Harborside Update: March 5, 2014

This update provides Harborside "Owners" an update regarding reconstruction of B Bldg. Please refer to our February 10, 2014 Update for previous background.

In this update, we are providing some numbers that are still being negotiated, so please don't forward this information outside of the Harborside ownership group.

General Points:

- There are two main negotiations underway, but the Board of Trustees (BOT) feels confident that we are nearing some final conclusions and in a position to share with you where we are:
  - The Paradise Construction estimates from the October fire for the Common Areas and Units totals about $1.3M … with opportunities to reduce costs in further negotiations (we're looking hard at some specific costs, and at profit and overhead numbers).
  - We expect some additional costs for unforeseen expenses, but we believe that we are near $1.2M for now (not including requirements for the Egress and Sprinkler Systems).
  - The insurance settlement negotiations between Travelers and our Public Adjuster, Panakio, continue, but we are hopeful that those will conclude in the next 2-3 weeks. As of now, we expect the final number to be in the $900K's range.
  - That would leave us with about $200K to $300K as the variance range against the Master Policy insured coverage (again, not counting the Egress and Sprinkler Systems).
- We are also confident that Paradise has a solid breakout of the Common Area expenses and the Unit expenses. They are summarized below:
  - Common Areas (No Egress or Sprinkler Systems):
    - General Construction: $386,650
    - Boiler Room (Mechanical Room): $41,767
      - Total: ~ $428,417
  - Units (No Egress or Sprinkler Systems):
    - B1/B4: $31,948
    - B2: $196,303
    - B5: $161,045
    - B6: $191,671
    - B10: $279,363 {Note: Higher cost for B10 due to large number of "built-ins"}
      - Total : ~ $860,330
  - Total: ~ $1,288,747 (~ $1.3M)
- As mentioned above, we still need to complete negotiations with Paradise and Travelers, so please don't share these numbers beyond our Harborside ownership.
- To this total, we must add the estimates for the Egress (~ $270K) and Sprinkler (~ $110K) Systems. These numbers are just "budgetary estimates" and could go up or down, once the final requirements and plans are finalized. A couple of comments

concerning these numbers:

  - The high cost estimate for the Egress is largely driven by the use of steel framing. We would likely save about $25,000 using wood framing, but that would require more columns with the negative impact of blocking sight lines from windows and decks and adding congestion in the parking lot. Additionally, the steel framing will mean a longer life and less maintenance cost.
  - We are still reviewing the Sprinkler requirements with the Town Building Commissioner, especially the extent of the systems (i.e., in all B Bldg units or just in the units and common areas being reconstructed). Note that currently the Sprinkler estimates for the units being reconstructed will be "hidden" … while those in the existing (not affected) units will be "exposed."
  - Assuming the budgetary numbers we have now, the total reconstruction cost would be about $1,668,747 or ~ $1.7M … and a total variance of $600K to $700K.
- As for additional costs:
  - For the repairs from the "prior fire," we believe that we'll be in the ~ $15K range. We have Paradise's estimates, but they contain more than the required costs for sistering the beams and patching/painting/carpeting inside unit B3.
  - Panakio payments, which will total 7% of the total Travelers number or about $63K.
  - These together and any other scaffolding and storage costs, etc, would bring the number to ~ $100K … and bring the total to ~ $1.8M and total variance to $700K to $800K.
  - There is still a deductible of $10,000 which must be allocated (TBD).
- As for "uninsured" costs from the October fire, our overall Master Policy "replacement" coverage was close to target, but our low ($25,000) Law & Ordnance coverage in the Master Policy precluded any payment from Travelers for the Sprinkler System (~ $110K as it stands now). While hindsight is 20-20, it was an oversight on the part of the Trust. The Egress would not have been allowed by Travelers, as we were on record as having to replace it (edict of the Town Building Commissioner and Fire Department).
- Once the Travelers negotiation is complete, we will need to finalize the allocation of the settlement amount. The way Paradise estimated the work is as follows:
  - They assumed (based on our guidance) that the unit costs would be covered by the Master Policy which states that all walls, ceilings, floors, windows, doors, built-ins (like countertops, cabinets, etc), and appliances would be replaced through the Master Policy.
  - Therefore, unit owners will be responsible only for their personal items (furnishings, clothes, etc). That is unless any owner is going to deviate from "in-kind" replacement (such as a new unit layout/plan, upgraded replacements, etc).
  - Thus, the Trustees will work with Paradise and the owners to allocate the settlement funds in accordance with the final estimates.
- Pending any last minute disagreements with the final negotiations with Travelers, we believe that there will be no need to request the "Reference" process described in our

Feb 10th update. The insured variance is expected to be about $200-300K. The Reference process would be expensive and lengthy. It would be binding and there is no assurance we would win.

- As for other recourse, we continue to consult with our Harborside legal firm, Markus-Errico, for further guidance. However, at this point, we have made a judgment that there are no grounds to litigate, and that in the interest of precluding additional expense and time we should proceed with the current negotiations process.
- We also believe that there is no reason to request alternative bids and incur the time and expense that alternative bidding process would take. We do not believe that any other contractor could obtain the detailed information in the Paradise estimates. Accordingly, we would expect to receive bids with low confidence numbers. We believe that we sufficient negotiating room with Paradise to proceed with their bid.
- The BOT has scheduled a meeting with Marblehead Bank for this Friday to go over the current estimates, so as to pin down the terms and conditions of a loan. And, determine what the bank requires for securing the loan (namely the owners' individual "guaranty mortgages").
- Within the next 2-3 weeks, we should be prepared to call a Special Owners Meeting (conference call) to discuss final (or almost final) plans going forward. At that time, we will have at least preliminary information on the Special Assessment to repay the bank loan.

Following is a summary of payments and related expenses:

Traveler's Payments (Advance Checks):

- $100,000 (12 Nov 13)
- $399,696.76 (16 Dec 13)
- $208,395.96 (4 Mar 14)
- **Total ~ $708,091**

Payments to Paradise:

- $95,000 (Partial Payment, Inv #1, 16 Dec 13) – Demolition & Scaffolding
- $71,225.30 (Balance Payment, Inv #1, 19 Dec 13) – Demolition & Scaffolding
- $31,408.88 (Payment, Inv #2, 20 Dec 13)
    - $868.20 Refund from Inv #1, 20 Jan 14
- $14,934.60 (Payment, Inv #3, 12 Feb 14)
- $1344.00 (Additional Payment against Inv #3, 4 Mar 2014)
- **Total ~ $229,321**

Payments to Panakio:

- $34,978.77 (Payment, Inv #10090, 18 Jan 14)
- $14,587.71 (Payment, Inv #10102
- **Total ~ $49,566**

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 to all owners.

Thank you,

The Trustees