

# POLITICAL CYCLES AND REIT RETURNS

**Sanjay Ramchander\***

Department of Finance and Real Estate  
Colorado State University  
Fort Collins, CO 80523  
(970) 491-6681  
Sanjay.Ramchander@colostate.edu

**Marc W. Simpson**

Department of Finance  
Northern Illinois University  
DeKalb, IL 60115  
(815) 753-6362  
MWSimpson@hotmail.com

**James R. Webb**

Department of Finance  
James J. Nance College of Business  
Cleveland State University  
Cleveland, OH 44115  
(216) 687-4732  
J.Webb@csuohio.edu

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\*Corresponding author

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## **ABSTRACT**

This study examines the hypothesis that the U.S. presidential election cycle, the political party in power, and government gridlock significantly influence REIT Index excess returns. The study covers the period February 1972 through January 2007. The results indicate that REITs are significantly influenced by the political environment, and the nature of the association is more complex than often perceived. REITs provide better returns: (a) under the joint condition that the Fed pursues an expansionary monetary policy and the Republican Party controls the White House, (b) during the last two years of the President's term than during the first two years, (c) when there is political gridlock in the Congress, and (d) when there is political unity under Republican leadership in the executive and legislative branches of the government. The study also finds that monetary policy conditions play a vital role in mediating the relationship between political variables and REIT excess returns.

# POLITICAL CYCLES AND REIT RETURNS

## 1. Introduction

Do political election cycles and the political party in power influence real estate market returns? There seems to be widespread anecdotal evidence that political factors impact equity market returns, and in recent years these beliefs have found varying degrees of support within the academic community.

In discussing the possible relationships between politics and capital markets researchers postulate that governments are motivated by opportunistic and/or partisan incentives to influence the economy. Studies such as those by Lindbeck (1976), Bailey (1978) and Tufte (1978) emphasize the opportunistic incentives of policymakers. Specifically, they document that presidential administrations, regardless of the political orientation of the incumbent administration, have the incentive to stimulate economic conditions in order to enhance their likelihood of being reelected. These sentiments are echoed by Nordhaus (1975), who indicates that, “there is a predictable pattern of policy, starting with relative austerity in early years and ending with the potlatch right before elections.”

Furthermore, changes in the political leadership and balance of power can alter laws and policies that govern many different aspects of the economy and financial markets. Emphasizing the partisan orientation motive, Hibbs (1977) posits that short- and long-term policy choices of governments are important determinants of economic performance. He argues that left-oriented, or liberal, parties (like the Democratic Party in the U.S.) are more likely than right-oriented, or conservative, parties (like the Republican Party in the U.S.) to pursue expansionary fiscal and monetary policies that stimulate employment because of their traditional affiliation with labor. On the other hand, right-wing parties are prone to use deflationary fiscal and monetary policies

because of their putative affiliation with capital. Therefore, it is reasonable to expect such policy differences between political parties will be reflected in financial markets.

The above line of reasoning, however, stands in contrast with Buchanan (1967) who theorizes that the outcome of political elections should have very little effect on markets. This is because, once in power, both parties have the incentive to design and implement centrist policies that appeal to the largest number of voters. In this framework, capital market outcomes are presumed to be largely independent of political influences.<sup>1</sup>

Others, exploring a different dimension, suggest a relationship between political gridlock in the government, legislative enactments and market returns. In a two-party democratic system, such as the U.S., governmental gridlock (or division) is defined as when the U.S. House of Representatives, the Senate, and the Presidency are not controlled by the same political party.<sup>2</sup> Political harmony (or unity), on the other hand, is a condition that exists when both the legislative and executive branches of the government are controlled by the same party. On one side of the argument, several scholars, in the political science arena, suggest that a government in gridlock is less likely to pass “important,” “significant,” “landmark,” or “conflictual” legislation (Krehbiel, 1997; Edwards, Barrett, and Peake, 1997; Coleman, 1999; and Bowling and Ferguson, 2001). In fact, Coleman (1999) finds that a harmonious political environment usually produces, on average, about one or two additional significant enactments per congressional session than does a divided government. Extending this line of reasoning, Byrne (2004) argues that capital markets are likely to perform better when chances of legislative uncertainties are vastly

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<sup>1</sup> These conclusions can also be arrived independently if one assumes economic agents (voters) to hold rational expectations since any differences in monetary or fiscal policies rates across political parties would result in only short-term, temporary fluctuations in output and employment (see Alesina, 1989, Rogoff and Sibert, 1988, Rogoff, 1990, and Alesina and Roubini, 1992).

<sup>2</sup> Later we distinguish overall political gridlock from congressional gridlock where the Senate and the House are controlled by different political parties.

diminished. This gives rise to the popular notion that “gridlock is good,” a view widely held by market participants (also see Kelly, 1993). On the other hand, political gridlock can inhibit the government’s ability to react quickly to exogenous economic shocks, thereby engendering greater risks to the economy. These risks may manifest themselves in the form of increased levels of public debt and higher real interest rates (see Alt and Lowry, 1994, Roubini and Sachs, 1989, and Grilli, Masciandaro and Tabellini, 1991).

The purpose of this study is to examine the behavior of real estate investment trusts (REITs) under various political environments. Unlike previous work that focuses on the general stock market, this study represents the first systematic examination of the influence of politics on a single restricted class of equities - specifically, REITs. REITs represent an interesting case study to examine the impact of politics for several reasons. First, the creation of these securities itself required an act of the Congress in 1960. Furthermore, the unique institutional structure of REITs – i.e., reduced role of information asymmetry combined with enhanced transparency of underlying assets – make it easier to discern and interpret their response to changes in political conditions. Second, the differences in size and maturity of the REIT sector relative to the overall equity market provides additional motivation to examine this particular sector on a stand-alone basis. Specifically, these securities have been documented to be closer in nature to small/mid cap stock than large cap stocks (Liu and Mei, 1992), while previous studies of the influence of politics on returns has focused on large cap stocks. Therefore, it is not obvious that the results from studies using large cap stocks can be directly applied to REITs. Finally, one can draw an economic argument for the link between REITs and politics because of their close relationship with variables such as interest rates (Chen and Tzang, 1988) and federal deficits (Darrat and Glascock, 1989) which are themselves known to be influenced by the political environment. To

the extent that political cycles and partisan orientation are viewed as having a beneficial or adverse impact on the economy and capital markets, it is reasonable to expect REITs to reflect such political influences.

The analysis undertaken in this study is comprehensive in scope – it attempts to consider the influence of several political variables including presidential election cycles, party of the President and Congress, and gridlock-harmony conditions in the government. The results would provide insights to managers of mixed-asset portfolio that include REITs, and to other market participants who wish to benefit from an understanding of the interplay between politics and REIT returns.

Four key empirical questions are addressed in this study. First, does the political party of the President influence REIT returns? Second, is there a presidential election cycle pattern in REIT excess returns? Third, if there is evidence of a presidential cycle, does it persist during both Democratic and Republican administrations? Finally, what is the impact of political gridlock and harmony on REIT performance?

In order to convincingly attribute the differential performance of REIT returns to varying political conditions, it is important to answer whether political variables have their own explanatory power in explaining returns, or are they merely a reflection of general economic factors. To the extent that REIT returns are influenced by such factors, they must be controlled. Monetary policy is one important economic factor. Bredin et al. (2007) indicate that the demand in the underlying real estate market is sensitive to changes in monetary policy because of their impact on general economic activity. Specifically, given the linkages between the space and capital markets, changes in monetary policy can affect REIT returns by influencing both the cap rates and dividend payments of the firm. In related research, Conover, Jensen, and Johnson

(1999) argue that central bank monetary easing corresponds with economic slowdown and leads to a rise of required *ex ante* and realized *ex post* common stock returns. Other studies suggest that changes in monetary policy have an impact on the movement of both short-run (Smirlock and Yawitz, 1985; Cook and Hahn, 1988) and long-run (Jensen and Johnson, 1995) common stock returns in the U.S. Jensen and Johnson (1995), employing data for the period 1962 through 1991, find equity market returns to be significantly greater during expansive monetary policy periods than during contractionary periods, a result that has been corroborated in various international markets (see Jensen, Mercer and Johnson, 1996; Patelis, 1997; and Thorbecke, 1997).

## **2. Literature Review**

Most of the research in this area study U.S. equity and bond markets and indicate that the four-year cycle of presidential elections have an influence on the U.S. equities market. Specifically, common stock market returns are significantly higher during the last two years of the President's term than the returns during the first two years. This pattern, commonly referred to as the presidential election cycle in stock market returns, has been confirmed by Allivine and O'Neill (1980), Gartner and Wellershoff (1995), and Hensel and Ziemba (1995). In addition, Huang (1985) documents that the presidential election cycle is present in both Democratic and Republican administrations, but is more pronounced in Democratic administrations.

In comparing the stock market performance under Republican and Democratic presidencies, Riley and Luksetich (1980) provide evidence consistent with the conventional wisdom that equity markets prefer Republicans, and that the markets tend to rise following presidential elections. There is also limited evidence from the bond markets that fixed-income securities across various term structures fare much better during Republican administrations.

Chittenden, Jensen, and Johnson (1999) report that bond returns are about twice as high in Republican administrations than during Democratic administrations.

In a more recent study, however, Santa-Clara and Valkanov (2003) document that risk premiums in the U.S. stock market are higher under Democratic presidencies. Using data from 1927 to 1998, they find that the excess return of the *value weighted* index over the three-month Treasury bill rate is about 2.0 percent under the Republicans and 11.0 percent under Democratic presidencies. This out performance is even more compelling when returns are measured using an *equally weighted* stock index. These results, which are economically and statistically significant, are puzzling, especially since the higher risk premiums earned during Democratic administrations are associated with lower volatility of returns. They conclude that presidential parties capture variations in returns that are largely uncorrelated to what is explained by business cycle fluctuations.

With regards to the influence of the political balance of power, Beyer, Jensen, and Johnson (2006) dispel the popular notion that “gridlock is good” for equity markets. They document that equity market returns are lower and more volatile during periods of political gridlock in the government. In contrast, fixed-income securities fare much better during gridlock suggesting that during such periods the fear among bond investors of government expansion and inflation is subdued. These results are independent of prevailing monetary policy conditions.

### **3. Data and Methodology**

The monthly returns on four REIT indexes compiled by the *National Association for Real Estate Investment Trusts* (NAREIT) are used in this study. The four NAREIT indexes are comprised of different types of REITs. The first index tracks returns of REITs that invest directly in property (equity REITs), the second index follows the returns of REITs that invest in mortgages

(mortgage REITs), the third index is comprised of REITs which hold positions in both mortgages and in real estate equity (hybrid REITs), and the last index is comprised of all publicly traded REITs.

The monthly risk-adjusted excess return on each index is computed using the market model, where the return on each REIT index is regressed on the return of a market index. In this case, the return on the CRSP *value weighted* index is used as a proxy for the market return.

$$R_t^i = \alpha + \beta R_t^m + \varepsilon_t^i. \quad (1)$$

Where  $R_t^i$  is the return on REIT index  $i$ , at time  $t$ ,  $R_t^m$  is the return on the market at time  $t$ ,  $\alpha$  and  $\beta$  are parameters to be estimated and  $\varepsilon_t^i$  is the risk-adjusted excess, or abnormal return on the  $i^{\text{th}}$  index, at time  $t$  (Copeland, Weston, and Shastri, 2005, p. 378).<sup>3</sup>

The analyses then involve averaging the  $\varepsilon_t^i$  for the different indexes over different time periods, where the time periods are defined by the various possible political and monetary conditions. Comparisons are then made of the difference in the means and variances of the  $\varepsilon_t^i$  during the different periods.

An important consideration while interpreting the results is to account for the potential impact of the monetary policy environment in mediating the relationship between political variables and REIT excess returns. The monetary environment is classified as either expansionary or contractionary based on the *Federal Open Market Committee's* (FOMC's) decision to change the Fed Funds target interest rate. Tightening monetary policy periods are characterized by an increase in the target fed funds rate; whereas, loosening monetary policy periods are associated with a decrease in the target rate. Following Jensen, Mercer, and Johnson

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<sup>3</sup> As pointed out by Copeland, Weston, and Shastri (2005), the market model, unlike the CAPM and the empirical market line, has the advantage that it is not subject to the *Roll Critique*.

(1996), the Fed is assumed to be operating under the same monetary policy stance as long as consecutive rate changes are all in the same direction.

Table 1 (Panels A, B, C, D, and E) provides a description of the different time periods based on the various defining characteristics. An examination of Panel A indicates that over the sample period February 1972 through January 2007, the Republican Party controlled the White House for 276 months; whereas, the candidate from the Democratic Party occupied the Presidency for 144 months. In comparison to the executive branch of the government, the legislative branch was controlled more frequently by the Democratic Party than the Republican Party (see Panels B and C).

Panel D delineates the periods of political gridlock versus those of political harmony. Political harmony is defined as a period during which one political party controls both houses of Congress and the Presidency. Periods of gridlock are more common than periods of harmony. For example, there are a total of 307 months in the sample that are characterized by gridlock, while there are only 113 months of harmony. Of the 113 months of harmony, 60 are Democratic Harmony and 53 are Republican Harmony.

Evidence from Panel E provides indication of the monetary policy environment over the entire sample period. Tightening and loosening monetary policy periods prevailed for 196 and 224 months, respectively. A further review of the table indicates that, for the entire period in question, there are 7 sub-periods that can be considered expansionary, as indicated by declining fed funds target rates, and 8 sub-periods that can be considered contractionary, as indicated by increasing interest rates. The average length of each expansionary period was about 1.3 times as large as the contractionary period (32 months and 24.5 months, respectively).

## 4. Results

The results from the presidential political cycle analysis are discussed first, followed by an analysis of the impact of political gridlock on REIT excess returns.

### *4.1 Party of the President, Monetary Policy and REIT Excess Returns*

Tables 2 and 3 provide evidence on the individual correspondence between political party of the President and REIT excess returns, and the monetary policy environment and REIT excess returns.

Table 2 provides the mean monthly excess returns and standard deviations for different styles of REITs sorted by periods of Republican versus Democratic control of the White House. REITs offer higher returns during Republican presidential administrations than during Democratic administrations; however, this return difference is not statistically significant. Furthermore, in the case of equity REITs, the standard deviation of returns under Republican presidents is significantly lower (at the 5 percent level) than those associated with Democratic presidents.

Table 3 presents the influence of the monetary policy environment on REIT returns. Consistent with prior evidence from the stock market, the table indicates that excess returns from various types of REITs, with the exception of equity REITs, are significantly greater during expansive monetary policy periods than during restrictive periods. Furthermore, with the exception of mortgage REITs, higher excess returns during expansionary monetary policy periods cannot be attributed to increased volatility.

Having established the primacy of monetary policy in influencing the REIT return generating process, Table 4 of the table reexamines the relationship between the party of the President in power and REIT excess returns under different monetary policy environments. Two

noteworthy results are evident. First, and most notably, the superior REIT performance under an expansive monetary policy environment is coincidental with a Republican presidency. For instance, the excess returns for the All REIT index during a Republican presidency are 0.43 percent and -0.51 percent under a loosening and tightening monetary policy environment, respectively. This monthly excess return advantage of 0.94 percent is statistically significant at the five percent level, and importantly, the finding cannot be explained by higher standard deviations of returns. The comparable return advantage for equity REITs is 0.62 percent, mortgage REITs is 1.84 percent, and hybrid REITs is 1.89 percent.

Second, in general, the political party in control of the White House has no significant role to play in explaining the differences in excess returns within a particular phase of the monetary policy environment. Hybrid REITs represent the only exception. Specifically, under an expansionary monetary policy condition, hybrids provide larger relative excess returns (about 1.37 percent; significant at the five percent level) during Republican presidential administrations as opposed to Democratic presidencies.

#### *4.2 Presidential Election Cycle, Party of the President, Monetary Policy, and REIT Excess Returns*

In this section, excess returns are evaluated on an annual basis in order to determine whether there exists a presidential election cycle pattern for REITs. Past research suggests that a presidential cycle exists – in particular, stock market returns are significantly lower during the first and second years of a president’s term than during the third and fourth years of the term. Based on the results reported in Table 5, a similar pattern is documented for REITs. A casual observation of the results across all types of REITs indicates that excess returns are found to be the highest during the fourth year of a presidential term and the lowest during the second year of

the term. This is illustrated by examining the combined REIT index excess returns. The monthly excess returns for the fourth year of a president's term average 0.78 percent, compared to -0.66 percent during the second year of a president's term in office, a difference of 1.44 percent. The difference in excess returns is even more dramatic in the case of hybrid REITs, where the fourth year of the presidential cycle returns provide an additional return that is, on average, 1.81 percent greater than second year returns. Moreover, the volatility of the excess returns is lower during the last year of the presidential term than for the second year. It is also pertinent to note that, with the exception of equity REITs, the reported t-statistics reject the hypothesis that the mean excess return for the fourth year of a president's term is equal to the unconditional mean over the entire sample. In addition, the hypothesis that the mean returns for each year are equal to each other is rejected in the case of the All REIT index and hybrid REITs.

Panel B at the bottom of Table 5 compares excess return differences between the first half and second half of the presidential term. Uniformly, for all types of REITs, average excess returns are negative in the first half of a president's term and positive in the second half. This difference is statistically significant for all different REIT types, except for equity REITs. In the case of equity REITs, the hypothesis that the average excess returns in the two halves of the presidents' terms were equal could only be rejected at the 11 percent level.

The evidence presented in Table 6 answers the question of whether the documented presidential cycle in REIT returns is observed across political party lines or is a phenomenon that persists with both political parties. Several interesting insights are provided. First, a cursory comparison of the results across different types of REITs indicates that excess returns during the fourth year of a President's term are the highest, and this is valid regardless of the President's party affiliation. Second, it is evident that the fourth year returns associated with a Democratic

presidency is higher than those obtained under Republican leadership. For instance, for the All REIT index, the fourth year excess return with Democratic control of the White House is 1.09 percent, compared to 0.62 for Republican presidencies. This difference amounts to about 5.64 percent on an annual basis – a return advantage that appears to be significant from an economic standpoint, but does not however translate into statistical significance. In comparison, during the second year of the presidential term, excess returns are much lower during Democratic leadership (see mortgage and hybrid REITs). It also bears noting that, with the exception of mortgage REITs, the fourth year excess returns are significantly more volatile under a Democratic presidential administration. Finally, the previous observation (see Table 5) that returns for the combined REIT index and hybrid REITs vary significantly across the 4-year presidential term is one that can be clarified further. Specifically, under Republican presidencies the hypothesis that the returns during each year of the President’s term are equal to each other cannot be rejected. However, this hypothesis is easily rejected, at the 1 percent level of significance, for Democratic presidencies.

The evidence from Panel B indicates that the superior performance of REITs during the second half of the President’s term is more closely associated with the Republican Party as opposed to the Democratic Party.

#### *4.3 Party in Control of the Congress, Congressional Gridlock, Monetary Policy, and REIT Excess Returns*

Table 7 provides excess returns and standard deviations associated with the party in control of the Senate (Panel A) and the House of Representatives (Panel B). Evidence from congressional harmony and gridlock are provided in Panel C. Results from Panels A and B indicate that Republican control of the Senate and the House is generally, each individually, associated with

higher excess returns (where all the returns are positive), than with Democratic control of Congress (where all the returns are negative). However, the differences in returns between the two political parties are statistically significant only for the combined REIT index.

Panel C in Table 7 provides excess returns and volatility statistics for periods of congressional harmony and gridlock. When compared with periods of political unity in the Congress, excess returns during gridlock periods are generally higher and positive. For hybrid REITs, the return advantage during congressional gridlock, about 1.25 percent, is statistically significant. This superior performance cannot be attributed to higher volatility, since hybrid REIT returns have significantly lower volatility during periods of congressional gridlock.

Table 8 evaluates the differential response of REITs to congressional harmony versus gridlock, after controlling for the prevailing monetary condition and the political party that is in power. The variable Republican (Democratic) Harmony is defined as one where the House and the Senate are controlled by the Republican (Democratic) political party. Alternatively, the Republican (Democratic) Senate variable captures a gridlock condition in the Congress where the Republican (Democratic) party controls the Senate and the Democratic (Republican) party controls the House.

Two broad sets of results are evident from Table 8. Panel A contains the results for congressional harmony. Panel B contains the results for congressional gridlock. During an expansionary monetary policy condition, an examination of both panels indicate that congressional harmony or gridlock does not play a significant role in explaining excess return differentials between the two political parties.

However, under tightening monetary conditions, there is some evidence of differential returns associated with the two parties under both congressional harmony and gridlock. Two

important results follow. First, the All REIT and equity REIT indices perform better under congressional harmony. For instance, the returns for the All REIT index are significantly higher when the Republicans control both Houses (0.72 percent) as opposed to Democratic control of the Congress (-1.03 percent). Comparable returns for equity REITs during the monetary tightening phase are 0.55 percent and -0.62 percent under Republican and Democratic harmony, respectively. These results are particularly important, since a harmonious legislative political environment dominated by the Republican political party produces higher REIT returns without any significant additions to volatility.

Second, mortgage REITs perform better under gridlock. Specifically, the combination of a Republican Senate and a Democratic House provides significantly higher returns than the combination of a Democratic Senate and a Republican House (0.53 percent versus -2.93 percent, respectively). Notice this pattern is reversed under monetary expansion, where gridlock, characterized by a Democratic Senate and Republican House, produces superior returns (2.19 percent versus 0.41 percent respectively).

Previously it was established that expansionary monetary policy periods are associated with greater REIT returns. However, what is additionally insightful from Table 8 is that the differential returns during these periods are primarily associated with Democratic harmony, and, to a lesser extent, congressional gridlock (characterized by a Democratic Senate and Republican House). For example, when the Democratic Party controls both houses of the Congress, excess returns for the All REIT index during loosening and tightening phases are 0.41 percent and -1.03 percent, respectively. The difference, which amounts to an advantage of 1.44 percent (or 17.28 percent on an annual basis), is statistically significant at the one percent level. In comparison, this return advantage is 0.89 percent for equity REITs, 1.55 percent for mortgage REITs and 2.11

percent for hybrid REITs. The strong performance of REITs under Democratic political harmony is especially noteworthy, since volatility is not significantly elevated during these periods. Finally, in those instances when there is congressional gridlock, control of the Senate by Democrats (or alternatively, control of the House by the Republicans) is beneficial for mortgage and hybrid REITs.

#### *4.4 Overall Political Gridlock and Excess REIT Returns*

In the concluding part of the empirical analysis, the influence of overall harmony and gridlock across the entire political spectrum – i.e., the executive and legislative branches – on REITs is examined. The evidence presented in Table 9 provides strong support for the influence of the executive branch. Earlier it was documented in Table 7 that congressional gridlock (as opposed to harmony) offered higher returns (statistically significant in the case of hybrid REITs). However, once the definition of gridlock/harmony is expanded to include the party in control of the White House, it appears that returns during gridlock periods are significantly lower than returns during political unity. For instance, for the hybrid REITs, the excess returns during political harmony are 1.11 percent compared to –0.41 percent when harmony does not exist. This difference in mean returns (about 1.52 percent per month) is statistically significant at the one percent level. The corresponding monthly difference in excess returns for All and equity REIT indices to 1.05 percent and 0.93 percent, respectively, which are also significant at the one percent level. Notably in the case of the All REIT index, higher excess returns during political harmony is not associated with significantly higher volatility.

Since REITs are found to respond more favorably to overall political unity than discord, it may be useful to reexamine this finding in the context of the political party in power and the prevailing monetary policy environment. These results are presented in Table 10. In general,

across all types of REITs, political harmony under Republican leadership is associated with higher returns than present under Democratic leadership. This holds true under both monetary policy tightening and loosening periods. However, the difference is statistically significant only in the case of the All REIT index.

There is also some evidence, especially during monetary expansion, that the standard deviation of excess returns is significantly greater under Republican harmony than under Democratic harmony. Furthermore, regardless of the political party that is at the center of the harmony, there is no significant difference in returns from tightening and loosening periods for the All REIT index, equity REITs or hybrid REITs. Only in the case of mortgage REITs, are loosening periods linked with significantly higher returns and standard deviations.

## **5. Conclusions**

This study examines the impact of presidential election cycles, partisan orientation and gridlock on REITs excess returns. Monetary policy is included as an important mixing variable. Results suggest overwhelmingly that REITs are influenced by the political environment, and furthermore, there nature of this relationship is more complex than often perceived. Overall, it appears that Republicans are better than Democrats for REIT performance and that monetary loosening is better than tightening (no surprise). However, this is not always the case – for instance, REITs offer greater excess returns when both Houses of the Congress are controlled by the Democratic Party and the fourth year of a Presidential term under Democrats.

The answers to the four empirical questions addressed are summarized below.

A. Does the Party of the President influence REIT returns?

Yes. REITs, in general, offer greater excess returns under Republican Presidencies. This return difference is statistically significant when it is combined with an expansionary monetary policy condition.

B. Is there a presidential cycle pattern in REIT returns?

Yes. The second two years of the presidential term corresponds with higher excess returns than during the first two years.

C. Does the presidential cycle persist during both Democratic and Republican administrations?

No. Although in each instance, the second half of the presidential term is associated with higher excess returns, these excess return differentials are *statistically* significant only under Republican Presidencies.

D. What is the impact of political gridlock and Harmony on REIT performance?

Several results emerge.

1. There is some support for the notion that gridlock in the Congress is good. However, this result is closely tied with the monetary policy stance of the Fed.
2. In the presence of tightening monetary policy conditions, a harmonious congressional environment dominated by the Republican party is associated with higher REIT excess returns. However, during monetary loosening periods, REITs perform better when the Democrats control both the chambers of the Congress.
3. Once the Party of the President is taken into account, overall political harmony (i.e., across the executive and legislative branches of the government) under Republican leadership is associated with higher returns than during Democratic leadership. This holds true under both monetary tightening and loosening periods.

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**Table 1: Time Periods Classified by Party of the President, Political Gridlock and Monetary Policy Condition**

Panel A: Party of the President

Party of the President	Beginning Month	Ending Month	Number of Months
Republican	February 1972	December 1976	59
Democratic	January 1977	December 1980	48
Republican	January 1981	December 1992	144
Democratic	January 1993	December 2000	96
Republican	January 2001	January 2007	73

Panel B: Party in Control of the House of Representatives

Party in Control	Beginning Month	Ending Month	Number of Months
Democratic	February 1972	December 1993	263
Republican	January 1994	December 2006	156
Democratic	January 2007	January 2007	1

Panel C: Party in Control of the Senate

Party in Control	Beginning Month	Ending Month	Number of Months
Democratic	February 1972	December 1980	107
Republican	January 1981	December 1986	72
Democratic	January 1987	December 1994	96
Republican	January 1995	December 2000	72
Democratic	January 2001	January 2001	1
Republican	February 2001	May 2001	4
Democratic	June 2001	November 2002	18
Republican	December 2002	December 2006	49
Democratic	January 2007	January 2007	1

Panel D: Political Gridlock – Office of the President, Senate, and House of Representatives

Gridlock or Harmony	Beginning Month	Ending Month	Number of Months
Gridlock	February 1972	December 1976	59
Democratic Harmony	January 1977	December 1980	48
Gridlock	January 1981	December 1992	144
Democratic Harmony	January 1993	December 1993	12
Gridlock	January 1994	January 2001	85
Republican Harmony	February 2001	May 2001	4
Gridlock	June 2001	November 2002	18
Republican Harmony	December 2002	December 2006	49
Gridlock	January 2007	January 2007	1

Panel E: Monetary Policy Condition

Monetary Policy	Beginning Month	Ending Month	Number of Months
Tightening	February 1972	November 1974	34
Loosening	December 1974	July 1977	32
Tightening	August 1977	April 1980	33
Loosening	May 1980	August 1980	4
Tightening	September 1980	October 1981	14
Loosening	November 1981	March 1984	29
Tightening	April 1984	October 1984	7
Loosening	November 1984	August 1987	34
Tightening	September 1987	November 1990	39
Loosening	December 1990	April 1994	41
Tightening	May 1994	December 1995	20
Loosening	January 1996	July 1999	43
Tightening	August 1999	December 2000	17
Loosening	January 2001	May 2004	41
Tightening	June 2004	January 2007	32

**Table 2. Excess Returns by Party of the President**

This table reports the mean (standard deviation) of monthly excess returns for different styles of REITs sorted by periods of Republican versus Democratic control of the White House. The test statistics are t-statistics for the hypothesis that the means are equal, and in parentheses, F-statistics for the hypothesis that the variances are equal.

	All		Equity		Mortgage		Hybrid	
Republican	0.01	(3.63)	0.07	(3.12)	0.15	(5.01)	0.20	(4.86)
Democratic	-0.02	(3.53)	-0.13	(3.68)	-0.29	(5.22)	-0.39	(4.71)
Test Statistics	0.10	(1.06)	0.56	(1.39 <sup>**</sup> )	0.83	(1.09)	1.20	(1.07)

<sup>\*</sup> <sup>\*\*</sup> <sup>\*\*\*</sup> Indicates statistical significance at the 0.10, 0.05, and 0.01 levels, respectively.

**Table 3. Impact of Monetary Policy Environment and Party of the President**

This table reports the mean (standard deviation) monthly excess returns for different styles of REITs sorted by periods of Monetary Tightening versus Monetary Loosening. The test statistics are t-statistics for the hypothesis that the means are equal, and in parentheses, F-statistics for the hypothesis that the variances are equal.

	All	Equity	Mortgage	Hybrid
Tightening	-0.37 (3.71)	-0.23 (3.51)	-0.74 (4.73)	-0.70 (4.88)
Loosening	0.32 (3.46)	0.20 (3.15)	0.65 (5.29)	0.61 (4.68)
Test Statistics	1.98** (1.15)	1.31 (1.24)	2.81*** (1.25*)	2.80*** 1.09

\*, \*\*, \*\*\* Indicates statistical significance at the 0.10, 0.05, and 0.01 levels, respectively.

**Table 4. Excess Returns by Monetary Policy and Party of the President**

This table reports the mean (standard deviation) monthly excess returns for different styles of REITs sorted by periods of Monetary Tightening versus Monetary Loosening and by periods of Republican versus Democratic control of the White House. The test statistics are t-statistics for the hypothesis that the means are equal, and in parentheses, F-statistics for the hypothesis that the variances are equal. The column with the heading “Test Statistics” reports the t-statistic (F-statistic) of the hypothesis that the mean (variance) excess returns under Democratic and Republican presidents are the same, given the stage of the monetary cycle. The row with the heading “Test Statistics” reports the t-statistic (F-statistic) for the hypothesis that the mean (variance) excess returns during Monetary Tightening and Monetary Loosening periods are the same, given the party of the president in power.

	All			Equity		
	Republican	Democratic	Test Statistics	Republican	Democratic	Test Statistics
Tightening	-0.51 (3.68)	-0.14 (3.78)	0.66 (1.05)	-0.28 (3.34)	-0.13 (3.79)	0.29 (1.29)
Loosening	0.43 (3.55)	0.10 (3.26)	0.66 (1.18)	0.34 (2.92)	-0.12 (3.60)	1.01 (1.52 <sup>**</sup> )
Test Statistics	2.14 <sup>**</sup> (1.07)	0.41 (1.34)		1.66 <sup>*</sup> (1.31)	0.03 (1.11)	

Continued ...

	Mortgage			Hybrid		
	Republican	Democratic	Test Statistics	Republican	Democratic	Test Statistics
Tightening	-0.88 (4.51)	-0.50 (5.10)	0.54 (1.28)	-0.85 (4.84)	-0.45 (4.98)	0.55 (1.06)
Loosening	0.96 (5.24)	-0.05 (5.37)	1.34 (1.05)	1.04 (4.74)	-0.33 (4.44)	2.03 <sup>**</sup> (1.14)
Test Statistics	3.09 <sup>***</sup> (1.35 <sup>*</sup> )	0.52 (1.11)		3.25 <sup>***</sup> (1.04)	0.16 (1.36)	

<sup>\*</sup>, <sup>\*\*</sup>, <sup>\*\*\*</sup> Indicates statistical significance at the 0.10, 0.05, and 0.01 levels, respectively.

**Table 5. Excess Returns by Year of President's Term**

This table reports the mean (standard deviation) monthly excess returns for different styles of REITs sorted by the year of the President's Term in Office. The column with the heading "Test Statistics" reports the t-statistic (F-statistic) of the hypothesis that the mean (variance) for a particular year is equal to the unconditional mean (variance) over the entire sample. The row with the heading "Test Statistics" reports the t-statistic (F-statistic) for the hypothesis that the means (variances) for all years are equal.

Panel A: Excess Returns for each year of the President's term

	All				Equity			
	Mean (Stdev)		Test Statistics		Mean (Stdev)		Test Statistics	
First Year	-0.13	(3.11)	0.34	(1.33 <sup>**</sup> )	0.04	(2.80)	0.13	(1.41 <sup>**</sup> )
Second Year	-0.66	(3.82)	1.68 <sup>*</sup>	(1.13)	-0.54	(3.10)	1.52	(1.15)
Third Year	0.02	(3.78)	0.04	(1.11)	-0.07	(3.23)	0.18	(1.06)
Fourth Year	0.78	(3.54)	2.01 <sup>**</sup>	(1.03)	0.56	(3.99)	1.49	(1.44 <sup>**</sup> )
Test Statistics	3.00 <sup>**</sup>	(0.79)			1.99	(2.05 <sup>*</sup> )		

Continued ...

	Mortgage				Hybrid			
	Mean (Stdev)		Test Statistics		Mean (Stdev)		Test Statistics	
First Year	-0.31	(4.47)	0.58	(1.29 <sup>*</sup> )	-0.01	(4.21)	0.01	(1.31 <sup>*</sup> )
Second Year	-0.62	(5.61)	1.10	(1.22)	-0.89	(5.23)	1.68 <sup>*</sup>	(1.18)
Third Year	0.08	(5.71)	0.13	(1.26)	-0.02	(5.63)	0.03	(1.37 <sup>*</sup> )
Fourth Year	0.87	(4.39)	1.62 <sup>*</sup>	(1.34 <sup>**</sup> )	0.92	(3.97)	1.82 <sup>*</sup>	(1.47 <sup>***</sup> )
Test Statistics	1.72	(1.89)			2.54 <sup>**</sup>	(3.02 <sup>**</sup> )		

Panel B: Excess Returns for the first half versus second half of the President's term

	All		Equity		Mortgage		Hybrid	
	Mean (Stdev)		Mean (Stdev)		Mean (Stdev)		Mean (Stdev)	
First Half	-0.40	(3.49)	-0.25	(2.96)	-0.46	(5.06)	-0.45	(4.75)
Second Half	0.42	(3.67)	0.26	(3.65)	0.49	(5.06)	0.47	(4.84)
Test Statistics	2.33 <sup>**</sup>	(1.11)	1.57	(1.52 <sup>***</sup> )	1.94 <sup>**</sup>	(1.00)	1.96 <sup>**</sup>	(1.04)

<sup>\*</sup>, <sup>\*\*</sup>, <sup>\*\*\*</sup> Indicates statistical significance at the 0.10, 0.05, and 0.01 levels, respectively.

**Table 6. Excess Returns by Party of the President and by Year of President's Term**

This table reports the mean (standard deviation) monthly excess returns for different styles of REITs sorted by the year of the President Term in Office and by periods of Republican versus Democratic control of the White House. The column with the heading "Test Statistics" reports the t-statistic (F-statistic) of the hypothesis that the mean (variance) excess returns under Democratic and Republican presidents are the same, given the year of the President's Term. The row with the heading "Test Statistics" reports the t-statistic (F-statistic) for the hypothesis that the mean (variance) excess returns during each year of the President's Term are the same given the party of the president in power.

Panel A: Excess Returns for each year of the President's term

	All			Equity		
	Republican	Democratic	Test Statistics	Republican	Democratic	Test Statistics
First Year	-0.52 (3.25)	0.67 (2.69)	1.90* (1.46)	-0.23 (2.70)	0.59 (2.95)	1.44 (1.20)
Second Year	-0.32 (4.16)	-1.34 (2.97)	1.31 (1.95**)	-0.24 (3.14)	-1.13 (2.98)	1.41 (1.11)
Third Year	0.34 (3.99)	-0.52 (3.40)	1.09 (1.37)	0.23 (3.01)	-0.57 (3.57)	1.18 (1.41)
Fourth Year	0.62 (3.03)	1.09 (4.40)	0.65 (2.12**)	0.54 (3.57)	0.61 (4.77)	0.09 (1.79*)
Test Statistics	1.58 (2.02)	3.79*** (2.39*)		1.04 (1.31)	2.05 (2.44*)	

Continued ...

	Mortgage			Hybrid		
	Republican	Democratic	Test Statistics	Republican	Democratic	Test Statistics
First Year	-0.71 (4.90)	0.49 (3.38)	1.32 (2.09***)	-0.34 (4.73)	0.66 (2.83)	1.17 (2.79***)
Second Year	0.28 (5.44)	-2.41 (5.57)	2.40** (1.05)	-0.31 (5.49)	-2.04 (4.50)	1.64* (1.49)
Third Year	0.47 (5.22)	-0.59 (6.48)	0.88 (1.54)	0.76 (5.56)	-1.33 (5.60)	1.79* (1.02)
Fourth Year	0.61 (4.44)	1.36 (4.32)	0.83 (1.05)	0.80 (3.45)	1.15 (4.87)	0.42 (1.99**)
Test Statistics	1.01 (1.22)	3.68*** (1.93)		1.19 (2.99**)	4.07*** (3.89**)	

\*, \*\*, \*\*\* Indicates statistical significance at the 0.10, 0.05, and 0.01 levels, respectively.

Panel B: Excess Returns for the first half versus second half of the President's term

	All			Equity		
	Republican	Democratic	Test Statistics	Republican	Democratic	Test Statistics
First Half	-0.42 (3.72)	-0.34 (2.99)	0.17 (1.55 <sup>**</sup> )	-0.24 (2.92)	-0.27 (3.07)	0.08 (1.11)
Second Half	0.49 (3.49)	0.29 (3.99)	0.38 (1.31)	0.39 (3.31)	0.02 (4.22)	0.70 (1.63 <sup>**</sup> )
Test Statistics	2.10 <sup>**</sup> (1.14)	1.06 (1.78 <sup>*</sup> )		1.68 <sup>*</sup> (1.29)	0.47 (1.89 <sup>***</sup> )	

  

	Mortgage			Hybrid		
	Republican	Democratic	Test Statistics	Republican	Democratic	Test Statistics
First Half	-0.22 (5.18)	-0.96 (4.80)	1.02 (1.16)	-0.33 (5.11)	-0.69 (3.97)	0.53 (1.65 <sup>***</sup> )
Second Half	0.55 (4.79)	0.39 (5.55)	0.21 (1.34)	0.78 (4.53)	-0.09 (5.36)	1.23 (1.40)
Test Statistics	1.27 (1.17)	1.56 (1.34)		1.90 <sup>*</sup> (1.27)	0.76 (1.82 <sup>***</sup> )	

<sup>\*</sup>, <sup>\*\*</sup>, <sup>\*\*\*</sup> Indicates statistical significance at the 0.10, 0.05, and 0.01 levels, respectively.

**Table 7. Party in Control of Congress and Excess REIT Returns**

Panel A: Party in Control of Senate: This table reports the mean (standard deviation) monthly excess returns for different styles of REITs sorted by periods of Republican versus Democratic control of the Senate. The test statistics are t-statistics for the hypothesis that the means are equal, and in parentheses, F-statistics for the hypothesis that the variances are equal.

	All	Equity	Mortgage	Hybrid
Republican	0.32 (3.30)	0.20 (3.22)	0.34 (5.16)	0.10 (4.55)
Democratic	-0.28 (3.82)	-0.17 (3.41)	-0.30 (5.00)	-0.09 (5.04)
Test Statistics	1.71* (1.34**)	1.15 (1.12)	1.30 (1.07)	0.41 (1.22)

\*, \*\*, \*\*\* Indicates statistical significance at the 0.10, 0.05, and 0.01 levels, respectively.

Panel B: Excess Returns by Party in Control of House of Representatives: This table reports the mean (standard deviation) monthly excess returns for different styles of REITs sorted by periods of Republican versus Democratic control of the House of Representatives. The test statistics are t-statistics for the hypothesis that the means are equal, and in parentheses, F-statistics for the hypothesis that the variances are equal.

	All	Equity	Mortgage	Hybrid
Republican	0.40 (3.70)	0.19 (3.65)	0.40 (5.95)	0.19 (4.96)
Democratic	-0.24 (3.52)	-0.11 (3.11)	-0.24 (4.48)	-0.11 (4.73)
Test Statistics	1.77* (1.10)	0.92 (1.37**)	1.25 (1.76***)	0.63 (1.10)

\*, \*\*, \*\*\* Indicates statistical significance at the 0.10, 0.05, and 0.01 levels, respectively.

Panel C: Excess Returns in Periods of Congressional Harmony versus Congressional Gridlock: This table reports the mean (standard deviation) monthly excess returns for different styles of REITs sorted by periods of Congressional Harmony versus Congressional Gridlock. The test statistics are t-statistics for the hypothesis that the means are equal, and in parentheses, F-statistics for the hypothesis that the variances are equal.

	All	Equity	Mortgage	Hybrid
Harmony	-0.11 (3.85)	-0.08 (3.53)	-0.18 (5.42)	-0.31 (5.13)
Gridlock	0.34 (2.64)	0.23 (2.57)	0.57 (3.78)	0.95 (3.51)
Test Statistics	1.12 (2.12***)	0.81 (1.90***)	1.31 (2.06***)	2.31** (2.13***)

\*, \*\*, \*\*\* Indicates statistical significance at the 0.10, 0.05, and 0.01 levels, respectively.

**Table 8: Excess REIT Returns during Periods of Congressional Harmony (Panel A) versus Congressional Gridlock(Panel B) under Democratic and Republican Parties and Different Monetary Policy Environments**

This table reports the mean (standard deviation) monthly excess returns for different styles of REITs sorted by periods of Congressional Harmony versus Congressional Gridlock, and Tightening versus Loosening Monetary Policy. The test statistics are t-statistics for the hypothesis that the means are equal, and in parentheses, F-statistics for the hypothesis that the variances are equal.

Panel A: Harmony

	All			Equity		
	Tightening	Loosening	Test Statistics	Tightening	Loosening	Test Statistics
R. Harmony	0.72 (3.73)	0.03 (3.81)	1.01 (1.04)	0.55 (3.75)	-0.16 (3.69)	1.08 (1.03)
D. Harmony	-1.03 (3.77)	0.41 (3.88)	2.57*** (1.06)	-0.62 (3.53)	0.27 (3.19)	1.80* (1.23)
Test Statistics	2.89*** (1.02)	0.59 (1.04)		2.03** (1.13)	0.76 (1.34)	
	Mortgage			Hybrid		
	Tightening	Loosening	Test Statistics	Tightening	Loosening	Test Statistics
R. Harmony	-0.05 (5.25)	0.60 (6.82)	0.59 (1.68**)	-0.14 (4.76)	-0.23 (5.48)	0.10 (1.32)
D. Harmony	-1.15 (4.75)	0.40 (5.05)	2.18** (1.13)	-1.27 (5.06)	0.84 (5.05)	2.86*** (1.00)
Test Statistics	1.39 (1.22)	0.20 (1.82***)		1.43 (1.13)	1.22 (1.18)	

Panel B: Gridlock

	All			Equity		
	Tightening	Loosening	Test Statistics	Tightening	Loosening	Test Statistics
R. Senate	0.30 (2.64)	0.23 (2.16)	0.10 (1.49)	-0.10 (2.00)	0.33 (2.18)	0.72 (1.19)
D. Senate	-0.84 (2.93)	1.06 (3.47)	1.38 (1.40)	-0.95 (3.32)	0.65 (3.42)	1.15 (1.06)
Test Statistics	0.97 (1.24)	1.28 (2.59***)		0.80 (2.76)	0.51 (2.47**)	
	Mortgage			Hybrid		
	Tightening	Loosening	Test Statistics	Tightening	Loosening	Test Statistics
R. Senate	0.53 (2.48)	0.41 (3.04)	0.14 (1.50)	1.08 (4.61)	0.47 (2.82)	0.66 (2.67**)
D. Senate	-2.93 (2.56)	2.19 (5.47)	2.53** (4.57***)	-0.65 (2.52)	2.55 (4.00)	2.11** (2.52*)
Test Statistics	3.22*** (1.06)	1.84* (3.32***)		0.99 (3.34***)	0.99 (3.34***)	

\*, \*\*, \*\*\* Indicates statistical significance at the 0.10, 0.05, and 0.01 levels, respectively.

**Table 9: Excess Returns in Periods of Overall Political Harmony versus Political Gridlock**

This table reports the mean (standard deviation) monthly excess returns for different styles of REITs sorted by periods of **overall** Political Harmony versus Political Gridlock. The test statistics are t-statistics for the hypothesis that the means are equal, and in parentheses, F-statistics for the hypothesis that the variances are equal.

	All	Equity	Mortgage	Hybrid
Harmony	0.77 (3.49)	0.68 (3.73)	0.61 (4.86)	1.11 (4.14)
Gridlock	-0.28 (3.59)	-0.25 (3.13)	-0.23 (5.15)	-0.41 (4.98)
Test Statistics	2.68 <sup>***</sup> (1.06)	2.55 <sup>***</sup> (1.42 <sup>**</sup> )	1.51 (1.12)	2.90 <sup>***</sup> (1.45 <sup>***</sup> )

<sup>\*</sup> <sup>\*\*</sup> <sup>\*\*\*</sup> Indicates statistical significance at the 0.10, 0.05, and 0.01 levels, respectively.

**Table 10. Excess Returns in Periods of Overall Political Harmony by Party and Monetary Policy**

This table reports the mean (standard deviation) monthly excess returns for different styles of REITs sorted by periods of **overall** Republican Harmony versus Democratic Harmony, and Tightening versus Loosening Monetary Policy. The test statistics are t-statistics for the hypothesis that the means are equal, and in parentheses, F-statistics for the hypothesis that the variances are equal.

	All			Equity		
	Tightening	Loosening	Test Statistics	Tightening	Loosening	Test Statistics
R. Harmony	1.32 (3.10)	1.18 (4.32)	0.13 (1.95)	1.24 (3.31)	0.85 (4.14)	0.38 (1.56)
D. Harmony	-0.16 (3.60)	1.13 (2.80)	1.47 (1.65)	0.08 (3.70)	0.72 (4.02)	0.63 (1.18)
Test Statistics	1.80* (1.35)	0.05 (2.38**)		1.35 (1.25)	0.11 (1.06)	

Continued ...

	Mortgage			Hybrid		
	Tightening	Loosening	Test Statistics	Tightening	Loosening	Test Statistics
R. Harmony	-0.20 (4.07)	2.96 (7.23)	2.03** (3.16***)	0.78 (3.08)	2.55 (5.59)	1.48 (3.30***)
D. Harmony	-0.47 (4.29)	1.21 (2.94)	1.65* (2.13**)	0.11 (4.53)	1.80 (2.58)	1.63* (3.10***)
Test Statistics	0.26 (1.11)	1.07 (6.04***)		0.69 (2.17**)	0.58 (4.71***)	

\*, \*\*, \*\*\* Indicates statistical significance at the 0.10, 0.05, and 0.01 levels, respectively.