

BY CHARLES GERENA

The First Rung of Housing Markets

Single-room occupancies met basic housing needs well into the 20th century until they were pushed into the margins. Can alternatives fill the gap?

Lavern Smith was a private duty nurse in Richmond, Va., for about five years until her struggles with mental health and drug addiction eventually put her out on the city's streets. When Smith started seeking help in 2018, she wanted a better place to live than a public shelter.

"I felt like I needed some extra support and a little more structure," recalls Smith. SupportWorks Housing offered her one of their rent-subsidized apartments at New Clay House in Carver, a residential neighborhood near Virginia Commonwealth University. It was a small space, just big enough for a bed and TV, "but it gave me everything I needed," says Smith. "It also gave me the support I needed when transitioning from being an active drug addict and homeless to becoming a good part of a community."

SupportWorks opened New Clay House in 1992 as its first attempt at providing supportive housing — a combination of affordable shelter and social services aimed at helping the homeless. Allison Bogdanović, SupportWorks' executive director since 2014, describes the two-story building in a historically working-class neighborhood as having 47 single-room-occupancy (SRO) units, each with a mini fridge and microwave and a little nook with a toilet. A larger shared kitchen and bathing facility was located at the end of each floor.

Since New Clay House's opening, SupportWorks has evolved its model. The building was renovated and expanded in 2019 to offer 80 studio apartments with full kitchens and bathrooms, just like the one that Smith moved into in March of that year.

"We saw improvements in outcomes when we provide a studio apartment where someone is more independent,"

says Bogdanović. "Every person has their own goals and what they want to accomplish, and being in an independent apartment helps them get there faster." For Smith, the stability afforded by her apartment enabled her to get a job at Kroger that lasted two years. Now, she works at a grocery store in Waldorf, Md., where she moved recently to be with her son.

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This is just one example of how the "first rung" in housing markets has evolved in the United States. Well into the 20th century, this rung was occupied by SRO units, providing shared housing that met basic needs at a low cost. It was less like an apartment, which typically provides a certain level of privacy as well as legal protections for tenants, and more like a hotel room or a college dormitory, minus the college.

SRO units offered a range of amenities to meet different needs in housing markets. Defining characteristics included access to bathroom and cooking facilities (usually shared among tenants), the amount of private space available (usually one room per tenant), and length of stay (usually a month or less but could be extended). State and local regulators varied in how they used these characteristics to define SROs legally.

Then, things started to change after World War II: The existing SRO

housing stock began shrinking while the pipeline of replacements dried up. Shifting expectations raised the regulatory bar, altering the economics of first-rung housing. According to estimates by the Supportive Housing Network of New York, a nonprofit that represents the interests of local housing providers, the city went from having around 200,000 SROs in 1955 to less than 40,000 in 1995.

The elimination of more flexible, less expensive shared spaces, including SROs, has left a significant hole in housing markets. Today, grassroots groups and free-market think tanks are calling for changes in public policies to make markets freer to respond to demand for first-rung housing.

Communities from Seattle, Wash., to Raleigh, N.C., have removed regulatory hurdles at various times to make building this type of housing more feasible for private developers. Meanwhile, nonprofits like SupportWorks have managed to build first-rung housing under current policies and market conditions through a combination of private and public funding.

FOR SOME PEOPLE, SMALL AND SIMPLE MADE SENSE

The concept of first-rung housing isn't new. Homeowners have rented out single rooms going back to our nation's colonial era. Widowers and empty nesters who had more space than they needed would turn their single-family homes into boarding houses, offering a warm bed and a hot meal to guests traveling through town.

"Early single-room rentals provided a mutually beneficial relationship," wrote Andrew Justus, a housing policy expert



Cool Lane Commons, a project by SupportWorks Housing in Richmond, Va., is a garden apartment complex with 86 units and shared resources such as a computer lab and community kitchen space. It took six years and \$24 million to convert a vacant assisted living facility into an apartment complex.

at the Niskanen Center, in a 2022 analysis. “The arrangement allowed newcomers and those who needed no-frills housing to access housing that met their immediate needs. At the same time, this arrangement would allow homeowners to supplement their income and stay in their homes during retirement or other periods of diminished cash flow.”

SRO housing also served a broader economic role: The ability of people to relocate in search of work is predicated, in part, on the ability to find a place to live. For example, as millions of immigrants and American farm workers moved to major cities like Boston and New York during the Industrial Revolution, SRO housing supported the inflow of labor needed by mills and other factories. Formerly called the Young Women’s Christian Association, the YWCA provided SROs for female students, teachers, and factory workers who moved from farms to cities.

By the late 19th and early 20th centuries, boarding homes persisted in rural areas, while entire single-family houses, apartment buildings, and commercial properties were being converted into SRO units for city dwellers, typically offering no meals and fewer amenities. These could be found

in cities large and small throughout the United States.

“The ability to have a lot of tenants paying rent while having relatively low construction costs and operating expenses made SROs financially viable from a landlord’s perspective,” explains Alex Horowitz, project director of housing policy at the Pew Charitable Trusts, a nonprofit that has studied the impact of public policies on the housing shortage and other topics. “From the tenant’s perspective, mostly what they got was a low price for housing and the ability to live in a place that they otherwise might not be able to afford.”

Some SRO units could even be found within hotels. According to a July 2025 article by Horowitz, this became the most common model for first-rung housing. High-end hotels “offered meal service in luxurious dining rooms, as well as regular laundry and maid service,” he wrote. In contrast, the “less expensive hotels featured dark rooms without windows or even just a dry space on an open floor.”

SHIFTING ATTITUDES ...

SRO units continued to proliferate in cities during the Great Depression and World War II. Landlords in New York City were carving up living

spaces into smaller units to rent to the suddenly unemployed, then to workers in wartime factories, then to returning soldiers and migrants from the South.

But a backlash was building against SROs. They became regarded not as a desirable first rung for renters in need of a place to stay but as “housing of last resort” for the needy.

After World War II, public concerns grew about overcrowding and substandard conditions in SROs. “There was a lot more attention being paid to quality of life in urban areas,” says Justus. “People thought that because better living conditions are possible, we should outlaw what they saw as substandard living arrangements.”

That led to many municipalities revising their zoning regulations to limit or ban the construction of new SRO housing. New York City went a step further by offering tax incentives to convert existing units into full-sized, rent-stabilized apartments.

Some cities changed their building codes to raise housing standards, usually by adding fire safety measures. After an SRO hotel in Seattle burned down and killed 20 people in 1970, the city mandated that hotel owners install sprinklers and fire-resistant doors. Other code changes elsewhere required a minimum square footage per unit

and a maximum density of units per property to alleviate overcrowding, as well as in-unit kitchens and bathrooms rather than shared facilities to avoid the potential spread of disease.

These policy changes also reflected the negative perceptions the wider public had of those who lived in what were regarded as run down and unsanitary conditions. “People were seeing externalities that they wanted to get rid of or move somewhere else and saw that restricting this building type was the way that they could achieve that,” says Justus.

In his July 11, 1977, article, *New York Post* reporter Joseph Berger described the majority of hotels with SRO units as “heavily populated with alcoholics, drug addicts, ex-convicts and released mental patients. They are blamed for much of the crime, noise, litter and bizarre or vulgar behavior that troubles their neighborhoods.”

... UNDERMINED THE ECONOMICS

Regardless of the motivation behind these policy changes, the end result was the same: Even the lowest quality housing came at a higher cost to build and operate. For example, “Both liability insurance and fire insurance were going to be more difficult because you had liability now that you didn’t have before,” says Brendan O’Flaherty, an economics professor at Columbia University who examined the history of SROs as part of his 1996 book, *Making Room: The Economics of Homelessness*.

This threw a monkey wrench into the filtering process that usually occurs in housing markets. Normally, housing units are built at a certain level of quality for a certain price. Over time, the units filter down the quality hierarchy as they depreciate and the price of those units is expected to fall as well. Higher-income consumers of housing will demand better quality and move up, leaving their less desirable units behind for those with lower incomes.

But filtering happens only if there are both higher-quality units for

higher-income consumers to move into and lower-quality units left behind that lower-income consumers consider to be a better alternative than homelessness but still within their means. In the case of SRO housing, the cost of supplying units went up, and rents went up.

So, why didn’t property owners upgrade their SRO units? For one thing, “there were limitations on how they could fix it up,” explains O’Flaherty. At the Sunshine Hotel in New York City, which was exempted from the new regulations on SROs the city started imposing in the 1950s, the owner thought about getting new beds.

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However, only bigger beds were available, which meant the hotel’s rooms would have to be reconfigured. Such a change could have violated the hotel’s exempt status.

Also, it’s challenging to rehabilitate SRO hotels or apartment buildings at the scale that developers are used to because of the subtle variations in building code regulations between and within states. “To learn what you can do in New York is a big job, and it’s different from Chicago, so you can’t set up this kind of cheap housing in New York and Chicago at the same time,” says O’Flaherty.

Horowitz believes subsidies would have been required to upgrade SRO housing, given what tenants were able to pay and what landlords had to do to meet new requirements. But redevelopment programs under the U.S. Department of Housing and Urban Development (HUD) set the bar too high for those who may have wanted to rehabilitate SRO hotels. “Under HUD minimum property standards, these

programs may only be used for ... units with private baths and kitchen units, or which have congregate dining,” noted a 1978 congressional report on SROs. “Practically speaking, to rehabilitate an SRO hotel under the minimum property standards means not only the loss of 50 percent of the units, but a substantial increase in the rental costs.”

A HOLE IN HOUSING MARKETS

Instead of rehabbing their first-rung housing, owners of SRO hotels started converting their properties to serve primarily tourists. In many cases, buildings were either torn down and replaced with higher value uses, or they were closed and left abandoned.

For those in need of first-rung housing, the diminishing supply of SRO units became a lot more expensive. For example, rents for SROs in San Francisco were reported to be rising by 40 percent to 50 percent annually by the late 1970s.

The decline of SROs has been felt in other ways, according to housing policy experts. On the micro level, the remaining rental market has become more expensive. In turn, higher rents have had a strong correlation with higher rates of homelessness in communities. An analysis published in 2020 by the U.S. Government Accountability Office found that median rent increases of \$100 a month were associated with about a 9 percent increase in homelessness.

On a macro level, in Justus’ view, the lack of first-rung housing has contributed to a decline in geographic mobility. “Americans have done a lot less domestic migration over time,” he notes. “Housing is one element of it, where the price of admission to any high-opportunity place is you have to commit to a yearlong lease for a studio apartment at a minimum.”

Several studies have implicated constraints on housing supply and rising prices for impeding the flow of workers to communities where they could be more productive and earn

higher incomes. Indeed, for many workers in the past, SROs were the only way they could pay for housing close to a downtown job and still have money left in their budget to pay for other things.

TAKE TWO ... WITH A TWIST

Is it possible for the private sector to build first-rung housing that is profitable to run, affordable for tenants, and of halfway decent quality?

Pew Charitable Trusts advocates for converting some of the billion square feet of vacant office space into SRO units, which would harken back to the days when vacant warehouses and other commercial buildings were converted into first-rung housing. An office building already has centrally located plumbing where shared bathrooms could be built at a lower cost than reconfiguring the space into apartments.

In general, regulatory barriers are starting to fall. Oregon, Montana, and other states have removed barriers to the development of microunits or co-living arrangements. These housing options share some of the attributes of SRO units — lower cost, smaller living space, shared amenities — but meet a higher standard of quality.

In addition, beginning later this year, Washington state will require cities

to allow SROs wherever multifamily housing of six or more units is permitted. Hawaii already requires communities to allow for the conversion of commercial properties into SROs.

Horowitz also points to states that have prevented localities from imposing restrictions on unrelated people sharing a home, including Iowa, Oregon, Colorado, and New Hampshire. “We are increasingly seeing a recognition from policymakers that bringing back housing options, especially inexpensive ones, is going to be part of the solution to our current housing shortage and record homelessness,” he says.

But piecemeal changes in policy at the state or local level won’t be enough to encourage developers to build SROs on a large scale. In the meantime, the nonprofit sector has stepped forward to develop first-rung housing outside of the SRO model. SupportWorks has built 15 properties in the Richmond, Charlottesville, and Hampton Roads metro areas to address homelessness. The Maryland Center for Veterans Education and Training focuses on housing veterans in Baltimore.

It has taken a mix of public and private funds to develop and maintain such properties, as SupportWorks has done. “This is a complex financial transaction,” says Bogdanović. “It takes years to layer and weave each one of those

sources together.” Its latest project, Cool Lane Commons in Richmond, took six years and \$24 million to convert a vacant assisted living facility into a garden apartment complex with 86 units and shared resources such as a computer lab, fitness room, and community space with a kitchen.

The Virginia Housing Trust Fund has provided some of the capital for SupportWorks’ projects. It also provides rental assistance, which is another key component to making the economics work for SupportWorks.

Nonprofits also turn to federal sources like HUD and the U.S. Department of Veterans Affairs to help tenants cover their rents. “The federal rental assistance allows us to cover our operating costs but only charge the residents 30 percent of their income,” explains Bogdanović. “So, the average rental payment is \$250 a month.” For context, the average rent for a studio apartment in Virginia was about \$1,700 a month as of October 2025.

The final component to SupportWorks’ success has been changing attitudes toward first-rung housing. “By and large, we win people over, but it takes a long time,” says Bogdanović. “Most of the time, if someone will visit one of our communities and meet our staff and meet our residents, most of the concerns they have will be dispelled.” **EF**

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