The Best and Worst Cities for Recession Recovery

by Joshua Zumbrun

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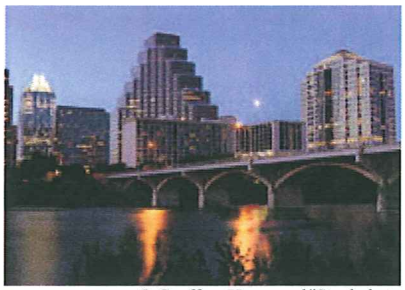
Cities poised for a rebound--and cities with a long slog ahead.



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Austin-Round Rock, Texas

The three most important things in real estate: location, location, location.

It's true for recovery from a real estate bubble too. Overall, many economists expect the national economy to return to growth later in 2009, perhaps as soon as this summer. But that won't be the case everywhere. While some cities are poised for a quick rebound, others face a slog to recovery that could take years.

Poised for swift recovery are many Texas cities, such as Austin, San Antonio, Dallas and McAllen. These areas did not see the massive real estate bubble that formed in states like California, Nevada and Florida. The economy is diverse, with heavy growth coming from education and health care in recent years.

Many of the cities with the longest road to recovery are California cities, where home prices rocketed out of control, and entire economies were supported largely by a real estate bubble. Fresno, Modesto, Salinas, Bakersfield, Stockton and Los Angeles all saw home prices soar to unsustainable levels and then begin their inevitable plunge. The collapse of the housing markets pushed unemployment rates in these cities above 10%.

Even as a flood of foreclosures makes home prices look affordable again, a sign that some of the worst real estate markets may be finding their bottom, it will still take years for unemployment rates as high as 16.8% in Modesto or 15.5% in Fresno to return to healthy levels.

To find the 10 cities that look best poised for recovery (and the 10 cities likely looking at the longest climb back), we examined estimates from data provider Moody's Economy.com of the projected gross domestic product of metropolitan areas across the U.S., as well as unemployment figures from the Bureau of Labor Statistics and home prices, incomes and affordability data from the National Association of Home Builders. Because, in general, healthy cities were not victims of as severe a housing collapse, home prices were not used in ranking the cities poised for recovery.

The analysis also shows the importance of a city's economic make-up. Manufacturing has been battered by the recession, leaving cities like Detroit and Flint, Mich., or Youngstown, Ohio, with bad unemployment and a changing economy that's unlikely to replace the lost jobs. Moody's projects the economy in Flint, for example, will decrease by 16% from the start of recession to the end of 2010. (One commonly cited rule of thumb for depression is a decline of 10%.) Flint might never return to its original size.

New York City, too, once the capital of finance, is now saddled with Wall Street-induced unemployment and homes that are completely unaffordable for most of the region's residents. The NAHB's Housing Opportunity Index reports that only 14% of homes in the New York-White Plains-Wayne area are affordable on the area's median income--by far the least affordable region measured by NAHB.

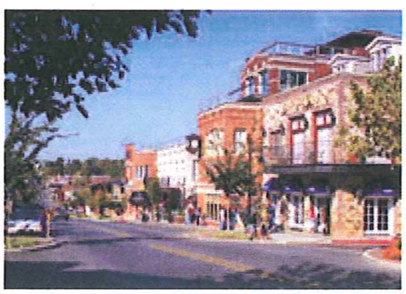
Cities with robust technology sectors are poised for stronger recoveries than manufacturing or finance centers. Cities with high-tech capabilities like Seattle, Huntsville, Ala., or Boulder, Colo., could see quick recovery in coming months.

The Best Cities for Recession Recovery

1. Austin-Round Rock, Texas

Current GDP: $72.4 billion
End of 2010: $77.7 billion (projected)
Unemployment: 5.8%

From now to the end of 2010, the economy of Austin is projected to grow by $5 billion, and unemployment has stayed relatively subdued. The city's diverse economy, home to Dell, the University of Texas and the Texas state government, has kept the economy strong. Forbes.com also recently ranked Austin the Best Big City for Jobs.



2. Fayetteville-Springdale-Rogers, Ark.

Current GDP: $13.9 billion
End of 2010: $14.5 billion (projected)
Unemployment: 5.0%

What better way to sit pretty during a recession than to have the ultimate recession-proof company headquartered in your neighborhood. The Fayetteville region is home to Bentonville, Ark.-based Wal-Mart. Wall Street may be struggling, but the presence of the world's most powerful retailer keeps northwest Arkansas' business community humming.

3. Boulder, Colo.

Current GDP: $15.6 billion
End of 2010: $16.3 billion (projected)
Unemployment: 5.7%

The University of Colorado provides an abundance of stable jobs for the region. Boulder is also home to a number of high-tech laboratories. Moody's projects the economy of Boulder will dip less than 1% before growth resumes in the first half of this year.


Courtesy of the Huntsville Convention & Visitors Bureau

4. Huntsville, Ala.

Current GDP: $16.1 billion
End of 2010: $17.2 billion (projected)
Unemployment: 6.1%

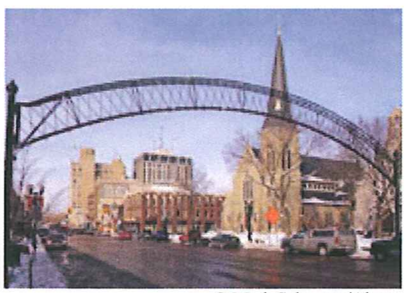
In a recession characterized by battered housing, banking and manufacturing markets, having an economy with a heavy focus on technology helps. Huntsville is home to one of the country's largest research parks and a major NASA center (not to mention Space Camp).

5. San Antonio, Texas

Current GDP: $66.3 billion
End of 2010: $68.4 billion (projected)
Unemployment: 5.4%

San Antonio's rapidly growing health care and education sectors have kept unemployment low in San Antonio. Moody's projects recession will not entirely pass the Alamo by, but the GDP of the city will barely dip before returning to growth in the third quarter of this year.

The Worst Cities for Recession Recovery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1. Flint, Michigan

GDP at start of recession: $10.96 billion
End of 2010: $9.25 billion (-15.6%, projected)
Unemployment: 14.2%
Median home/median salary ratio: 1.5

Nowhere has been hurt by the recession more than Flint. Once an automotive center, the city's economy is projected to shrink by a Depression-like -15.6% from the start of the recession to the end of 2010. (A 10% decline of GDP is sometimes cited as a rule of thumb for depression.) Moody's estimates that Flint will not recover to its pre-recession size in the next decade.

2. Fresno, Calif.

GDP at start of recession: $30.1 billion
End of 2010: $29.4 billion (-2.5%, projected)
Unemployment: 15.5%
Median home/median salary ratio: 3.4

One of California's housing bubble cities that has seen jobs disappear along with collapsing home prices. Unemployment has soared over 15% in Fresno, as new home construction and realty (except for foreclosures) have lost their momentum. Moody's projects the economy will not return to its old size until the third quarter of 2011. Although home prices have plummeted, they're still not cheap.

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3. Detroit-Warren-Livonia, Mich.

GDP at start of recession: $160 billion
End of 2010: $149.8 billion (-6.4%, projected)
Unemployment: 13.6%
Median home/median salary ratio: 1.7

The collapse of General Motors and Chrysler has not been good for Detroit. Even if the countries emerge from bankruptcy newly triumphant, it will take a long time to reabsorb the ranks of the unemployed. On the plus side, those finding stable employment can take advantage of great home prices. Moody's projects the city's economy will not find a new peak for three years, by the second quarter of 2012.

4. Modesto, Calif.

GDP at start of recession: $14.5 billion
End of 2010: $14.2 billion (-1.8%, projected)
Unemployment: 16.8%
Median home/median salary ratio: 2.8

This California housing hot spot has seen unemployment soar as the bubble deflates, creating one of the highest rates of unemployment for any big city in the country. Home prices have fallen so far, however, that Modesto is starting to look affordable again.

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5. Salinas, Calif.

GDP at start of recession: $13.8 billion
End of 2010: $13.4 billion (-2%, projected)
Unemployment: 11.7%
Median home/median salary ratio: 3.8

The Salinas area, south of San Francisco along the coast, saw a tremendous surge in home prices and subsequent collapse. Prices are still high, far out of price ranges for many of the incomes earned by the agriculture that sustains much of the region.

To find the 10 cities poised for recovery, and the 10 cities with longest road to recovery, we used data on gross domestic product from Moody's Economy.com, unemployment and employment from the Bureau of Labor Statistics, home prices and affordability from the National Association of Homebuilders, and population data from the U.S. Census Bureau. Data are for Metropolitan Statistical Areas. Because, in general, healthy cities were not victims of as severe a housing collapse, home prices were not used in ranking the cities poised for recovery.