Economy

The Best And Worst Cities For Recession Recovery

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WASHINGTON - 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.

In Pictures: The 10 Best And 10 Worst U.S. Cities For Economic Recovery

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.

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