GROUND RULES PODCAST TRANSCRIPT

EPISODE 4: THE DEVELOPMENT, MANAGEMENT, AND OWNERSHIP PLAYBOOK WITH JOE SAFDIE

Editor's note: This version preserves the Q&A format and core substance of the conversation while lightly tightening for readability, correcting transcript artifacts, and maintaining the original conversational style.

INTRODUCTION

David Shamshovich
Welcome, everyone, to another episode of Ground Rules, where we talk to people in the real estate industry and get their ground rules. I'd like to give a very warm welcome to Camila Almeida, who's back with us on the microphone.

Camila Almeida
Thanks for having me. It's always great to be back.

David Shamshovich
Today's guest is Joe Safdie of JSAF Capital Management, a client of ours. Joe talked about a ton of really cool stuff in the development world, the rent-stabilized world, owning assets, brokering, where he started, and how he got his footing in the industry.

Camila Almeida
Yeah, he does have an interesting trajectory. He went from carrying diamonds to being a broker, and then construction company, and then property management, and then ground-up development. So he's all over.

David Shamshovich
It was an interesting background. I think he had a lot of really cool stuff to say. I think everybody's going to really enjoy this episode. Without further ado, Joe Safdie.

GETTING INTO REAL ESTATE

David Shamshovich
Some people in real estate broker the deal. Some own the building. Some manage it. Some build it. Joe, you, for some reason, decided to do all four of those things, from building things ground up to owning buildings, including rent-stabilized buildings, through many entities, and doing it all.

I like to start with the beginning. It's a trajectory. It's a narrative. What was your upbringing like, what was your education, and how did you get into this business?

Joe Safdie
Growing up, not really much exposure to real estate. My family was from the banking community from Brazil. I started out as a rental broker. I was renting apartments in the Lower East Side back probably about 10 to 12 years ago, going from property to property, building to building, learning every single property in basically lower Manhattan, as well as other parts of the boroughs.

I was working for a firm called Mizrahi Realty. I don't know if you ever heard of them.

David Shamshovich
The name Mizrahi is obviously very familiar to me, but that could be one of a million people.

Joe Safdie
They were a great company. They were vertically integrated. They had a property management arm, they had a real estate brokerage, they owned properties.

I started out brokering deals, working pretty much seven days a week at the time, working until midnight, two in the morning, touring apartments, meeting clients. Back then it was Craigslist, when StreetEasy was just starting to come out and take over the rental market in terms of marketing and advertising.

As we went on, I came up with a system. I took pictures, videos. Every time I met a client, I would find out exactly what their needs were, and I would know exactly where to place them. The city was like a chessboard.

So I would meet a client, and I would say, okay, this bedroom is too small and it doesn't have laundry. Three blocks away, don't go anywhere, I'll take you right now and I'll find you exactly what you're looking for.

That was how I originally started and learned about buildings, properties, and what's important for the consumer.

David Shamshovich
I think that's important. Understanding what the client wants is a big battle. Keeping that straight in your brain is a big battle.

What led you to the firm in the first place? Is it something that you had thought you would do, or something where you said, hey, I'm going to make some money and then I'll move on to something different afterwards?

Joe Safdie
Originally, it was driven by making money. Before that, I worked in the Diamond District as a runner, carrying diamonds through Brooklyn, back from Brooklyn to Manhattan.

David Shamshovich
So you were Adam Sandler.

Joe Safdie
This happens to be my cousin, by the way.

David Shamshovich
Get out of here. Shout out to the Sandman. In case he's listening, which he probably is not.

Joe Safdie
We'll tag him. We gotta tag him. Maybe he will.

THE DIAMOND DISTRICT AND THE FIRST LESSONS IN WORK

David Shamshovich
So you were a runner. Was that family, friends, cousins? How did you get into the diamond trade? I assume in the Diamond District over here on 47th?

Joe Safdie
I got into it through a family friend that had a store in Brooklyn selling jewelry to members of the community. Close friend of my father's. I started there because I wanted to make some money to pay the bills.

A friend of mine was in the business. He said, why don't you just come and interview? It's commission-based. You show up. Doesn't matter what happens. They don't care if you make money or don't make money.

David Shamshovich
Well, I guess you should care, right? Because then you're not going to stick around too much!

Joe Safdie
Correct. So then I was introduced pretty much to entrepreneurship from there, where it's like, you're 1099, you eat what you kill, you have to close, you've got to learn how the customers work.

I spent a lot of time educating myself about sales, learning about the real estate industry, with college not really teaching you. At the time, I first started Kingsborough, which is, I don't know if you heard, Harvard by the Bay.

David Shamshovich
And by the way, my children understand sarcasm, but I'm sure the audience does. It is not the Harvard by the Bay.

Joe Safdie
Oh, okay. You burst my bubble!

David Shamshovich
Listen, it's a school like any other. You get a degree like any other, right? And you may not have to have loans. So for people who are cost-conscious, that makes sense.

Camila Almeida
It's what you make of the degree.

Joe Safdie
Exactly. So I got my associate's, went to Baruch, made it probably 90 percent of the way there. And then I think we had an advisor who made me take classes that I wasn't supposed to take. So I was like, oh okay, I'm getting married and I'm not going back to college!

As a rental broker, I was working literally 24/7, and I was like, all right, what am I doing here? So I decided to pivot and just focus, go all in on the brokerage side, on renting apartments, leasing retail spaces, learning the market, and then develop from there.

OPENING HIS OWN BUSINESS

David Shamshovich
So you start doing this. You start hustling. You start saying, listen, I don't really need to do this for college, because I'm already there. I've already reached the goal. Why am I doing this unless I want a piece of paper? And the piece of paper is not really what I want.

So you start doing this stuff, and then at some point you realize, I don't want to just be doing this. When is that point, how does it happen, and what's the next step?

Joe Safdie
So I never really stopped doing "this," meaning0 the rental brokerage and the retail leasing. Basically, at a certain point, I grew out of that firm and decided I was at a pivotal moment in my life. Crossroads. Do I continue to work for someone else, or transition on my own and create something and take that risk.

Once you're faced with that challenge, it's a very tough decision. You have something comfortable. You have listings, you have an office, you have something to fall back on. Or you decide to open up your own, starting from almost ground zero. Obviously, I had some of my clients and some of my own business.

I started transitioning into that. I started buying a couple smaller buildings. I saved up a lot of money for me at the time, which was three or four hundred thousand dollars. Bought my first building. Opened up a construction company at the time.

Dealing with all my rental clients and all the owners that had properties in the city, they would say, okay, what do I do with my building? How do I increase the value? So I would help find them contractors or laborers to help execute the business plan that I envisioned. Help them take their rents from, let's say, $3,000 a month to $4,000 a month, and spend, let's say, $20,000. They made their money back in a year. They were loving it.

So at that point, I was like, why don't I just open up my own construction company? I went to get my license. I got my GC license. At the time, I was doing construction with people that I paid daily to do the labor.

It worked out terrible in the beginning.

David Shamshovich
Why's that?

Joe Safdie
It was very time-consuming to do the rentals, and then do the construction, and then oversee.

David Shamshovich
You were spread too thin a little bit, right?

Joe Safdie
Spread too thin. One-man show. Ultimately, I got my license and started transitioning to larger projects. Originally, it was painting apartments, putting up a wall.

David Shamshovich
Yeah. Something simple to get your feet wet a little bit, or get your company's feet wet.

Joe Safdie
Correct. And we made money. It was small money at the time. Went out and started hiring field managers and building up an infrastructure. Got my license, got my insurance.

David Shamshovich
How do you learn how to build something like that? Do you have a mentor? Are you looking at some sort of model? How do you realize how to run it, who to hire? Or are you literally just running the train while you're building the tracks, which is generally how a lot of people do it anyhow?

Joe Safdie
Yeah, that's how it was originally. I spent a lot of time researching and learning the costs of the materials.

So to fix an apartment or paint an apartment, I would research what the cost of paint is and how many gallons of paint I need. How many pieces of sheetrock do I need? What's the cost for the sheetrock?

Instead of just guesstimating, I would know the numbers of the materials and I would estimate based on mistakes. Obviously, we'd make mistakes, we'd lose money, and then we would take it from there.

Then I'd say, okay, I know it takes me five days. I want to make a 30 percent margin on this project, or 40 percent or 20 percent, depending on how large or small the project was. That's how I learned the construction industry and eventually started doing larger projects.

We had mistakes along the way, but one thing I've learned from the construction industry is a mistake doesn't end. It's how do you recover, how do you pivot, and how do you figure out the solution?

It helped me learn about the nuances of construction and the back end, knowing what the steps are, setting up a system, and putting together a system where you can understand the project when you're looking at it, or you're buying a building, or you're helping a client out. You can take it from A to Z and know what the pitfalls may be, and know how to pivot.

Camila Almeida
And I think that's an important ground rule.

David Shamshovich
No pun intended. But those are part of your rules, and I think they're good ones.

PROPERTY MANAGEMENT, ENVIRONMENTAL WORK, AND THE BROADER BUSINESS

David Shamshovich
You're more spread than just that. Maybe you want to talk a little bit about other things that you've gotten into, including development. I actually don't know much of the background other than the project we're working on, so I'd love to hear a little bit more about that as well.

Joe Safdie
Yeah. Over time, we developed from construction to property management. Now we manage about 129 buildings. It's about half a billion or plus in real estate, give or take, depending on who you're asking. Everybody has different opinions.

So you have the management side. We opened up an environmental company doing mold, lead, asbestos remediation and testing. I kept the brokerage arm as well, which I originally started, renting apartments, leasing commercial spaces, and assisting with investment sales, mostly internal, all of our business is internal through our customers. We have some external customers as well.

From there, we started buying properties in the five boroughs. Now we're doing a mix. I would say five percent of the buildings we manage, we own.

So we're doing a mix of condos. We have some small condo projects, like three units, eight units, Park Slope, Cobble Hill, Bushwick, Williamsburg on the border. We're doing one in Fort Greene. We just filed.

David Shamshovich
Obviously, those are fantastic neighborhoods. Are you guys looking at 485-x at all for those? I'm interested only because you generally can't get it, but in some smaller-unit projects there's a potential. Is that something that you've even pursued?

Joe Safdie
Not for those, because the basis and the cost to rent it out is just way too high. So we're going condo.

David Shamshovich
I want to hear a little bit more about those condos because you're doing a lot of these existing buildings, right? And those are very different from the condos. How are you switching? What's the difference between the markets, and why are you doing luxury condos, which is such a different product from older buildings that probably have a lot of rent-stabilized units in them?

Joe Safdie
Fortunately, we were not so impacted by the 2019 rent laws in terms of the properties we owned at that time. A lot of the properties I started buying were mostly after 2019. Before 2019, I was buying free-market, three-to-five-family, 10-family buildings.

After 2019, we did several development sites. We probably did around eight ground-up or mostly ground-up construction projects under 421-a(16), the predecessor to 485-x.

THE FIRST DEVELOPMENT PROJECTS

David Shamshovich
What neighborhoods were those in? How did you pivot? What was your first real development and why did you go there?

Joe Safdie
I started initially on most of these projects using third-party GCs. I wasn't experienced at the time. One thing I learned is don't do something you don't know, especially with that amount of money on the table.

I hired a third party that had completed projects in a short period of time. It was during COVID, right at the tail end. The market was starting to evolve and rates were three percent. So we started developing, and we were like, wow, the numbers are great. This is an amazing project. We're going to make so much money.

Then the rates went from three percent to six percent. At the same time, the rents went from $2,000 to $3,000. So we were swinging in many different directions, and we pivoted.

We did a lot of augmented CityFHEPS at the time. We have several projects that have augmented CityFHEPS, which now, I know, they also reduced the rents again. So it's a continuous pendulum that just swings. There's always a surprise in New York City, which is what I love about New York City.

David Shamshovich
Well, also you're so diversified, right? You have different products. So if there's a swing in one, I assume that's part of the plan.

Joe Safdie
Correct. We're in many different facets of real estate. We have condos, ground-up construction, existing buildings that we have to rehab and rent out, existing buildings that are partially stabilized, partially market rate. We have very few stabilized, although we manage some stabilized buildings.

We have the 421-a product. We have some expired 421-a that we've dealt with, where you have to have the 421-a rider to make sure that you can increase those rents once tenants vacate.

So we've dealt with a wide array of deals, and each deal poses its own challenge. My goal really is to understand different deals and have the opportunity, depending on where the market is, to always pivot, come up with a different part of real estate, maintain as much as you can, and understand where the opportunities are.

HOW THE MARKET HAS CHANGED

David Shamshovich
How has the market changed? There's obviously a different mayor, a different policy in City Hall, different stress. The zoning resolution has completely changed, flipped upside down. And obviously the 2019 rent laws, which are not that new at this point.

Joe Safdie
I think the benefit of starting out with something is you know nothing. Ignorance is bliss.

Every market poses its own challenge, whether it's taxes or vacancy. New York City has an occupancy of 98 or 99 percent at this point. There was an article that came out about how many vacancies there are in New York City, and it's literally none. Which is also due to the constraint of supply, and developers being kind of scared of building in New York City with the regulatory climate.

David Shamshovich
Yeah. I think that creates an area where you can fill, and others can fill, who know how the regulatory environment works. Maybe the money won't be the same as it was before, but there's always going to be money in real estate in New York City. That's just the way it's going to be.

Looking back at what you did before, this is the mindset of a young person who's like, I'm going to buy it, fix it up, and raise rents. Then you run into Robocan and you're like, wait a minute, I can't do this. This is infuriating.

What is it that you look for in a deal now? The Joe Safdie of today, looking at a deal, obviously sees all the contingencies, bakes in vacancy loss, whatever it is. How does that Joe Safdie think about those deals?

Joe Safdie
We look at every deal individually because every property comes with its own challenges.

Historically, we focused on lower-income neighborhoods, including the Bronx, East New York, and East Flatbush. Today we're spending more time evaluating opportunities in Park Slope, Gowanus, Cobble Hill, Carroll Gardens, Downtown Manhattan, and other Brooklyn neighborhoods.

We're still buying in the Bronx, but the focus has shifted. The uncertainty around some rent-stabilized assets has pushed us toward opportunities where the risk is easier to understand and underwrite.

THE GOWANUS PROJECT

David Shamshovich
You're doing a project in Gowanus now. Is it larger than you've done before, and what makes the 99-unit threshold such a big deal?

Joe Safdie
When we acquired the site, there was no 485-x and no 421-a. The original plan was to rehab the properties and hold them. It was also one of the more complicated transactions we've worked on because we had to assemble multiple properties from different sellers.

Shortly after we closed, 485-x emerged and the economics changed. Because we acquired the site at a favorable basis, we felt comfortable shifting from a hold strategy to a development strategy.

At the time it was one of our larger projects, but having completed a number of smaller ground-up developments gave us the confidence to move forward.

MIH AND AFFORDABLE HOUSING

David Shamshovich
How much of a learning curve was MIH for you?

Joe Safdie
More than I expected.

I understood the basic concept, but once you get into the details, there are a lot of requirements that aren't obvious at first. It gave me a much better understanding of affordable housing development and how these projects actually get built.

David Shamshovich
What's your biggest takeaway from the project so far?

Joe Safdie
Affordable housing is important, but creating more housing ultimately comes down to economics.

If projects are easier and more economical to build, you'll see more development and more housing production.

485-X, PREVAILING WAGES, AND PROJECT ECONOMICS

David Shamshovich
Have you looked at what projects above 99 units look like financially?

Joe Safdie
Yes. It ultimately comes down to cost. Lenders look at the same things developers look at. If prevailing wage requirements significantly increase construction costs, lenders reduce leverage and developers have to bring more equity to the table. The challenge is whether the overall economics work when construction costs, affordability requirements, financing, and wages are all considered together.

There's a point where projects simply stop penciling.

THE PRESENT OPPORTUNITIES AND CHALLENGES IN THE MARKETPLACE

David Shamshovich
What opportunities are you focused on today?

Joe Safdie
We're looking at a combination of development sites and existing buildings.

One area we've spent a lot of time understanding is partially stabilized and partially market-rate housing. Dealing with DHCR issues over the years taught us that when you're buying a building, you're often buying the paperwork as much as the real estate itself.

We're also paying attention to expiring 421-a assets. As abatements phase out, some owners are facing refinancing challenges, which creates opportunities for buyers with a long-term view.

EXPIRING 421-A BUILDINGS

David Shamshovich
What trends are you seeing with those properties?

Joe Safdie
Most were built fairly well. The challenge today is that many of the units are no longer modern by current standards.

The business plan often revolves around improving the tenant experience, modernizing apartments, and investing in amenities while repositioning the property for the long term.

LONG-TERM OWNERSHIP

David Shamshovich
What is the difference between wanting to keep an asset because it's performing well and deciding to sell? It sounds like you mostly build and hold, or buy, improve, and hold. When do you decide it's time to sell?

Joe Safdie
For the most part, I'd like to own all my assets as long as possible and hold them generationally. But ultimately, there's always going to be a price for something.

We're not backed by funds that require an exit after five, seven, or 10 years. We're putting in our own money and investing with a long-term mindset.

When I talk to people who have been in the business for decades, the regret I hear most often is that they sold too early, not that they held too long. If an asset supports itself, owning it long term is usually the goal.

David Shamshovich
You've heard the stories a million times. People always seem to wish they bought more or held longer.

Joe Safdie
Exactly. No one looks back and says they regret owning good real estate for too long. If the property works, the goal is to hold it, build long-term value, and pass it on to the next generation.

CLOSING

David Shamshovich
Joe, it'll be exciting to see what you continue to build over the next few years. Thank you for making the trip and joining us.

Joe Safdie
Thank you. I appreciate it.

David Shamshovich
Thanks for listening to Ground Rules. To stay up to date on future episodes, subscribe wherever you get your podcasts. For more information about the show and BBG, visit bbgllp.com.