

# Houston, We Have No Problems

**T**O FIND A HOT SPOT WHERE SOARING OIL AND COMMODITY PRICES, AND THE BOOMING economies of the developing world, are keeping cash registers ringing and construction crews fully employed, you don't have to trek to Dubai or Moscow. You need travel only as far as Houston. In May, the unemployment rate in the nation's sixth largest metropolitan area was a measly 3.8 percent. In the past year, Houston-based companies, which include 26 Fortune 500 firms, added 71,000 jobs to their payrolls. The local United Way closed out its fiscal

year with a record \$76.1 million in donations. At the Galleria, a high-end shopping oasis, Bridgette Bottone, manager of the De Beers store, notes, "We're still selling the big guys": three-carat-plus diamonds that retail for more than \$50,000. Pessimists are as rare as Birkenstock sandals, or OBAMA '08 stickers in Exxon-Mobil's parking garage.

Houston's good fortune is largely a function of the current oil boom. But this isn't the type of gusher that led to busts in 1981 and 1986. Instead, Houston is experiencing a 21st-century boom fueled by a weak dollar and global growth. "Three things affect Houston's economy," says Patrick Jankowski, vice president of research at the Greater Houston Partnership: "the price of energy, the value of the dollar and the strength of the U.S. economy at large." As Meat Loaf said, two out of three ain't bad.

Houston's economy doesn't run on oil alone. "We're really diversified," says Mike Ballases, chairman of the Houston region for JPMorgan Chase, tongue partially in cheek. "We're only 50 percent dependent on energy." (The city's biggest employer: the Texas Medical Center, the nonprofit megaplex that runs two medical schools and 14 hospitals.) At Houston's port, the second busiest in America, cranes are loading ships with industrial equipment. Exports rose 25 percent in 2007, to \$72 billion.

Exports are rising because Houston has become a sort of Silicon Valley for the global energy industry. "There's hardly any oil and gas production in a 40-mile radius of Houston," says Mayor Bill White, a former energy executive, as he held court in the city's charming art deco city hall. (Think of a much smaller Rockefeller Center, but without the tourists.) "It's the knowledge that has concentrated here that is driving things." In 1981, the oil and gas industry was a domestic, blue-collar one. Today it's an international, white-collar one. Oil companies, wind-energy startups, consulting geologists and software developers compose what John Hofmeis-



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ter, who is retiring in July as president of Shell Oil Co., calls "this mass aggregation of people who know what they're doing in the energy world." Urban cowboy? Think suburban geek. Houston has 70,000 engineers and architects (a concentration 60 percent higher than is typical for the United States). The oil boom and weak dollar are boosting demand for their services, and engineering and construction firms like KBR and Fluor are applying their expertise to power plants and sewage facilities around the world.

In midtown New York eateries, suddenly strapped investment bankers are limiting themselves to *prix fixe* lunches. But at noon last week, the 130 seats at The Grove, an expense-account jewel box that overlooks Discovery Green—a downtown parking lot made into a 13-acre park—were filled with jovial diners. As we tucked into our skirt steaks (so big they should have been dress steaks) and a side of French fries smothered in shredded short ribs and cheese, UBS executive Stephen Trauber ticked off a series of recent deals

his team worked on that would make his New York counterparts weep: a \$3.5 billion oilfield-services acquisition, a giant initial public offering of a Brazilian oil company, several stock offerings.

With the mercury hitting 95 in the morning, the people in Houston might be overheating (climate change here means cranking up the air conditioning), but the real-estate market never did. The excess office space disgorged onto the market after Enron's bust was quickly absorbed. Chevron took over both Enron's old headquarters and the new building it was constructing. The residential market, which avoided a bubbly run-up—thanks to endless supplies of land and a lack of zoning laws—has remained buoyant. Development is rampant, from \$200,000 single-family homes in suburban planned communities to \$1.4 million town houses that have replaced student apartment buildings near Rice University. In 2001, when Enron imploded, 100 of the 1,600 homes in River Oaks, a tree-lined haven where old and new money coexist, were on the market, says Tim Surratt, a broker with Greenwood King. Today there are only 30 brick mansions for sale in River Oaks. In May, the number of homes sold in Houston fell 15.3 percent from May 2007, but the median price (\$155,000, about what a parking space in a new Brooklyn condo development goes for) was unchanged.

Houstonian boosters (a redundancy, I know) think there's more of the same to come. "One million people are coming here in this next decade," says Jeff Moseley, chairman of the Greater Houston Partnership. "That's the entire population of San Antonio."

Such projections of endless growth are characteristic of bubbles that are about to pop. But they're also characteristic of an area that finds itself uniquely situated to capitalize on the longstanding megatrends that are transforming the global economy. For now, Houston does not have a problem.