

Employment Update

Local Employment is Up

The 10-county Houston-Sugar Land-Baytown Metropolitan Statistical Area surpassed its pre-recession employment peak in the fall, according to estimates released by the Texas Workforce Commission (TWC). Nonfarm payroll employment is now at the highest point in Houston's history. On an unadjusted basis, TWC estimates November '11 payroll employment for the region at 2,646,200. The previous peak was 2,628,300 in December '08. Furthermore, Houston was the first of the nation's 20 most populous metros to reach that milestone. Population gains in the Houston area are helping to fuel job growth in several key consumer sectors. In 2011, Houston-area employers created 87,900 new jobs, a year-over-year increase of 3.4 percent. That robust job growth helped to push the local unemployment rate down to 7.6 percent, its lowest in more than two years. The unemployment rate was 8.1 percent in October '11 and 8.5 percent in November '10.

More area companies in Houston look to add employees in 2012 per a survey by KPMG. The explosion of oil & gas exploration & production of shale plays in South Texas and across the U.S. has led to a demand for energy sector workers at all levels – from executive management and leadership to the trades. Across the board, energy companies are looking for engineers, geologists, rig hands, welders, truck drivers, and a handful of other skilled workers. Houston is still by far the leader in the hiring outlook for 2012 out of 23 cities surveyed nationwide.

Modest Improvement in the U.S. Job Market

The job market is looking a little brighter at the start of the new year. Unemployment rates fell in three-quarters of large U.S. cities in November. The second straight month of declines for most major markets suggests the modest improvement in the job market is widespread. The Labor Department said the unemployment rates fell in 277 metro areas. Nationwide, the unemployment rate fell to 8.6 percent in November, the lowest level in 2 ½ years. The unemployment rate, which peaked at 10.1 percent in October 2009 and stood at 9.1 percent at the start of last year, has fallen four months straight.

The U.S. added 200,000 jobs in December 2011, per the Labor Department. Consumer confidence has lifted, factories have stepped up production, and small businesses are showing signs of life. It was the sixth consecutive month that the economy showed a net gain of more than 100,000 jobs.

The Associated Press survey of economists expect the economy to grow 2.4 percent in 2012. In 2011, it likely grew less than 2 percent. They expect the country to create

177,000 jobs a month through Election Day 2012, which would be up from an average 132,000 jobs a month in 2011.

5 Most Populous Metro Areas of Job Losses and Gains through November '11

Metro	Jobs Lost	Jobs Gained	% Jobs Regained
Houston	121	131	108%
Boston	105	79	76%
DC	96	70	73%
Dallas	160	107	69%
Baltimore	70	29	41%

Houston a Merger Hot Spot

Houston took the No. 2 spot for U.S. cities behind NY in merger & acquisition activity for the first three quarters of 2011. A survey by NY based Mergermarket shows a total of 158 M & A deals involving Houston companies were announced in the January-September 2011 period, which is up from 150 deals in the same nine months of 2010. Houston's M & A activity is predicted to continue and oil field services companies will play a larger role. There are a lot of companies with strong balance sheets here in Houston, and they are the ones that have the cash reserves and strong credit to get these deals done. The deals are growth-oriented deals, not deals that are intended to cut costs or people.

Some of the Most Significant Acquisitions in 2011

- BHP Billiton Petroleum – Petrohawk Energy
- Ensco International – Pride International
- Kinder Morgan – El Paso
- Houston Astros – Jim Crane
- Apache – some assets of Exxon Mobil
- National Oilwell Varco – Ameron International Corp
- Magnum Hunter Resources Corp – NuLoch Resources

Metro Areas in Texas Fare Well

The Milken Institute has ranked San Antonio as the best-performing U.S. city for 2011 in its annual ranking of metropolitan areas. Reasons for leaping to the top spot this year include military base realignment, drilling in the Eagle Ford Shale and the health care industry's growth. Texas cities dominated the top of the Best-Performing Cities list, with El Paso, Austin-Round Rock and Killeen-Temple-Fort Hood also making the top 10. Houston ranked 16th overall, but was No. 1 from among the nation's 10 largest metropolitan areas. Texas accounted for one in every five jobs created in the U.S. between June 2010 and June 2011. Houston and Dallas alone were responsible for one in every 10 new jobs in the country.

Energy Market – Eagle Ford Shale Has Supported Boom

The year finished with 2,007 drilling rigs working in North America, up from 1,700 the first week of January '11 and two dozen shy of 2,031, the prerecession peak of mid-September '08. Two factors—the rich potential of the Eagle Ford Shale and sustained high oil prices—have supported the boom.

There's a great deal of buzz about the Eagle Ford Shale but a lack of insight as to its significance for Houston. The Eagle Ford Shale is a band of oil and natural gas bearing rock about 250 feet thick, 400 miles long, and 4,000 to 12,000 feet below the earth's surface. In Texas, it extends from Webb and Maverick Counties on the U.S.-Mexico border to Leon County northeast of College Station. The Eagle Ford is a game changer for the United States. Reserves are estimated at 3 billion barrels. Consulting firm Tudor, Pickering, Holt & Co. forecasts that in four years the Eagle Ford Shale could produce 1.2 million barrels per day, or one-sixth of U.S. production. It is a game changer for Houston as well. The Eagle Ford could keep the drilling industry busy for the next 20 years.

Houston Office Market Experiences Robust Leasing Activity

The Houston office market continues to experience robust leasing activity. Preliminary reports from brokerage firm Jones Lang LaSalle (JLL) indicate Houston absorbed 2.8 million square feet of office space in '11; that's up from a negative absorption of 320,000 square feet in '10. The overall office vacancy rate now stands at 17.4 percent, with a slight difference between rates downtown and the suburbs (17.3 percent versus 17.4) and larger difference in the market between space rated Class A and Class B (16.2 percent versus 18.9 percent). Nine of the top 10 leases signed in the fourth quarter of last year involved energy, energy service, engineering or chemical companies renewing or expanding leases. JLL's *Office Sentiment Gauge* reports that leasing activity, office rents, sales volumes and construction starts are up for Houston, one of only a handful of the 44 markets that JLL tracks to report strong activity across those indicators.

The Top 10 New Lease Renewals/Expansions for 2011 Q4 include:

- Shell Oil (oil and gas exploration and production), 1,300,000 sf
- Universal Pegasus (engineering services), 160,000 sf
- Schlumberger (oil field services), 105,000 sf
- Carrizo Oil & Gas (oil and gas exploration and production), 95,000 sf
- RPC (oil field services), 79,000 sf
- Cobalt International (oil and gas exploration and production), 71,000 sf
- Nexeo Solutions (chemicals distributor), 64,000 sf
- SM Energy (oil and gas exploration and production), 52,000 sf
- Walter Oil & Gas (oil and gas exploration and production), 45,000 sf
- BDP International (logistics), 44,000 sf

Sources: Greater Houston Partnership; Houston Chronicle; Houston Business Journal