

COMING MONDAY

■ In the State Your Case column, Ronald Lipman discusses tax implications for a gift of foreign currency.

ENERGY | BANKING | REAL ESTATE | STOCKS | MARKETING | RETAIL | TECHNOLOGY | OIL | COMPUTING | MONEY

If only jobs were as plentiful as oil in Saudi Arabia

RIYADH, Saudi Arabia — I did something here that I shouldn't have done.

On Monday, I walked a block or so up bustling Olaya Road and ate lunch at a Hardee's. I have a personal rule when I travel, especially to countries to which I've never been: Don't



LOREN STEFFY

eat food from home.

It's not an easy policy to follow here because almost every major American restaurant chain is represented — from

Applebee's to Subway. The Kingdom Centre mall is anchored by Saks Fifth Avenue and dotted with a Sunglass Hut, Athlete's Foot and the Limited.

The roads seem to be jammed with more American cars than American roads are.

"People don't believe me when I say this, but with the exception of Canada, this



is the most Americanized country in the world," said Les Danka, vice chairman of the American Business Group of Riyadh.

The abundance of U.S. retail brands, though, only tells a small part — and perhaps the easiest part — of a private-sector economy that has grown rapidly since 2005.

Saudi Arabia has little trouble attracting foreign investment. Its bigger
Please see STEFFY, Page D2

Onshore oil helps fill gap from Gulf

■ Advances in technology pull more crude from American fields

REAL ESTATE

By BRETT CLANTON
HOUSTON CHRONICLE

A spill-related slowdown in the Gulf of Mexico could cut into oil production from the offshore basin for several years. But a number of emerging oil fields onshore, once thought out of reach, are helping the U.S. fill in the gap in the meantime.

Oil and gas companies, using techniques mastered in recent years to produce natural gas from shales and other dense rocks, are now having success extracting big quantities of oil from tight rock formations stretching from Texas to North Dakota.

Amid steadily high oil prices and a U.S. market saturated with low-price shale gas, they've had ample incentive to try.

In 2010, when an offshore disaster dominated the news, rising output from such fields — including North Dakota's Bakken Shale and the Eagle Ford Shale play in South Texas — quietly helped domestic crude oil production rise for the second year in a row, after years of declines.

Production also rose in the Gulf, where several new projects ramped up output. (A federal moratorium on deep-water drilling, which lasted for five months after the Deepwater Horizon accident, did not apply to producing platforms.)

Bigger contributions from U.S. onshore fields arrive at a good time. Due largely to moratorium-related delays, oil production in the Gulf will fall by 240,000 barrels per day this year and another 200,000 barrels per day in 2012, the U.S. Energy Information Administration forecast last month. Higher production from onshore fields will help offset the declines.

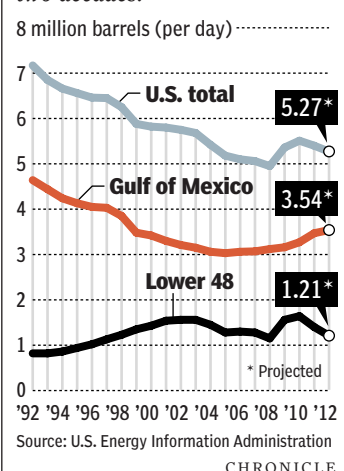
"That's sort of the silver lining," said Bob Fryklund, vice president of research at IHS-Cambridge Energy Research Associates.

How long that disruption in the Gulf will last remains an open question. Though the deep-water moratorium was lifted in October, regu-

Please see OIL, Page D2

U.S. OIL PRODUCTION

As partisans argue over who gets the credit or blame, here's what the numbers show about U.S. oil production in the last two decades.



MELISSA PHILLIP: CHRONICLE

■ **THE RIGHT THING TO DO:** Jack Dinerstein, left, and son Brian Dinerstein developed Millennium Waterway Ave in The Woodlands. It's LEED-registered.

Many home construction companies in the Houston area are part of the movement toward energy efficiency and related practices

Green builders take root

By DAVID KAPLAN
HOUSTON CHRONICLE

LOCAL architect LaVerne Williams has been green-minded for decades. After designing one of Houston's first green homes in Alief in 1979, he recalled that in summer, workers from nearby construction sites would drop by his nearly completed project on their lunch hour because it was cooler inside.

Since then, many people in Houston have adopted green home building practices, Williams said. Green home building can refer to lower energy bills, indoor air quality, use of recycled building materials, overhangs for shade and protection, sensitivity to the surrounding land and much more.

Home builders of all stripes, from national powerhouses focused on affordable suburban communities to family-owned builders of Memorial mansions, are going green, although there is plenty of disagreement over what "green" is.

A number of them — including David Weekly Homes, Perry Homes, KB Home and Meritage Homes — have a strong focus on energy-efficiency. Some builders, including Houston-based the Dinerstein Companies and Frankel Building Group, are seeking the rigorous LEED certification. Others, like Lennar, have signed on to a new certification program sponsored by the Greater Houston Builders Association, called Green Built Gulf Coast.



■ **SAVING ENERGY:** A KB Home employee installs sheathing along with double-pane windows. Both features improve a home's energy efficiency. KB Home builds in many local communities using Energy Star qualified standards. Home prices range from about \$91,000 to \$140,000.

While some builders may be waiting until the green movement is more accepted by the public, others see an advantage in being at the forefront.

"If I can market it as green, it outweighs the costs of bringing it up to green standards," said Alan Dossey, senior purchasing manager in the

Please see GREEN, Page D2

TAKING THE GREEN LEED

A number of certifications rate homes for greenness including, locally, the GHBA's Green Built Gulf Coast, with more info at greenbuiltgulfcoast.org.

LEED is among the best known nationally. LEED certification measures greenness with a four-tiered ratings system, from Certified to Silver to Gold to Platinum. Here are some LEED criteria:

- Waste reduction during construction and operation
- Indoor air quality
- Water reduction through efficient appliances, fixtures and fittings.
- Site sustainability, including the site's impact on water runoff, erosion and other ecosystems and how it rewards fuel-saving transportation choices.
- Energy efficiency through appliances, systems and lighting.

Source: U.S. Green Building Council

QUARTERLY MUTUAL FUND REPORT

Leaders of the pack

Many analysts predicted that small-cap stocks would lag in the first quarter. See what really happened. **PAGE D4**



OIL: New life from mature fields

CONTINUED FROM PAGE D1

lators so far have approved just nine permits for deep-water drilling activities that were covered by the ban. As a result, projects representing 400,000 barrels per day of production over the next five years are being pushed back from their original start dates, Fryklund said.

Rising output from onshore fields, however, could help keep total U.S. oil output flat or possibly higher in 2011 and over the next several years, he said.

Complex rock

Onshore fields, both old and new, are yielding more oil with the help of technology advances in drilling and production methods that have made complex rock formations more accessible and lowered development costs.

"Geologists have known that oil was there for years," said David Kirsch, industry analyst with PFC Energy. "It was just a question of how to get it out. It's a combination of project economics and technology coming together to make it viable."

The Bakken shale, for instance, could hold more than 4 billion barrels of undiscovered, technically recoverable oil — a 25-fold increase over what could be recovered in 1995, according to the U.S. Geological Survey. Other emerging U.S. oil fields include the Granite Wash, from North Texas into Oklahoma.

In addition, advanced drilling and extraction methods are boosting production in mature fields such as the Permian Basin in West Texas.

Greg Garland, ConocoPhillips' senior vice president of exploration and production for the Americas, recently said the company's Permian properties increased output last year — by 5,000 barrels per day — for the first time since 1972. "Horizontal drilling, these advanced fracturing techniques, are literally breathing new life into some of these old fields," he said.

In 2009, domestic oil production rose for the first time since 1991 as increases from deep-water fields in the Gulf and tight oil plays onshore like the Bakken overshadowed declines elsewhere.

Output hit 5.36 million barrels a day, up from 4.95 million barrels a day the year before, according to Energy Department figures. Last year, the trend continued, with production climbing to 5.51 million barrels per day.

Reduced imports

The gains have helped reduce U.S. oil imports, though the nation remains a long way from energy independence as Americans consume more than 18 million barrels of petroleum products a day.

The Obama administration has cited the production gains in answer to oil companies' complaints over the past year that the drilling ban and permitting delays in the Gulf have brought the U.S. oil and gas industry to its knees.

But critics say the administration is unfairly taking credit for rising production and falling imports when offshore projects coming onstream now were launched before President Barack Obama took office. And onshore gains are chiefly due to tight rock oil plays located on private and state lands, not federal.

brett.clanton@chron.com

STEFFY: Many prefer government checks

CONTINUED FROM PAGE D1

challenge is creating economic growth that isn't dependent on oil revenue.

In some ways, it's similar to the economic challenges that Texas faced 30 years ago, and as the world's biggest oil producer, Saudi Arabia's economic and political stability is the only thing standing between U.S. consumers and \$200 oil.

Thinking small

Small and midsize businesses account for as much as 90 percent of Saudi companies, and the government wants to encourage their growth to combat unemployment, which is as high as 43 percent among workers in their 20s, the largest piece of the population.

The 100 fastest-growing private companies generated about 15,000 jobs in the past five years. That's a good start, but not enough to bring down the high unemployment rate.

"It's not on a scale that can generate the jobs that are needed," said Robert Jordan, the former U.S. ambassador to Saudi Arabia



LOREN STEFFY: CHRONICLE

FAMILIAR BRAND: Many U.S. chains have a presence in Saudi Arabia. "With the exception of Canada, this is the most Americanized country in the world," says Les Danka of the American Business Group of Riyadh.

who now leads the Dubai office of Houston law firm Baker Botts. "People are used to looking to the government."

Little experience

King Abdullah Bin Abdul Aziz recently announced he would dole out \$36 billion

to the people. When the government essentially pays people who don't work, many simply won't.

Students, for example, get a stipend, and while they may emerge from college with ideas of starting their own businesses, many lack the experience, having never

held even a part-time job.

Employers often favor hiring immigrant workers because they can pay them less. Almost 6 million immigrant workers make up as much as 80 percent of the kingdom's workforce.

Yet the government has resisted calls from some Saudi workers to form trade unions, which they say are necessary for protecting their rights. Instead, the kingdom adopted a minimum wage in hopes of addressing some worker concerns.

New mortgage laws

It also loosened mortgage laws to encourage homeownership, raising the amount Saudis could borrow to 500,000 riyals — about \$133,000 — from 300,000. Saudi banks are prohibited from charging interest, but homeowners who repay their loans on time get 30 percent of the principal forgiven, Khaled Al-Ateeq, an adviser to the minister of culture and information, told me.

"It's making it easier for people to buy houses," he said. The government hopes the plan will encourage construction of half a million

homes, and some are already under way. Near the airport in Dammam, in the eastern province, streetlights rise from the desert sand, the marker for as many as 100,000 new homes.

For almost a decade, the kingdom has promoted "Saudization," a plan to encourage companies to hire more Saudis rather than foreign workers. In one case, the government asked taxicab companies to hire 7,000 Saudi drivers, but only 17 interested applicants came forward, and of those, only two actually showed up for job interviews, a cab company told a local newspaper.

The rest, it seems, would rather collect their government check and go to Hardee's, which may be the kingdom's greatest challenge in diversifying its economy.

Loren Steffy is the Chronicle's business columnist. His commentary appears Sundays, Wednesdays and Fridays. Contact him at loren.steffy@chron.com. His blog is at http://blogs.chron.com/lorensteffy.

GREEN: Marketing a 'better way to build'

CONTINUED FROM PAGE D1

Houston office of Miami-based Lennar Corp.

The Houston home building community's embrace of the green movement has been "a little bit slow," but home builders do watch trends and green building is the future, said Toy Wood, CEO of the Greater Houston Builders Association.

"It's a marketing tool and a better way to build," she said.

"Some builders are deep green, some are light green and some are shady green," said Williams, who owns the architecture firm Environment Associates and helped found the original Houston chapter of the American Institute of Architect's Committee on the Environment. He used "shady" to refer to any builder who does business as usual while spinning it as green, which is known as "green washing."

Wood offered a reason why so many builders are emphasizing energy efficiency when going green: "The average homebuyer just wants to save money," she said, and energy efficiency translates into lower utility bills.

Tough choices

Some homebuyers are conflicted, she said: "You still have a situation where I can have a tankless water heater or a granite counter top." Some will take the granite counter top, although eventually prices on more sustainable items and practices will go down, she said.

"We think having a choice is a good thing," said Nate Kredich, vice president of residential market development at the United States Green Building Council in Washington, D.C., the developer of LEED, or Leadership in Energy and Environmental Design, certification.

LEED certification, which is third party-verified, rates a commercial or a residential building on criteria such as energy savings, water efficiencies, indoor air



JERRY BAKER: FOR THE CHRONICLE

NOT JUST A FAD: Scott Frankel, left, and Kevin Frankel show off the attic in an upscale green model home in ParkGate Reserve in The Woodlands.

quality, carbon dioxide emissions, waste reduction and how its location fits into a community. Third party verifiers undergo training by the USGBC.

Some people think mostly about energy efficiency, but if a home owner's child has asthma, they might care more about air quality, Kredich said.

LEED certification had its origins in the commercial market but is now taking off in the residential field, Kredich said.

Third-party inspections

Certification programs such as LEED involve third-party inspectors, and some builders don't like somebody else looking over their shoulder telling them what to do — not to mention the extra cost, Williams said.

If LEED had greater brand recognition in the home market, Lennar's Dossey said he would consider it, but for now he believes the cost to enroll in LEED is not worth it. He said enrollment in Green Built Gulf Coast is much less.

The Dinerstein Companies, national builders of apartments and student housing, is committed to

LEED projects, partner Brian Dinerstein said: "It's the right thing to do, and it's a way to differentiate ourselves."

The company has capitalized 12 LEED-registered projects nationally.

Dinerstein's 393-unit Millennium Waterway Ave in The Woodlands opened in December, and he expects to have 90 percent occupancy by June. Rents are from \$1,200 to \$2,700.

His partner on the project, Woodlands Development Co., is like-minded when it comes to green initiatives, he said.

An urban LEED-certified apartment projects cost 2 to 3 percent more, said Dinerstein who is planning a LEED-certified apartment project in the Galleria area. Flight attendant Amy Perry moved to the Millennium Waterway apartments a few months ago.

"I love it," she said. "My utility bills are so much lower."

After working in their family's local home building business three years, brothers Scott and Kevin Frankel decided they wanted make the company greener.

"Every Realtor, banker and others we talked to said

green is just a fad — a way for suppliers to make more money," Scott Frankel said, but they were undaunted. They have since registered 25 homes for LEED certification, Frankel said.

Adding value

It may cost their client \$15,000 to \$20,000 more to build LEED but it adds much more than that in terms of energy savings, durability and resale value, he said.

Ranging from \$750,000 to \$3 million, their homes have high-efficiency furnaces, tank-less water heaters and dual-speed air conditioning condensing units.

Several large home building companies are focused more on energy efficiency.

"All Perry Homes meet or exceed Energy Star specifications," said Jerry Zamzow, chief financial officer of Perry Homes. Developed by the Environmental Protection Agency, Energy Star criteria include effective heating and cooling equipment and insulation and high-performance windows.

On Wednesday Meritage Homes will open an "Extreme Energy Efficient"

Community in Cinco Ranch in Katy. The Energy Star-qualified homes cut utility consumption dramatically, said C.R. Heelo, vice president for environmental affairs at Scottsdale, Ariz.-based Meritage homes. It costs Meritage about 10 percent more to build using energy efficient homes, but the houses remain competitively priced, he said.

Much more efficient

David Weekly, founder and chairman of David Weekly Homes, said the homes he's building now compared with five years ago are twice as energy efficient.

His energy-efficient Energy Star-qualified homes cost \$3,000 to \$5,000 more to build but home owners spend less per month to own one because of lower energy usage, he said. His homes come with an energy usage guarantee, he said.

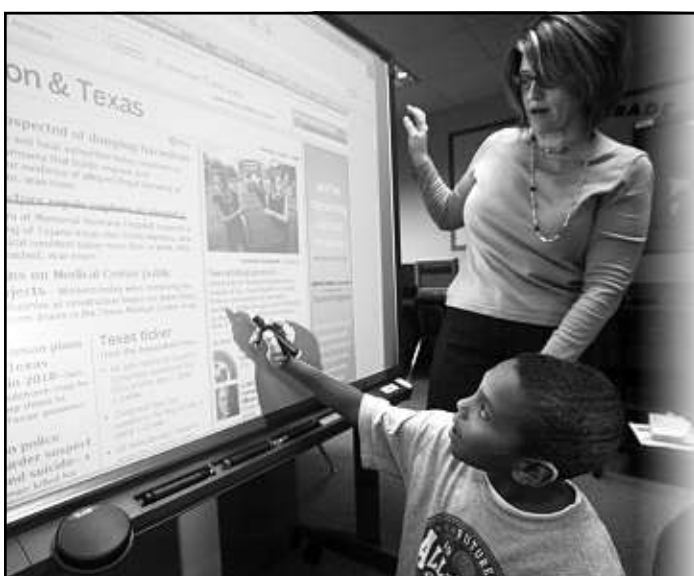
Gene Swang, division president of David Weekly, said the company also strives to be green in the healthy sense. The home builder uses cycled fresh air ventilation, for example.

Health and indoor air quality should be a bigger part of green building conversation, Williams said, because some building materials are made with toxic chemicals.

"Eventually, all home builders will have to build green to be competitive, GHBA's Wood said: "One day we won't call it 'green building.' It will just be the way that everybody builds."

Andrea Palmer, national program director of Oklahoma City-based GWS, an engineering firm offering third-party certification and consulting services, said a good way for consumers to determine the greenness of a home is to see if it has been certified by a trusted source such as LEED, Energy Star, Green Built Gulf Coast, the National Association of Home Builders' "National Green Building Standard" and the U.S. Department of Energy's "Builder's Challenge."

david.kaplan@chron.com



Thank you
 TOYOTA
 for supporting
 education and literacy!

Every day TOYOTA provides education and literacy tools that enrich lives of families and children in our community. Through its generosity, hundreds of needy students receive Readers Are Leaders Foundation programs that teach math, science, language arts and social studies—for today and for the future.

You can inspire students, too!
 Make your donation at readersareleadersfoundation.org
 or call 713-362-7641 to become a corporate sponsor.

HOUSTON CHRONICLE
 Chronicle In Education
chron.com/cie

Readers Are Leaders
 FOUNDATION
 Supporting Literacy Through Newspapers In Education