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PROPERTY

Philip Montgomery for The Wall Street Journal (2)

Tersigni and Palachek

Rental apartments at the Clarendon in Kips Bay, above left, are getting extensive renovations as they become empty. The work is aimed at upgrading the 1970s building, which will be renamed the Grayson. Bottom left, an apartment before renovation; above, rendering of a redone unit.

Makeover Time for Rentals of a Certain Age

By Laura Kusisto

When the Clarendon was built in the late 1970s, it was one of the early modern high-rise buildings in the picturesque Kips Bay neighborhood, with the latest in interior design: parquet floors, Formica countertops and popcorn ceilings.

Thirty years later, little about that statement had changed, except that the Clarendon is now neither new nor fashionable.

A few months ago, the Clarendon was purchased by the Silverstone Property Group, and the new owner mapped plans to do much more than slap on a fresh coat of paint.

Instead, Silverstone has been slowly emptying the 128-unit building at 28th Street and Second Avenue, and gutting the apartments down to their bare studs. It is also creating a courtyard with Wi-Fi, and adding a sun deck and an amenity room with billiard tables and flatscreen TVs.

The building will even be given a new name—the Grayson—to banish any association with its shabby former self.

While rental landlords once were loath to invest heavily in renovations, they're now encountering a new breed of renter: people who are waiting well into middle-age before buying and thus expect condo-level finishes in their rental apartments.

Many buildings of 30 years ago enjoy prime locations, but were built in an uninspiring modernist style as a place to perch, but not for long. More landlords are thus turning to "extreme makeovers," pouring millions into doing gut renovations of apartments 10 to 30 years old, and raising rents 10% to 40%.

At the Grayson, Martin Nussbaum, a principal at Silverstone, says the firm plans to seek rents in line with new development in the area, which will average around $4,000 a month for a one-bedroom. "I don't see us having to take discount in rental price compared to them," he said.

Clifford Finn, president of new-development marketing at Citi Habitats, who is marketing the property, said he has seen more landlords doing extensive renovations of '60s, '70s and '80s apartment buildings, predominantly on the East Side.

Apartments built in the past few decades with renovations completed or under way also include the Madison Belvedere in Gramercy, the Elektra in Gramercy, Hilary Gardens in the West Village, the Capitol in Chelsea and West River House on the Upper West Side.

"What we've proven at all these new developments is that people are willing to pay more for better," Mr. Finn said.

Nonetheless, brokers caution against overstating the miracles of cosmetic building surgery.

Justin Rubinstein, a broker at Prudential Douglas Elliman, notes, for example, that the Elektra in Gramercy, which has a sky deck and modern designs, is the type of renovated building that clients will sometimes pick over brand-new structures.

'People are willing to pay more for better,' said Clifford Finn of Citi Habitats.

But at a building just blocks away, some of the renovated units still feel dated, Mr. Rubinstein said, adding: "They still have postmodern feel, where windows aren't that big, there are big [air-conditioning] units in the windows and they have a cookie-cutter feel."

In other cases, the allure of higher rents has even prompted landlords to perform significant renovations on buildings still in their prime.

At the Capitol, an 11-year-old, 387-unit building in Chelsea, the owners are completely upgrading the apartments as they become vacant, including installing new floors, appliances, kitchen cabinets, countertops and bathrooms.

Dean Lewis, 43 years old, a senior sales executive for cosmetic brands, was one of the renters won over by the renovations at the Capitol.

Mr. Lewis was already living in a one-bedroom at the Capitol, but when his partner moved back to the city, the pair wanted to upgrade to a two-bedroom. He looked at dozens of apartments, including several in new developments, but said the construction work in new buildings at his price-point—$4,500 to $5,500 a month—often seemed shoddy.

"After looking at 50 apartments, it was the best apartment," Mr. Lewis said. "The baseboards are straight, which is a pet peeve of mine."

Rose Associates Inc. is managing the Capitol and several other not-so-old buildings that have undergone significant renovations.

Robert Scaglion, senior managing director of residential marketing for Rose, says owners invest $5 million to $10 million in total in renovating buildings, which can seem difficult to justify amid economic uncertainty.

But he says they see a payoff immediately with a 10% to 12% jump in rents from new tenants.

Owners "reap the benefits, but it takes a leap of faith," Mr. Scaglion said.