Paradise Construction is to discuss the McBrie Report and recommended repairs with the Building Commissioner and draw the permit within the next two weeks.
- Paradise will also provide the BOT an estimate for the work in the next couple of weeks. Repairs should be complete in the next 30 days.
- While not expected to be significant, this work (and the McBrie) will be included within the Bank Loan and repaid through the Special Assessment.

**Other Update Items:**

- Travelers Insurance has made advanced payments to the Harborside Trust as follows:
    - Nov 12, 2013 – $100,000
    - Dec 16, 2013 – $399,696.76
    - Total = $499,696.76
- Harborside Trust has paid Paradise Construction for demolition, scaffolding, electrical, plumbing, etc, as follows:
    - Dec 16, 2013 – $95,000
    - Dec 19, 2013 – $71,225.30
    - Dec 20, 2013 – $31,408.88
    - Total = $197,634.18
- Harborside Trust paid Panakio Adjusters on Jan 18, 2014 (interim payment) – $34,978.77

- As of Feb 8, 2014, Harborside Trust “Fire Account” balance at Marblehead Bank = $267,665.65
- Tentative Bank Loan conditions:
    - Initial Construction Loan at 4.5% interest over 5-year term
    - First year, interest-only payments

**In conclusion, there are many activities underway. And, hopefully, we’ll obtain much more clarity in the next 30-45 days.**

**As the insurance settlements are still being negotiated and reconstruction estimates are being updated, we have not included specific numbers. We hope to have numbers available within the next 30 days … and we’ll share them before making any final decisions.**

**But, the BOT’s ultimate goal is to have the displaced B Bldg owners back into occupancy as soon as possible with the least financial impact possible.**

**Thank you,**

**The Trustees**