HARBORSIDE CONDOMINIUM TRUST

December 8, 2012

Letter to Harborside Owners – 2012 Financial Projections and 2013 Budget

Dear Harborside Homeowners:

This letter provides you with an update of the 2012 year-end Budget projections and the 2013 Budget (attached) and new 2013 Common Element Fee Schedule (attached). Also attached is an explanation of our increased Master Policy and Flood Insurance.

2012 Financial Projections – At the August 2012 Annual Meeting, we presented a year-end projection within budget for both Operating and Reserve Accounts. Although there will be over-runs in Operating Expenses, these will be more than offset by under-runs. The over-runs include: Master Insurance Premium Increase ($6,900) and Flood Insurance Increase ($8,606), both dictated by changes in insurance coverage as explained in the attached letter. Other over-runs include: Electricity ($360), Water & Sewer ($2,000), and Telephone Conference Line ($1,070). Under-runs include: Legal/Professional ($3,000), Office Expense ($1,000), Snow Removal ($5,800), Exterminating ($500), Cable TV ($500), Natural Gas ($400), and Maintenance & Repair ($15,000).

The net under-run of almost $7,000 in the Operating Account will be carried over to 2013.

The Operating Account will contribute $35,650 to the Reserve Account, meeting budget.

2012 Maintenance Projects – In 2012 maintenance projects included: water/sewer pump replacement ($3,600); additional work in Bldg B Mechanical Room ($6,500); fire extinguisher installation ($1,500); posts and railings replacement between Bldg A/C ($750); ledger board and deck rot replacement Building D ($4,600); post and railing rot removal Building B ($750); lead paint inspection ($2,300); sump pump replacement Bldg B crawlspace ($450); tree trimming & ivy removed from Bldg A North Side ($950); deck/leak repair B7 ($5,000); and, illuminated exit signs ($4,200) expected by year end.

2013 Budget – At the August owners meeting, we proposed a 2013 Budget of $187,325 for an $8,325 (4.6%) increase over the 2012 Budget. Based on updated projections of the 2012 Operating Account, we expect in 2013: Electricity increase to $3,100; Water & Sewer increase to $7,500 (accounts for the Trust paying all water & sewer expenses); Telephone Conference added for $1,100; and, Dock Insurance increase to $2,625. Cable TV will be decreased by $500. All other expenses will remain consistent with 2012 levels.

However, as explained in the attached letter, increases in our Insurance Master Policy and the new Flood Insurance would result in a 2013 Budget increase of $63,000 to cover the new premiums ($23,000 increase for Master Policy and $40,000 increase for Flood Insurance). This would result in a 2013 Budget of over $245,000 (37% over 2012). To help offset this increase, we have elected to apply the full 2012 Reserve Account savings of $35,650 to pay towards the $40,000 Flood Insurance premium in 2013. This will reduce the Flood Insurance line to $4350, which added to the increases of $23,000 (Master Policy) and $3725 (other Operating Account expenses) results in a total 2013 Budget of $210,075 or an increase of $31,075 (17%). This is a steep increase in our Common Element Fees for 2013, but fortunately we were able to use the Reserve Account savings from this year to keep it from being far steeper.

The 2013 Budget Reserve Account will remain at $35,650. In addition, the 2013 Special Assessment Revenue Line Item will equal Loan Payments.

One last point of reference regarding the 2012 and 2013 Reserve Accounts. As our insurance payments are not due until the fall of 2013, we will maintain the 2012 Reserve of $35,650 while we begin to build up the 2013 Reserve Account. So while we are committed to paying down the 2013 Flood Insurance premium (reflected in the Common Element Fees Schedule), we will in parallel be building up a new Reserve in 2013.

Special Assessment/Marblehead Bank Loan – As a reminder, the Board approved a $110,000 loan with Marblehead Bank effective December 1, 2011 through January 1, 2014. Purpose of this loan was to satisfy 2011 unpaid invoices: Emergency Fireproofing for Unit B9, Building B Crawlspace, and Building B Mechanical Room; Building B Drainage; Sea Wall Repairs; Securing of Building B Footings; and, Building B Fire Escape Modification Plans.

The loan includes interest of ~$116,200. At the onset of the loan, we collected $59,421 from prepayment by some owners and a subsequent payment of $4,377 from the sale of Warren Hendriks' unit. By year-end 2012, we will collect about $24,942, we expect to collect ~$24,942 in 2013 and ~$2,079 in 2014. Total amount to be collected will be $115,761 (slight variance related to funds collected at onset of the loan).

Future Capital Projects – We removed shrubbery from the North Retaining Wall between Harborside and the Boston Yacht Club, but continue to defer further repair or replacement. We will continue to defer replacement of the parking lot surface, B Building Roof replacement, D1/D2/D-3 total deck refurbishment, composite refurbishment of the north dock, addition of blue stone at the C Building entry, and replacement of Building B rear foundation flashing.

In summary, while 2012 was a relatively good year financially, the 2013 insurance premiums are driving a significant budget increase going forward. We really have no choice but to be covered for replacement of the property by the Master Policy and implementation of the new Flood Insurance rules (as explained in the attached letter).

Thank you,

Board of Trustees

Don Nowland
Joyce Raymond
Jim Walters

Attachments: 2013 Budget
2013 Common Element Fee Schedule
Explanation of Increased Master Policy and Flood Insurance

Harborside Condominium Trust

			2013 Projected
REVENUES			
A.	Condominium Fees	$	210,075
B.	Special Assessment (Loan)		58,080
TOTAL INCOME		$	268,155
EXPENSES			
A.	Administrative		
	1. Insurance Expense - Master Policy	$	55,000
	Insurance Expense - Flood ($40,000 partially offset by $35,650 from 2012		
	2. Reserve Savings)		4,350
	3. Management Services		9,300
	4. Tax & Tax Preparation		150
	5. Office Expense		2,000
	6. Legal		4,000
	TOTAL	$	74,800
B.	Utilities		
	1. Electricity	$	3,100
	2. Water & Sewer		7,500
	3. Cable TV		5,300
	4. Telephone Conference		1,100
	5. Gas		1,000
	TOTAL	$	18,000
C.	Common Services		
	1. Rubbish Removal	$	5,100
	2. Snow Removal		7,000
	3. Exterminating		1,500
	4. Landscaping		8,500
	5. Cleaning & Bulbs		5,000
	6. Fire System		500
	7. Heating Systems		1,000
	TOTAL	$	28,600
D.	Docks		
	1. Fee	$	5,400
	2. Insurance		2,625
		$	8,025
E.	LOAN		
	1. Loan Payments	$	58,080
	TOTAL	$	58,080
F.	Maintenance/Repair		
	1. Labor & Materials	$	45,000
	TOTAL	$	45,000
G.	Operational Reserves		
	1. Reserve Contribution	$	35,650
	TOTAL	$	35,650
TOTAL EXPENSES AND RESERVE CONTRIBUTIONS		$	268,155

HARBORSIDE CONDOMINIUM TRUST
Common Element Fee Schedule
2013

Last Name	Unit #	Condo % (fees)		Monthly Fee
Alves	C1	3.020%		$529
Arrigo	B9	2.850%		$499
Brunais	B7	2.850%		$499
Coolidge	D1	3.270%		$572
DeMoraes	C8	4.190%		$734
Erbetta	B2	2.930%		$513
Garibotto	D5	4.020%		$704
Gold	C3	3.020%		$529
Jones	C5	4.440%		$777
Martin	B6	2.850%		$499
McKeon	A1	3.270%		$572
McKeon	A2	1.920%		$336
McKeon	C4	2.930%		$513
Michaels/Phenix	B8	2.750%		$481
Michaud	D2	4.770%		$835
Michaud	D3	4.100%		$718
Nowland	D4	5.610%		$982
Piens Realty Trust	D6	6.620%		$1,159
Plauche	B3	4.690%		$821
Raymond	B1	4.940%		$865
Raymond	B4	2.850%		$499
Segee	C2	5.860%		$1,026
Siddall	B10	3.770%		$660
Walters	C6	2.930%		$513
Walters	C7	2.850%		$499
Woodman	B5	2.930%		$513
Zoubek	A3	3.770%		$660

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November 18, 2012

Dear Owners:

Over the past few months, insurance issues affecting all owners at Harborside have come before the Board of Trustees, both with respect to casualty and physical damage insurance and flood insurance. While the work on these issues is not complete, we want to alert all owners of significant changes in our coverage and, consequently, in premiums, that we are facing, some immediately and some within the next year. For the near-term, we will be able to absorb increased premiums within our current budget. However, in 2013, it will be necessary to adjust our budget to absorb significant increases in both casualty and physical damage and flood insurance. While definitive figures are not available to us at this time, we want to give owners a "heads up" that these additional premium expenses will require us to increase monthly fees accordingly in the coming year.

Flood Insurance Policy -- In 2012, the flood maps of many North Shore communities, including Marblehead, were revised by the Federal Emergency Management Agency (FEMA). As a result of FEMA's revisions, Harborside's properties were reclassified from "C Zone-low risk" to "VE Zone-high risk". According to FEMA, "*Zone C*" is an area with a *low-risk of flooding*, usually depicted as above the 500-year flood level while a "*Zone VE*" includes *high-risk, coastal* areas with a 1% chance of flooding and an additional hazard associated with storm waves.

Because the Town of Marblehead participates in the National Flood Insurance Program, we are subject to FEMA's mandate that "VE Zone" properties must have flood insurance at 100% replacement value or $250,000 per Unit, whichever is less. The Trustees consulted with Travelers Insurance regarding the amount of flood insurance coverage under our Master Policy. Since the current $5 million of flood insurance coverage is below $250,000 per Unit, Harborside Condominium Trust (HTC) has applied for $1.25 million of additional coverage for a total of $6.25*million in flood insurance.

The cost of $6.25 million of coverage is approximately $13,000. Next year, as a result of being reclassified a "VE Zone" by FEMA, our annual flood insurance premium will increase to approximately $40,000.

We are looking at ways to reduce the flood insurance premium, including: selecting higher deductibles and determining whether Marblehead qualifies for FEMA's Community Rating System.

Besides the Flood Insurance policy maintained by the HCT, Owners may at their expense carry their own flood insurance policy. Should your financial institution require proof of HTC's flood insurance coverage, please contact Mark Bettencourt, our insurance agent. (See Attachment A for his Contact Information).

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* The amount of coverage ($6.25 million) is calculated as follows: $250,000 x 25 Units (per the Property Appraiser's Records) = $6,250,000.

Master Policy for Casualty and Physical Damage Insurance -- In addition to HTC's Flood Insurance Policy, we carry a $5.5 million Master Policy for casualty and damage insurance. As you are aware, our By-Laws require that we insure the property at 100% replacement value. Furthermore, Travellers Insurance applies a co-insurance penalty should our insurance coverage drop below 85% replacement value. Replacement value includes rebuilding: the buildings, common areas and facilities, and all of the Units including flooring, walls, cabinets, fixtures, countertops, appliances, service machinery, and equipment (but excluding the furniture, furnishings and other personal property).

Our insurance agent and a property appraiser recently conducted a field inspection and concluded that $5.5 million was well below replacement value. They measured the property and recommended we increase the amount of insurance coverage. Based on current construction costs, it was suggested we carry $9.0 million of coverage.† We have increased the Master Policy accordingly. In addition, we hope Travellers Insurance will, at their expense, appraise each Unit in order to determine actual replacement costs. This may reduce our premium slightly.

Our current Master Policy‡ with $5.5 million of coverage carries a $32,000 premium (excluding flood insurance). Increasing the coverage by $3.5 million will increase the premium by about $20,000.

Effects on Premium Costs—While it is certain that our 2013 insurance premiums will increase significantly, Travelers Insurance only provides estimated figures prior to the policy renewal date (Oct 2013). Therefore, the premium amounts may be different upon renewal. Travelers Insurance estimates that as a result of being reclassified a "VE Zone" by FEMA, our annual flood insurance premium will increase from $13,000 to approximately $40,000. The Master Plan premium for casualty insurance will increase from $32, 000 to approximately $55,000 annually. This reflects the increased cost of insuring the buildings and all units at 100% replacement value. These increases will be reflected in Harborside's 2013 Budget and apportioned according to each Units Ownership Percentage.

It is unlikely that premiums will continue to escalate rapidly but events such as large casualty losses due to wind storms, fire or water damage can affect future premiums. Despite this significant increase in our insurance premiums, the recent storm, Sandy, reinforced the importance of being adequately insured.

Sincerely,

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† Calculation: Buildings B (~12,000 sq ft) & C (~8,020 sq ft) use 'post and beam' construction. Replacement cost was estimated at $300/sq ft. Buildings A (~3,200 sq ft) & D (~7,726 sq ft) use traditional construction. Replacement cost was estimated at $250/sq ft. All decking, patios, fire escapes, common storage was estimated at $262,500 for a total of $9 million.

‡ The 2012/2103 Master Policy premium of $37,092 included $5,000 for flood insurance. For comparative purposes, the flood insurance premium portion was subtracted from the total premium paid in 2012.

Harborside Condominium Trust
Board of Trustees

ATTCHMENT A

Dear Owners:

Recently, many of Harborside's Owners received letters from their financial institutions regarding their flood insurance coverage. Harborside Condominium Trust (HCT) maintains $5.0 million of flood insurance. Recently, we applied for an additional $1.25 million of coverage. This brings our coverage to $6.25 million or $250,000.00 of flood insurance coverage per Unit, which is the maximum amount of coverage available. If your financial institution has requested proof of flood insurance, please contact Harborside's insurance agent, Mark Bettencourt, who will provide your financial institution with proof of flood insurance.

Mark Bettencourt
John Walsh Insurance Inc.
86 Margin Street
Salem, MA 01970
Tel: (978) 745-3300
Email: markwb@walshinsurance.com

If you contact Mark Bettencourt, please be prepared by having the letter from your financial institution available. It contains information regarding your mortgage and financial institution that Mark will need to assist you.

Over and above the flood insurance coverage provided through Harborside's Master Policy, owners may chose to carry their own flood insurance. We advise that you speak with Mark Bettencourt or your own insurance agent should you want to carry your own flood insurance policy.