Apartment Needs, Wants, A Toxic Dilemma and Fairy Tales: Welcome to California
by Joseph DeCarlo, MBA, CPM, CCIM

The apartment market is changing again. Due to the economics of the times, the desires of the younger generations, affordability, costs and lifestyles, the needs and wants of the apartment market are changing. Needs are things that are essential for human survival. These things include water, shelter (a place to live), and food. Wants, on the other hand, are things that people would like to have, but do not need, such as a new car or SUV, a new phone, a new computer, a large apartment with lots of amenities, and other things that would be nice, but not essential to survival. The economics of needs and wants are changing as consumers do not have enough money to have both and are how having to decide which is more important to them.

Renting vs. Buying a Home: Needs vs. Wants

The short-term economics used to be close between renting and buying a home, with the biggest benefit to home ownership being the appreciation over the long term of the purchased home. Owning a home is a want. With the median cost of a home in California being over $900,000, this is a want that less than 20% of people can afford to buy and maintain. The monthly cost with mortgage interest rates over 6% , real estate taxes, which average 1.2% of the purchase price, property insurance costs, which have more than doubled, maintenance costs increasing for both labor and materials, new government regulations and mandates for energy efficiency, which automatically make the costs rise almost 25%, have increased the barrier of entry of homeownership exponentially.

Because of these debilitating costs, we are now seeing mortgage terms of 40 or even 50 years hit the market to try to lower the monthly payments for buyers. In the automotive market, we are even seeing car loans that are now reaching 100 months (8 years and 4 months) for non-luxury brands such as Toyota, Honda, Ford and others, just to make the monthly payments of these vehicles more affordable. For perspective, the average cost of a new vehicle has risen to nearly $40,000 and the average monthly payment for a new vehicle has surpassed $750.00 per month at loan terms extending past the previously acceptable 60 months (5 years). These long-term auto loans are very likely to outlast the vehicle that they have been used to purchase.

The rising costs of needs, in this case, shelter, and wants, in this case, a new vehicle, are clearly rising with no foreseeable end in sight. The downpayments required to purchase a home have increased so much that they are, at times, more than what “wanters”, people who planned to be homeowners, but are renters by necessity, not desire, can realistically afford. This inability to afford to purchase a home has increased the demand for newer class A apartments. The demand for older units is generally not affected because the market for older units are driven by lower income tenants who rent based on needs instead of wants.

Renting an Apartment: Needs vs. Wants

With almost 85% of Californians shut out economically from buying a home, they must live in a rental home or an apartment. In California, the median household income is $100,000. In Orange County, the median household income increases to about $115,000. The 30% rule for rentals states that rent should not exceed 30% of a household's monthly income. The median rent in California is about $2,500 a month. In Orange County, the median rent rises to about $2,875 a month. These median rents are representative of class B and sometimes even higher end class C apartment units. Class A apartment units, which are about 28% of the rental units in California, are even more expensive. These rising rental costs are forcing renters to consider forgoing amenities such as a gym, a pool, laminate flooring, central HVAC, and other benefits, wants, in exchange for more affordable, lower priced units, needs.

What is even more troubling is that smaller properties, properties that are between 4 units to 50 units, are not feasible to build in California because of the high costs of labor, materials and government regulations. This means that the supply of low cost rental units effectively stays the same, with the demand constantly increasing. Even if older or lower tier apartments were demolished, they would be rebuilt into class A units. The rent on those new units would have to be very high for the investor to make a reasonable return. These high rents will then make the new units unattainable or rent burdened for lower or fixed income tenants. The line between needs, basic housing, and wants, higher end units with amenities, are starting to cross because of the rising rental costs of lower tier units.

To fulfill the basic housing needs, we are now encountering roommates for smaller units such as studios or one-bedroom units, and we are also encountering multiple families renting two-bedroom units and living together. These are things that people do not "want" to do, but they "need" to do to survive.

A Toxic Housing Dilemma:

California's statewide rent control ordinance, AB1482, caps rent increases to 5% + the change in the CPI, once per year. The maximum a landlord can raise the rent has averaged to about 8% a year for the past few years. There are cities such as Los Angeles, Santa Ana, and Santa Monica that have even stricter rent increase guidelines. In these stricter markets, it is impossible for landlords to get higher rents unless existing tenants vacate. Most of the units in these markets are also class B or class C, which generally cater to lower income tenants. The rising costs that landlords must pay to operate their buildings paired with the lower income tenants being unable to afford the rising cost of rent has created a toxic housing environment where we have more people renting units out of need and are unable graduate into purchasing or renting a unit or home that they want.

We are also seeing landlords being driven out of the rental market due to the constant barrage of new laws and regulations such as SB-721, the balcony and deck inspection and repair requirement that forces landlords to get their balconies and decks inspected once every few years and make any repairs noted by the inspector. As of January 1, 2026, landlords in California are now also required to provide refrigerators to their tenants for the unit to be considered habitable. These regulations also drive up the landlord's cost of operating a property and ultimately get passed to the tenant in the form of higher rent. Some landlords cannot financially withstand the assault being levied on them by the state and eventually decide to just get out of the business altogether and sell their properties to another party. This new property owner is then faced with the same problem but now has higher property taxes to consider. Now, the new owner must raise the rent even more to break even in their investment. It is a vicious circle that both landlords and renters are caught in.

Affordable Housing: A Fairy Tale

Affordable housing in California is like Santa Claus, a fairy tale. In this case, the politicians still believe in him. The politicians of this state need to “grow up” and start enacting real policies such as federal and state subsidized housing for rent burdened tenants, tenants who pay more than 30% of their income to rent. Programs such as Section 8 already subsidize 70% of the rent. This should be reduced to 30% so that more of the money can be spread to more people as wait times for programs such as these can be more than 10 years.

Unless the politicians grow up and enact real, beneficial and impactful legislation, instead of passing fairy tale laws such as statewide rent control, landlords will be unable to properly operate their buildings and tenants never be able to afford renting or buying what they want.