How do the CEO political leanings affect REIT business decisions?

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December 2017

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We acknowledge partial financial support from the City University of Hong Kong. Each of the authors on this paper contributed equally.

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ABSTRACT

Business decisions made by the real estate industry can have a profound effect on the well-being of people who live, work, or shop in these buildings. While these decisions may be informed by evidence, the available evidence is often incomplete, unrepresentative or otherwise less than ideal. Therefore, the personal opinions or judgments of senior executives can have an effect. In this paper, we study these effects in two parts: risk-taking and Corporate Social Responsibility (CSR) activities. Since political opinion is a relatively stable measure, which is also associated with preferences for risk and CSR, we examine how the political leanings of the CEO are related to these effects. Based on the data from 1999 to 2013, we find that Real Estate Investment Trusts (REITs) with Democrat-leaning CEOs tend to take more risks, as evidenced by higher levels of leverage, more capital expenditures and risky investments. We further find that politically active CEOs are more broadly engaged in different types of CSR activities.

JEL Codes: D21, G32, M14, Q56

Keywords: politics, corporate social responsibility, risk taking, decision making

1. Introduction

In this paper, we study how the preferences of leaders of real estate investment trusts (REITs) affect business decisions. Businesses seek to increase profits but the people who make those decisions may be motivated by other concerns, such as concern for risk and the environment, in ways that create conflicts which are not easily resolved. The fact that a right answer is not obvious means that the personal judgment or opinions of a decision maker can play a larger role. For a "small" decision in the simple world of a principal-agent relationship, much research suggests how a motivated sales manager or a CEO can control the flow of information while "shirking". Research has also shown how a suitably wise and moderately well-informed principal can moderate the effects of selfish motives by modifying the terms of a job contract or with appropriate supervision. These recommendations are less useful in the case of a "big" decision, for which the base of knowledge is evolving or the consequences will not be evident for many years. Examples of such big decisions include decisions regarding sustainable business practices and capital investments. Such business-defining decisions are rarely judged by a wise, impartial principal who knows the issues being debated. They are made by a CEO while shareholders or the board of directors may be unaware of relevant facts.

Careful analysis of the link between opinions and actions is complicated by the fact that opinions come in many forms and on many topics, most of which are irrelevant to business decisions. Recent research has identified a particular class of opinions that is easy to identify and that affects important business decisions: political preferences (Hong and Kostovesty 2012; Hutton, Jiang, and Kumar 2013, etc). While most people are aware that the political preferences of voters affect the policies advocated by a political party, political preferences are an expression of the personal preferences which affect the behaviors of a voter who may be a consumer, an investor or a CEO also.

This study is especially valuable because the real estate industry in particular is very active in politics. The idea that success in a real estate business is all about "location, location, location"

helps to explain why many businesses are very active in city politics, as either a rent-seeking activity or to inform local politicians. Our paper focuses on a different level of politics. The real estate industry is one of the top donors to federal politicians in the U.S., although the finance industry ranks even higher during recent election cycles.[1] During the 2015- 2016 cycle which included a presidential vote, the industry donated US$158m to political action committees, to political parties and to individual candidates. About half of this total went to Democrats.

Political preferences, especially in the United States, offer a measure which is both easy to identify and correlated with the essential beliefs of a decision maker. People who support the Republican Party in the U.S.[2] tend to favor less government intervention, well-defined property rights, and to prefer individual responsibility organized by market forces and community social values as policy solutions: in other words, they support traditional "conservative" beliefs. People who support the Democratic Party tend to favor government initiatives as a way to solve social problems (since the responsibility for a "problem" does not necessarily lie with an individual), are more willing to explore new ideas, are concerned about others and are more "progressive" socially. It is easy to find high profile and vocal examples of both stereotypes in the private sector. These traditional ideological tendencies are fairly stable over time, even if the positions on specific policies evolve slightly from decade to decade.

Investigating this dimension of a personality is consistent with the work of other researchers who have considered how other dimensions of a CEO's personality, such as narcissism (Chatterjee and Hambrick 2007; Aktas, De Bodt, Bollaert and Roll 2016), military service (Benmelech and Frydman, 2012), height and physical image (Graham, Harvey and Puri, 2010, 2012; Keck and Tang, 2013), whether the CEO has a daughter (Cronqvist and Yu, 2015) and the

[1] https://www.opensecrets.org/overview/industries.php This information excludes donations at the state or city level and does not include expenses associated with lobbyists.

[2] While the left wing vs. right wing distinction is not isolated to the U.S., identifying those beliefs in other countries is harder. In countries with more than two parties that may form a government, the intuition of the popular median voter model is not obviously relevant and, thus, a more intrusive research methodology may be necessary. Since competition for voters takes place on more dimensions, and government policies may be based on a coalition made up after the voting has finished, the beliefs associated with a party are not as stable. The United States political system also permits greater financial contributions from private individuals, unions or corporations, compared to most other countries and that observed behavior is less likely to be bound by administrative criteria.

results of psychometric tests which measure traits such as optimism, time preference and risk aversion (Graham, Harvey and Puri, 2013). Hibbing, Smith and Alford (2014) state that conservatives are "supporters of traditional and stability" while liberals innovate and reform. Our research considers whether preferences expressed at macro or political levels reappear at a micro or personal level.

Specifically, we study how the political preferences of a CEO affect business decisions in Real Estate Investment Trusts (REITs), with a particular focus on risk-taking and CSR. Unlike general stocks, both corporate and individual investors are uncertain about how far to invest in Real Estate Investment Trusts (REITs). Particularly, the dividend pay-out requirement and restriction on property investment imply market microstructure differences, which makes REITs outperform general stock. Moreover, given the recent trends in sustainable development, REITs seem to invest in energy building as strengthening CSR regardless of their financial performance We explain the anomaly from the owner's perspective. We posit that Democrat-leaning CEOs are more likely to take risks because of their general attitude or approach to problem-solving, especially when compared to a traditional Republican-leaning or "conservative" CEO. Similarly, we argue that the general perspective of Democrat-leaning CEOs on the reasons behind a challenge or on the foundation for why certain kinds of problems persist (especially environmental problems) means that they tend to be more active in CSR activities.

Previous research has confirmed that personality differences exist and these differences appear frequently in debates about how businesses should contribute to society. Both of the leading political parties in the U.S. think that businesses should be profitable but financial performance is not the only metric of success. Noteworthy differences include the ideas that CSR is a good thing and the degree to which risk is good. In the real estate industry, both of these issues are prominent. For example, and even if the popular media criticizes the transportation sector for excessive use of oil and creating greenhouse gasses (GHG), "[t]he building sector contributes up to 30% of global annual greenhouse gas emissions and consumes up to 40% of all energy."

(2009).[3] It should be clear that trends in climate, in energy scarcity and in urbanization mean that "green" real estate represent an opportunity that organizations can invest in if a CEO wishes to lead their company in that direction. Similarly, large real estate companies routinely make large, long term, risky investments which affect the lives of many people in many ways even if capital markets are incomplete.

These issues are significant enough that somebody should find an optimal solution. That solution, and who should implement it, has been debated for centuries. More than 50 years ago, Milton Friedman argued that a business should focus on attempting to earn a profit for its owners. He argued that a business should obey all relevant laws and regulations but should not take extra initiatives on social issues. For many big issues, such as poverty or the level of public goods and services, the managers of a business would not have the resources to "fix" a problem and are unlikely to have the expertise to do so without waste or side effects. In addition, shareholders may not have given them permission to do so, which is important since a vague intent to "do good"[4] can be abused[5] and since no one business or manager is the cause or cure of any problem. This argument has been debated energetically without resolution.

CSR activities of a company seem to fit into the category of being a privately-provided public good and incomplete capital markets mean that it is not obvious who bears the burden of risk. Thus, for the kinds of business decisions we consider, the first or second welfare theorems do not clearly link an equilibrium with a first best outcome. This paper does not resolve the debate on whether a CEO's decision adds to efficiency or social well-being or profit or the

[3] http://www.unep.org/SBCI/pdfs/SBCI-BCCSummary.pdf

[4] Trying to focus on "doing good" is complicated in practice since some studies have found correlations between CSR activities and other actions of a firm, some of which are not socially good. For example, some work has found that companies which favour CSR activities also avoid paying taxes (which is especially relevant since government directly support many kinds of socially responsible activities); manipulating reported earning; insider trading. (http://www.economist.com/news/business-and-finance/21684770-social-saints-fiscal-fiends-opinions-vary-whether-firms-can-be-socially-responsible; Davis, Guenther, Krull and Williams (2013); Kim and Zhang (2015); Gao, Lisic and Zhang (2014); Kim, Park, and Wier (2012)). Even the intent to do good can be seen a weak bargaining position by strategically-minded activists or, if deemed insincere, may be punished as "greenwashing". (http://www.bloombergview.com/articles/2015-11-10/schneiderman-s-dangerous-crusade-against-exxon-mobil)

[5] Some evidence of this effect is seen in how investors value cash at firms with high corporate donations (Masulis and Reza, 2015).

debate about which end of the political spectrum offers better government policies. Instead, we study the more practical question of whether his or her political preferences influence decisions when they are made.

To conduct our study, we use data on REITs between 1999 and 2013. To measure political preferences of CEOs, we use data on personal political contributions of CEOs provided by the Federal Election Commission (FEC). The strategy used to identify CEOs' political leanings follows Hong and Kostovetsky (2012) and Hutton, Jiang, and Kumar (2013).

A study which uses data on REITs in the United States has particular advantages. Most obviously, the fact that two parties dominate the political environment simplifies the problem of choosing an explanatory variable. Equally important is how the choice of data simplifies and clarifies the dependent variable. Typically, discussions of CSR focus on the "ESG" dimensions: environmental, social and governance. People recognize that some dimensions are more important in some industries and for some countries than others, which complicates any analysis with a range of industries. Especially for the country where our data is taken from and for REITs, worries about child labor are less severe and working conditions are rarely life-threatening. Regulations about the level of pay and labor unions plus job mobility make worries about governance in the U.S. real estate industry more of a bargaining issue than one of human rights. As a result, using REITs data enables us to focus primarily on the environmental dimension when we study the impact of CEO's political preference on company's CSR activities.

Our study contributes ideas and evidence to a variety of literatures. We study additional influences on how decisions are actually made in large companies. We find that REITs whose CEO leans towards the Democratic Party are willing to take more risks; especially, REITs with higher levels of leverage, and have more capital expenditure and more risky investments. We also find that Democrat-leaning REITs are more likely to undertake CSR/green activities than their competitors who are led by CEOs with a different political leaning. These findings remain

after we conduct several robustness tests to account for possible endogeneity. Further, we document some evidence that the long run performance of REITs led by democratic leaned CEOs tend to be better.

The remainder of the paper is organized as follows. Section 2 reviews the related literature. Section 3 develops our hypotheses and empirical design. Section 4 describes the data sample and presents our empirical findings. Section 5 discusses additional and robustness analyses. The final section summarizes and provides concluding remarks.

2. Literature Review

Our research combines several strands of literature. We begin by reviewing research on political preferences and how they might affect business or financial decisions in general. We then review the existing research on the decisions in two dimensions: CSR and risk-taking. Each strand of literature is broad and, therefore, the research noted below is necessarily selective. Some of the cited papers analyze the topic in general terms while others focus on a real estate specific context.

Preferences and Politics

Much recent research has considered the politics of an individual company or of an individual within the company. This literature differs from the literature on lobbying by individuals or companies, which is intended to influence specific aspects of particular public policy. The recent research considers whether the political preferences of key individuals, such as a CEO, affect the actions of a company. We start our review by noting that a person's political preference can be identified, before showing how earlier researchers have used this identity to explain business activities.

The Introductory section notes that, when using American data, the differences in opinion between Democrats and Republicans are relatively well-defined and stable over time, for the time period we consider. The opinions of members of different parties can overlap but there are prominent differences. Based on a Gallup poll, Saad (2016) finds that 37 percent of

Americans consider themselves “conservative”, 35 percent consider themselves “moderate” and 24 percent consider themselves “liberal”. Amongst Democrats, 45 percent consider themselves “liberal” (and that fraction has been increasing) and 17 percent consider themselves “conservative”. Amongst Republicans, 68 percent consider themselves “conservative” and 6 percent consider themselves “liberal”.

The psychological basis of different political opinions is confirmed by researchers in psychology: e.g., Hirsh, DeYoung, Xu, and Peterson (2010) or Hibbing, Smith and Alford (2014). Hibbing, Smith, and Alford (2014) suggest that the ways of thinking used by people with different political leanings may differ so much that they complicate interactions between people with different political opinions, and frustrate people on both sides of the political aisle.

Yet, many people think of themselves as “Independents”. Amongst Independent voters, the fraction of moderates is higher than amongst people who express a preference for one of the official political parties but, otherwise, they roughly match the national averages: Saad (2016) finds that 32 percent consider themselves “conservative” and 22 percent consider themselves “liberal”.

We are aware that the correlation between party identification and the preferences of an individual is imperfect. To the extent that this issue is serious, the errors in variables should bias any observed effect toward zero. While the severity of this concern depends on the data, we remind readers that political preferences for parties are easy to identify, and change little year to year, even as the policies advocated by the parties change. Measures of political leaning based on donations to a political party also indicate that this preference is fairly stable: few individuals split their donations between parties. Some of the differences in political identification vary by location, which implies that a person’s opinions may be easy to identify relative to a local population even if their relative position would change if they were to move to a different state.

Most of the research on this topic uses financial donations to measure political preferences. For example, Hong and Kostovetsky (2012) find that the investments of mutual fund managers in socially sensitive industries are correlated with their political donations. Hong and Kostovetsky make the important point that this tendency holds even if the mutual funds are not designated as "socially responsible". Thus, the effects of socially responsible investing are broader than the official numbers would suggest. The goal of "following the money", combined with the previous comments about the political preferences not being perfectly aligned with party affiliation, is another reason why our research uses financial donations as the variable of interest.

Hutton, Jiang, and Kumar (2013) study the relationship between political preferences and risk aversion using a pair of natural experiments. They find that Republican companies become more conservative following a major event which appears to increase the riskiness of the business environment. Hutton, Jiang and Kumar (2014) use a similar methodology to study the relationship between political preferences and the kinds of risks which a company is willing to accept. In their study, risk is measured by the types of law suits which a company experiences. They find that the stereotypes are confirmed: that Republicans are relatively less concerned about cases involving civil rights or environmental concerns, while Democrats are relatively less concerned about cases involving security fraud or intellectual property.

Chin, Hambrick and Treviño (2013) offer an interesting variation on this argument, when studying industries other than real estate. Using information collected by a survey, they find a similar relationship between a CEO's political ideology and the level of CSR activities, and that the effect is amplified by a CEO's relative power within the company. They also note that a Republican CEO is not opposed to CSR activities under all conditions but that, due to a lesser commitment, those activities are more sensitive to the current state of the market or to the financial status of the company.

Corporate Social Responsibility (CSR)

The label "Corporate Social Responsibility" (CSR) is recent. In general, CSR refers to how a corporation interacts with its environment as an employer, as a buyer and as a member of a broader community. Many papers focus on the "ESG" dimensions of CSR activities: environmental, social and governance. Like many other labels, there is more agreement on its intent than on its definition or on how to measure it precisely. Therefore, this review considers broader aspects of the situation, while trying to keep the discussion as brief as possible. Interested readers are encouraged to read review papers such as van Beurden and Gossling (2008), Aguinis and Glavas (2012), Kitzmueller and Shimshack (2012), Crifo and Forget (2015), Schmitz and Schrader (2015) or Huang and Watson (2015).

A common question is: are CSR activities related to a company's financial performance? The answer is not as simple as one might hope. van Beurden and Gossling (2008) argue that there are competing definitions of CSR and competing definitions of financial performance. They conclude that, while there is a generally positive relationship between CSR and the financial performance of a company, the evidence is not overwhelming. Aguinis and Glavas (2012) study about 700 sources to offer a research agenda on how management should act in the context of CSR. They determine that, in general, this literature has not found robust conclusions.

Kitzmueller and Shimshack (2012) reinforce the idea that the CSR literature is diverse and focus on organizing the literature into various perspectives. They advocate for considering three categories of CSR activities: "strategic", "not-for-profit" and "moral hazard". The first category describes activities where profit is generated by influencing the behavior of consumers, employees or politicians. The second category describes activities where shareholders give managers permission to engage in the activities in order to survive when competing with firms which do not. The third category describes a situation where the managers do not have permission to engage in these activities from shareholders but, since shareholders are unaware, managers are not prevented from doing so. Based on the literature available at the time of their writing, they argue that there is little evidence that the not-for-profit category explains much of the observed behavior. They follow with "the observational evidence for strategic CSR

is somewhat more favorable. Nevertheless, data on systematic large gains from CSR are limited." (p. 72)

Di Giuli and Kostovetsky (2014) reinforce the importance of moral hazard by noting that it is hard for a researcher or investor to collect the data needed to study the CSR activities of a company. They find that the investments in certain industries are related to political donations, and that the effects are both statistically and economically significant.

Research published more recently about the real estate industry is more definite. Many published papers show that the effects on willingness to pay by tenants, owners or buyers of real estate and on financial or operational performance of a property are both economically and statistically significant, including Devine and Kok, (2015), Kerscher and Schaefers (2015), Miller, Ghosh and Sah (2013), Reichardt, Fuerst, Rottke and Zeitz (2012) and Pivo and Fisher (2010). Dippold, Mutl and Zietz (2014) note that "green building certification is not only responsive to economic conditions but also to the attitudes of the local population. Areas with well-educated people and a political preference for the Democratic Party significantly and positively influence the decision to certify buildings."

The debate about the costs, benefits and other effects of CSR activities continues and evolves. In their recent review, Crifo and Forget (2015) conclude that the mechanisms by which CSR has an effect are still unclear. This lack of clarity is one of the reasons why our research primarily focuses on the determinants of the activities rather than on their effects or on the net benefits of the effects.

Riskiness, Capital Structure and Politics

The literature on risk-taking is enormous. Our empirical research focuses on differences between REITs according to leverage choice, capital expenditure, volatility of stock price and systemic risk, using the measures reported by CRSP. These variables have a natural interpretation in terms of riskiness, especially the volatility of stock price and systemic risk. Similarly, increasing leverage may increase the expected rate of return on an investment but its

effects of the variance of the rate of return are also well-known. A capital expenditure represents a long term bet whose payoff depends on market conditions which, even two years into the future, are debated.

All firms consider a risk-return trade off when making a decision, and risk management strategies are a familiar part of standard operating procedures. Therefore, the simple argument is that a manager who, for any reason, has a stronger dislike for risk would avoid actions which increase risk. Our analysis considers an association between risk aversion and political tastes. As noted above, people who favor the Republicans party in the U.S. tend to be more "conservative" in more than one way and are less likely to try new things.

Some evidence on these effects in different types of decisions already exists. DeVault and Sias (2017) find that hedge fund managers who are relatively liberal in a political sense tend to invest more in assets which are riskier. Their bibliography includes citations from both the political science and the psychology literatures over more than 60 years to link political preferences and, in its many forms, risk preferences. Campbell, Notbohm, Smedema and Zhang (2014) noted that managers with ideologies which are politically conservative tend to behave differently when reporting on corporate performance: they are less likely to restate earnings and use discretionary accruals less. Both of these effects tend to reduce the risk inferred by investors.

The correlation between political preferences and actions can be investigated empirically. The challenge is to separate this effect from other variables which might be relevant. Previous studies in REITs have noted many variables which should be included as control variables, at least.

For example, Feng, Ghosh and Sirmans (2007) offer a general survey of the capital structure of REITs with a particular emphasis on financing options. They find a positive relationship between the market to book ratio and the leverage ratio. Harrison, Panasian and Seiler (2011) find that

asset tangibility is positively related to leverage, and that profitability and market-to-book ratios are negatively related. They argue that their results support the market timing and trade-off theories of capital structure but not the pecking order theory.

Another factor that affects firm performance and the capital structure is the potential agency problem. Several studies in REITs have found that managing real estate investments through external advisors generates a larger conflict of interest between shareholders and agents than does through internal advisors. Capozza and Seguin (2000) find that externally advised REITs performed worse than the REITs run by internal advisors. Ambrose and Linneman (2001) provide evidence that externally advised REITs in general also incur higher financial expenses. Chan, Erickson and Wang (2003) offer a comprehensive review on the agency problems associated with REIT's advisor choice. For a broader discussion on the positive relation between corporate governance and REIT's performance, please see Bauer, Eichholtz and Kok (2009).

Following the prior literature, we hence use asset tangibility, profitability, market-to-book ratio and type of advisor as control variables to isolate the impact of political preference.

3. Hypotheses and Empirical Design

A person who believes in something has their reasons, which may not be sensible to all others. At home, people act on those beliefs when investing and consuming. When that person goes to work, their brain does not change nor do their beliefs. Therefore, that person can be expected to act on them if given a chance. If that person is a CEO then their decision would affect many people.

Previous literature identifies two hypotheses based on the link between the preferences of a REIT's leader and its actions.[6] The idea that the word "conservative" can be used to describe both an attitude toward risk and an attitude toward politics is not merely a matter of language:

[6] Some readers may think that a natural experiment to test both of these hypotheses would be to consider a subset of REITs for which the CEO changed from one who leaned toward the Democratic Party to one who leaned toward the Republican Party. While this thought is reasonable, it is complicated by endogeneity in the process which selects the new leader.

for example, Kam and Simas (2010) verifies the link and studies it more precisely. The literature cited above notes that people who are liberal or favor the Democrat Party tend to look for changes while people who are conservatives or favor the Republican Party tend to prefer stability. Therefore, we offer the following hypothesis.

H1*: A REIT whose CEO favors the Democratic Party tends to use a riskier business strategy.*

We investigate REITs' risk-taking activities from two perspectives; (i) capital structure in terms of leverage and (ii) capital expenditure and riskiness of investment.

Our second hypothesis uses the idea that discussions about specific CSR activities are relatively new, even though members of the Democrat Party in the U.S. have expressed concerns for employees, human rights and the environment for decades. Therefore, the second hypothesis should not be surprising.

H2*: A REIT whose CEO favors the Democratic Party is more likely to undertake CSR activities.*

Many papers investigate CSR activities by focusing on the "ESG" dimensions: environmental, social and governance. People recognize that some dimensions are more important in some industries than others. Following increasing environmental concerns and higher energy prices, sustainable buildings have gained the attention among real estate investment during the last decade, but investors are uncertain about the benefits of green buildings(i.e., Eichholtz, Kok, and Quigley, 2010, 2013), Fuerst and McAllister (2011), Miller, Spivey, and Florance (2008), and Wiley, Benefield, and Johnson (2008)).Eichholtz, Kok, and Yönder (2017) evaluate the determinants of green property investments in U.S. Real Estate Investment Trusts (REITs), and suggest political preference may help to explain why some REITs are enthusiastic about sustainable investment. Since our research uses data about REITs, we focus on the "environmental" dimension. We expect that Democrats are more prone to environmental issues and more open to new types of environmental investments

To test these hypotheses, we use information on the personal political contributions of CEOs provided by the Federal Election Commission (FEC), and adopt strategy used by Hong and Kostovetsky (2012) and Hutton, Jiang, and Kumar (2013) to identify CEOs' political leanings. We construct two measures of the political preference in the cross section. The first measure (DEM) captures whether a REIT is Democratic leaning. *DEM* equals 2 if over 50 percent of CEO contribution amount goes to Democrats and the REIT headquarter is in a Democratic State. *DEM* equals 1 if over 50 percent of CEO contribution goes to Democrats but the REIT headquarter is not in a Democratic State. Otherwise, *DEM* equals 0. The second measure (*DEM Amount*) emphasizes the dollar amount in the political contribution. *DEM Amount* is the contribution of CEO (in logarithm) to Democrats for year t, according to Federal Elections Committee.

Our regressions with firm leverage as the dependent variable use

$$Leverage_{it} = a_i + b * PC_{it} + c * controls_{it-1} + w_{it} \quad (1)$$

We use both the book leverage and the market leverage. Book leverage is measured as the short-term and the long-term liabilities over the total assets, and market leverage is measured as the short-term and the long-term liabilities over the market value, for each firm in each year. For this regression and the ones with other dependent variables, PC takes the political preference measures described above, a_i is the firm fixed effect and, finally, we include a measure of the total amount of CEO contribution (*CEO Contribution*) to check consistency with the prior literature on the political contribution.

To study the effect of a CEO being Democrat on the aggressiveness of a REIT's investments, we estimate the following equation:

$$Investment_{it} = a_i + b * PC_{it} + c * controls_{it-1} + w_{it} \quad (2)$$

where *Investment* is Capital Expenditure/Total Assets.

To test whether being Democrat makes a REIT act less risk averse, we estimate the following equation:

$$Investment\ Riskiness_{\ it} = a_i + b * PC_{it} + c * controls_{it-1} + w_{it} \quad (3)$$

using two dependent variables. First, we use *Systematic Risk*, measured as the yearly standard deviation of the market premium[7] for a certain REIT from CAPM. Second, we use *Volatility*, measured as the yearly standard deviation of the stock return (excluding dividend payment) for a certain REIT. Unlike general stocks whose dividends are not fixed, REITs are more "bond-like" in dividend payment given the legal restrictions. By focusing on more than one variable which is associated with risk, we seek to highlight the effects of a difference in risk preferences[8].

Finally, to investigate whether Democrat REITs are more socially responsible, we estimate the following equation:

$$CSR_{it} = a_i + b * PC_{it} + c * controls_{it-1} + w_{it} \quad (4)$$

where CSR uses the "Environmental" measures of Corporate Social Responsibility from the KLD dataset, including the measures of Environmental Opportunities, Total Environmental Strengths (Total Environment Strengths aggregates total number of strengths and other strengths), Total Environmental Concerns (Total environmental concerns aggregates KLD's four other environmental concerns (Agricultural chemicals, Ozone-depleting chemicals, Other concern, and Climate change)), and Composite Index from these indicators. Composite Index aggregates Environmental Opportunities and Total Environmental Strengths, by deducting Total Environmental Concerns.

We include a set of control variables. Following the existing literature (Hilary and Hui, 2009; Hutton, Jiang, and Kumar, 2013), we use total assets (in logarithm of millions of dollars; *Log(Asset)*) and total sales (the natural logarithm of the firm's sale amount; *Log(Sale)*), the firm's market value divided by its book value of the assets (*MB*) to measure the growth opportunity, *Cash* (cash and short-term investment over total assets) to measure the firm's liquidity, *Profit* (operating income scaled by the total assets), *Tangibility* (tangible assets over

[7] In a robustness check, we use market beta to measure the systematic risk and find that the results are similar and significant.

[8] In a robustness check, we investigate the idiosyncratic risk in REITs rather than the systematic risk or the total risk and find a quantitatively significant result.

the total assets), and *Advisor* (equals 1, if externally advised) to measure the effectiveness of corporate governance. Appendix 1 lists all the variables used in this paper's empirical analysis and their sources.

4. Data and Empirical Results

This study uses a panel of U.S. equity REITs from 1999 to 2013. We restrict the sample to those 1) listed on NYSE, Nasdaq, or Amex, with 2) non-missing values on Compustat and CRSP. We also collect data on political contributions to the candidates and to the political action committees (PACs) during federal elections from the US Federal Elections Committee (FEC) website. We manually match the names of each REIT CEO with the FEC records.

Table 1-A reports summary statistics for the CEO contribution to Democrats across all election cycles from 1999 to 2013. Both the mean and total amount of CEO's contribution to Democrats (*DEM Amount*) show a noticeable shift in about 2008 or 2010 when the presidency changed from Republican to Democrat and following the Citizen's United decision by the U.S. Supreme Court. The dollar contribution to Democrats peaked in the 2007-08 cycle when Barack Obama won the presidential election. Table 1-B describes the political preference of REITs headquarters' locations over the time. More REITs choose to locate their headquarters to more Democratic states after 2000.

[Insert Table 1 about here]

Table 2 presents descriptive statistics for the key variables we use in the empirical analyses. The mean of *Book Leverage* and *Market Leverage* are 57 percent and 69 percent, indicating that REITs tend to be highly levered. The mean of *Investment* is 1 percent of the total assets, with a few investing much more. The mean value of *Systematic Risk* is 0.56, suggesting a higher systematic risk than for common stocks. The mean of *Volatility* is 0.08. Yet, there is a wide variation in the measure of *Systemic Risk* across REITS. As for the CSR measures, the mean value

of environmental strengths (environmental opportunities) is 0.049 (0.005), while the mean value for environmental concerns is 0.016. REITs are priced with a mean *MB* less than 1.0 and 8 percent of REITs are externally advised. In an unreported analysis, we also document that a REIT that favors Democratic tends to have higher market-to-book ratio and hold more cash and tangible assets compared with its counterparts.

[Insert Table 2 about here]

The next few sub-sections report the empirical evidence of the political preference on capital structure, capital expenditure, investment riskiness and corporate social responsibility. The results overall support the hypotheses that political preferences of a CEO affect the business decisions of a REIT.

4.1. Political Preference and Use of Debt

Table 3 reports the empirical relations between the political preference and capital structure. Column (1) shows that *DEM* is positively related with the book leverage with a high degree of statistical significance (at the 5% level). We also find a positive relation between *DEM Amount* and book leverage with an even higher level of statistical significance (at the 1% level). Column (3) and column (4) show that both *DEM* and *DEM Amount* are positively related with market leverage with a similar magnitude to that found in columns (1) and (2) but slightly lower levels of statistical significance. Keeping in mind that REITs use more leverage than general firms, these results also indicate that a REIT with a more strongly Democratic CEO uses more leverage. Our findings indicate that a one percent increase in the CEO's contribution to Democrats increases leverage by 0.006 percent.

Table 3 also presents the relationship between the capital structure and other variables. The coefficients for cash and short-term investment are negative but not highly statistically significant, indicating that REITs may use less debt when they are financially slack. *Tangibility* and, especially, *Profit* tend to affect leverage negatively which is consistent with the findings of

prior literature. The coefficients of *Advisor* on the book leverage are negative and statistically significant. As external advisor can work for multiple REITs at the same time, this finding seems to suggest that externally advised REITs are more averse to high leverage capital structure, probably in order to reduce the financial risk and hence to improve advisor's job security.

[Insert Table 3 about here]

Overall, the results in Table 3 support the hypothesis that the capital structure of a REIT is positively associated with being Democratic (H1).

4.2. Political Preference and Capital Expenditure

Our second test considers whether a CEO being Democratic makes their REIT more aggressive in its investment. Table 4 reports the relationship between political preference and capital expenditure. The results document a significant and positive relation between political preference and capital expenditure. For a one percent increase in the CEO's contribution to Democrats, investment intensity increases by 0.001 percent or more. The insignificant coefficients on *CEO Contribution* indicate that it is political preference, not the amount of the CEO's contribution, which affects corporate investment strategies.

The empirical effects of control variables are consistent with prior studies. More specifically, we document a positive relationship between *Log(Sale)*, *Cash*, *MB* and investment plus a negative relationship with *Profit* and *Log(Asset)*. The coefficients showing the effect of *Advisor* on the corporate investment are negative and highly significant. As external advisors can make investment recommendations for multiple REITs at the same time, this finding is consistent with the inherit conflict of interests and competition among REITs which imply that they either invest less or in lower quality projects.

Overall, the results in Table 4 support the hypothesis that corporate investment is positively associated with being Democratic (H1).

[Insert Table 4 about here]

4.3. Political Preference and Investment Riskiness

Table 5 reports the empirical relations between the political preference and corporate investment riskiness. Column (1) shows that *DEM* is positively related with the stock volatility while Column (2) reports a positive relation between *DEM Amount* and the stock volatility. Column (3) and column (4) show that both *DEM* and *DEM Amount* are also positively related with *Systematic Risk*, with the estimated effect being much larger (0.064 vs. 0.008 and 0.013 vs. 0.002) and having a higher degree of statistical significance (at the 1% level). As expected, profitability is negatively related with investment riskiness.

[Insert Table 5 about here]

Overall, the results in Table 5 support the hypotheses that REIT's risk degree is positively associated with the CEO being Democratic (H1).

4.4. Political Preference and Corporate Social Responsibility

Table 6 reports the empirical relations between the political preference and corporate social responsibility, where the different columns emphasize different dimensions of corporate social responsibility. As expected, columns (1) to (4) show that both *DEM* and *DEM Amount* are positively related to the environmental opportunities/strengths within a REIT, with statistical significance on the environmental strengths; this is consistent with our hypothesis that Democrat-leaning CEOs are more active in CSR activities associated with environmental opportunities/strengths. Columns (5) and column (6) report the findings for the Number of Environmental Concerns within a REIT. The coefficients of *CEO Contribution* are negative and significant but not the coefficients on *DEM* or *DEM Amount*. As more environmental concerns imply weaker corporate social responsibility, this finding indicates that REITs with a CEO contributing more to either party tend to undertake more socially active initiatives. Column (7)

and column (8) report the results for composite index, documenting a qualitatively similar result. Our findings show that, compared with politically neutral CEOs, Democrat leaning CEOs are more likely to engage in CSR activities.

[Insert Table 6 about here]

Overall, the results in Table 6 support the hypothesis that managerial political beliefs are related to corporate social responsibility (H2). The logic discussed above would explain why REITs with Democrat leaning CEOs become more active on environmental issues as their contributions increase. The fact that REITs with politically inclined CEOs are active across so many dimensions is more surprising, and it is in sharp contrast to the results noted in prior analyses where the effects of a CEO's contribution were nearly always insignificant and small. Whether it can be explained as Republican leaning CEOs viewing personal responsibility as a better substitute for government regulation having similar goals requires more and more precise data, perhaps on a case by case basis. Given how the debate on environmentally conscious business practices is evolving, it would be interesting to revisit this issue in the future; the accumulation of research would reduce the novelty or innovativeness factor of the decisions.

5. Robustness Checks

5.1 Endogeneity

It is possible that the political contribution is endogenous to CEO personal attributes, and we address this concern by using instrument variables. The approach used is similar to that used by Hutton, Jiang and Kumar (2013) in examining the political belief of publicly listed firms. We collect CEO attributes on gender and age, where prior literature and survey results suggest that younger and female individuals are more likely to identify with the Democratic Party. We admit that these instrumental variables may affect the firm-manager matching process at first, but they cannot be changed in response to the changing business cycle. In this regard, the instrumental variables help address the potential reverse causality where the business needs of

certain REITs may affect its managerial contributions.

We regress our political preference measures with the CEO demographic attributes in the following regression:

$$PC_{it} = a_i + b * Male + c * \text{Age} + w_{it} \quad (6)$$

where $Male$ is a dummy variable that equals 1 if CEO is male, otherwise zero. As before, PC takes the political preference measures described above. w_{it} is the instrument used in the two-stage least squares regression (2SLS) reported in Table 7. Consistent with Hutton, Jiang and Kumar (2013), we find that CEO-level Democratic measures are highly significantly correlated with these attributes.

The specification of the regression equations reported in Table 7 is the same as in the previous tables. We find that the coefficients on the measures of REITs being Democratic which were significant in Tables 3 to 6 remain significant. This evidence strengthens our conjecture that our measures capture a REIT's CEO's personal political beliefs.

[Insert Table 7 about here]

Overall, the results using instrument variables confirm that the relation between the corporate performance and the political belief is robust to the issue of endogeneity.

5.2 Political Preference and Property Portfolio

In section 4, we document that REITs with a CEO contributing more to either party tend to undertake more socially active initiatives while a REIT being Democratic tends to take on more risky investment. Prior studies also suggest that Democrats are more prone to environmental issues and more open to new types of environmental investments. Given the geographic feature of real estate properties, the impact of political preference on REITs portfolio

diversification becomes an empirical question.

Our regressions with property portfolio as the dependent variable use

$$Property\ Portfolio_{it} = a_i + b * PC_{it} + c * controls_{it-1} + w_{it} \quad (5)$$

We use both the property acquisition and the property disposition. Property acquisition is measured as properties acquired over the total properties in Democratic States and Republican States, and property disposition is measured as properties disposed over the total properties in Democratic States and Republican States, for each firm in each year.

We report the result in Table 9. Column (1) to Column (4) report the findings for the property acquisition, where we document no significant impact of political preference in either Democratic States or Republican States. In contrast, from Column (5) to Column (8), we find that being Democratic is significantly and positively associated with properties disposed in Democratic States, but significantly and negatively associated with properties disposed in Republican States. The findings are in line with the prior studies documenting that property divestitures tend to benefit sellers' shareholders (Datta and Iskandar-Datta,1996;Datta et al. , 2003) and serve as a cheaper source of funding for firms subject to internal funds constraint like REITs. By diversifying the property portfolio to Republican States, the geographic diversification of a Democratic REITs' property portfolio could be improved when certain real estate assets in Democratic States are sold.

[Insert Table 8 about here]

5.3 *Political Preference and Financial outcome*

In section 4, we show that being Democratic is attributable to firm risk. However, as a REIT whose CEO favors the Democratic Party tends to use a riskier business strategy, the impact of political preference on operating performance becomes an empirical question.

We further analyze the impact of political preference on REITs' long run operating performance. Table 9 reports the results on ROE[9]. Compared with REITs led by either independent or

[9] We also investigate the impact of being Democratic on ROA and get similar results.

republican-leaned CEOs, we document an interesting impact of the democrat preference on ROE. We consider up to two years on REIT performance measured by cumulative ROE, measured after a CEO makes a contribution to a party during an election cycle. Although we find an insignificant impact of being Democratic on post one-year ROE, a significantly positive impact on post two-year ROE is documented. The results suggest that, through applying a riskier business strategy, those REITs who favor the Democratic Party seem to outperform their counterparts. We hence show that political connection contributes operating performance in the long term associated with the election cycle.

[Insert Table 9 about here]

6. Conclusion

We construct several variables of the political preference of a REIT's CEO and use these to find effects on the REIT's decisions. We find that REITs with CEOs who lean toward the Democrat Party tend to involve more risk. We also find that REITs whose CEO contribute to either political party are more active in CSR environmental activities, when compared to REITS whose CEOs donate little or none.

These results are interesting because they demonstrate how political beliefs affect business decisions. While initiatives by high profile companies can accomplish a goal, Hong and Kostovetsky (2012) note that the focused efforts of a few can be overwhelmed by the small actions of many. Their work and ours raise new questions about the supposed dichotomy between the private sector being the preferred solution to finding effective solutions if the incentives are right and the public sector being the preferred solution in situations characterized by market failures.

It is interesting to note that we find the effects of politics are independent of the type of Advisor, suggesting that the level of governance has little effect in the dimensions we study. We use Advisor as a control variable, rather than offering a testable hypothesis. A more careful analysis of this issue might build on the recent work by Edmans and Gabaix (2016) which explicitly studies how executive compensation might vary with the risk environment facing a

company. Their paper also offers more guidance on how the team which surrounds a CEO affects decisions also.

Finally, we remind readers that this kind of research is easiest to implement using data from the United States where two parties dominate the political discussion. Research using data from countries with more than two dominant parties could add to this research by going beyond a simplistic left-right spectrum and enabling researchers to clarify which aspects of a political ideology affect business decisions. It may help to better understand the finding that REITs with politically neutral CEOs are least active in CSR-environmental activities. Being clearer on that point could be important in a practical sense since we have shown that the personal preference of a corporate leader can affect business decisions with social consequences. Clarification is important because our paper should not be used to argue that leaders should be given incentives to make such decisions; there is a well-known tension between intrinsic and extrinsic motivation (e.g., Bowles and Polania-Reyes, 2012).

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Appendix: Variable Definitions

Variable Name	Definition	Data Sources
Panel A: Variables of Interests		
Book Leverage	Short-term and long term liabilities over total assets	Compustat
Market Leverage	Short-term and long term liabilities over market value	Compustat
Investment	Capital expenditure divided by total assets	Compustat
Systematic Risk	Yearly standard deviation of the market premium for a certain REIT from CAPM	CRSP
Volatility	Yearly standard deviation of the stock return (excluding dividend payment) for a certain REIT	CRSP
Corporate Social Responsibility	Using KLD's measures of corporate social responsibility, we focus on the Environmental dimension. Total Environment Strengths aggregates total number of strengths and other strengths. Total environmental concerns aggregates KLD's four other environmental concerns (Agricultural chemicals, Ozone-depleting chemicals, Other concern, and Climate change). The Composite Index aggregates Environmental Opportunities and Total Environmental Strengths and deducts Total Environmental Concerns.	KLD
Panel B: Political Preferences		
DEM	Equals 2, if over 50% of CEO contribution amount goes to Democrats and the REIT's headquarter is in a Democratic State; Equals 1, if over 50% of CEO contribution goes to Democrats but the headquarter of the REIT is not in a Democratic State; Otherwise, 0.	Federal Elections Committee website
DEM Amount	Equal to the CEO contribution amount to Democrats (in logarithm)	Federal Elections Committee website
CEO Contribution	Total Contributions of CEO to Federal Elections Committee (FEC) for year t (in logarithm)	Federal Elections Committee website
Panel C: Control Variables		
Advisor	Equals 1, if externally advised. Otherwise, the value is 0	SNL
MB	Market capitalization and total liability over total assets	Compustat
Cash	Cash and short-term investment over total assets	Compustat

Log(Sale)	Total Sales (in logarithm of million dollars)	Compustat
Log(Asset)	Total Assets (in logarithm of million dollars)	Compustat
Profit	Operating income over total assets	Compustat
Tangibility	Tangible assets over total assets	Compustat

Table 1 Political Orientation Measures: Summary Statistics

Panel A: Political Preference for REIT CEOs

	DEM Amount Mean	DEM Amount Max	DEM Amount Total	DEM Amount Total /REP Amount Total	#DEM States /#REP States	CEO Contribution Mean
1999	1275	41000	105825	1.626	0.759	4641
2001	370	3000	22200	0.529	0.700	4714
2003	546	20000	45898	0.387	0.700	4174
2005	3115	103300	289695	1.152	0.700	10838
2007	2413	99850	376428	0.959	0.700	13267
2009	2249	76900	303615	3.718	0.645	9306
2011	407	7500	63868	0.539	0.645	16348
2013	945	34200	135106	0.532	0.645	10876

Panel B: Political Preference for REIT Headquarter Distribution

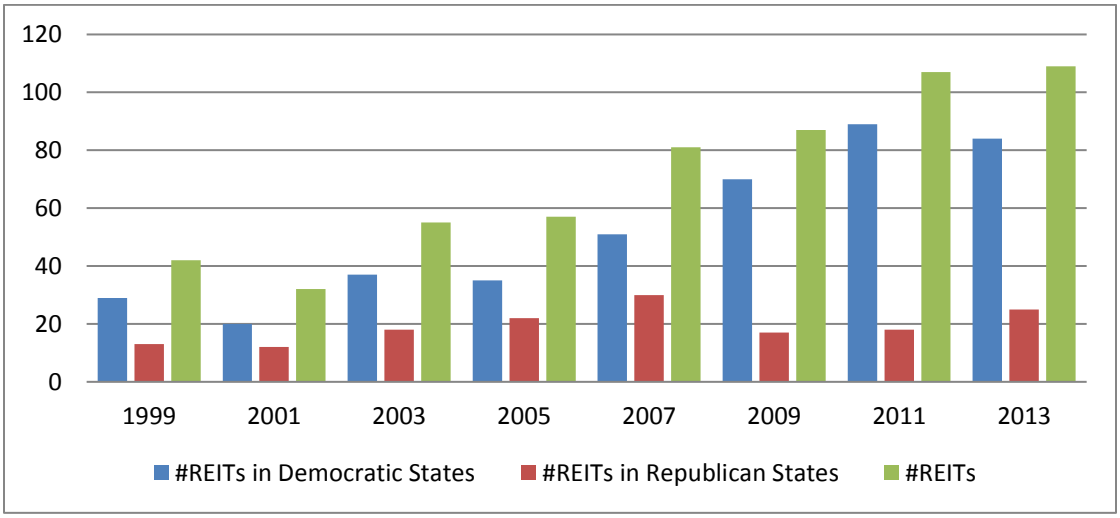

Table 2 Descriptive Statistics

This table presents descriptive statistics for the variables used in the empirical analysis.

Variable Name	N	mean	sd	p50	p1	p99
Book Leverage	540	0.569	0.183	0.578	0.031	0.959
Market Leverage	555	0.694	0.316	0.686	0.028	1.0
Investment	317	0.011	0.035	0.0	0.0	0.187
Systematic Risk	506	0.557	0.331	0.522	0.153	1.860
Volatility	522	0.080	0.063	0.059	0.029	0.302
Corporate Social Responsibility						
Environmental Opportunities	570	0.005	0.072	0	0	1
Environmental Strengths	570	0.049	0.286	0	0	2
Environmental Concerns	570	0.016	0.125	0	0	1
Composite Index	570	0.058	0.391	0	0	2
DEM	570	0.320	0.709	0	0	2
*DEM Amount(*in logarithm*)*	570	1.498	3.135	0.0	0.0	10.360
CEO Contribution	570	8.460	1.467	8.517	5.521	11.510
MB	556	0.025	0.047	0.010	0.0	0.197
Cash	570	0.906	0.483	0.853	0.045	2.212
Log(Asset)	570	7.520	1.741	7.849	0.0	10.170
Log(Sale)	320	5.712	1.541	5.940	0.854	8.522
Profit	570	0.021	0.052	0.018	-0.098	0.159
Tangibility	556	0.051	0.177	0.0	0.0	0.878
Advisor	570	0.084	0.278	0	0	1

Table 3 Political Preference and Capital Structure

This table presents the relation between the political preference and capital structure. The dependent variable is *Leverage*, measured as short-term and long-term liabilities over book value of total assets (*Book Leverage*) or the market value (*Market Leverage*). The variables of interest are *DEM*, *DEM Amount* and *CEO Contribution*, as defined in Appendix 1. The control variables are *Cash*, *MB*, *Tangibility, Profit*, and *Advisor.* Coefficient estimates are presented, and T-statistics are included in parentheses. *, ** and *** represent the 10%, 5% and 1% significance levels, respectively.

	Book Leverage		*Market Leverage*	
	Column 1	Column 2	Column 3	Column 4
DEM	0.021**		0.021*	
	(2.02)		(1.86)	
DEM Amount		0.006***		0.006**
		(2.80)		(2.49)
CEO Contribution	0.014***	0.013***	0.007	0.006
	(2.96)	(2.83)	(1.27)	(1.18)
Cash	-0.056	-0.045	-0.288*	-0.300*
	(-0.37)	(-0.30)	(-1.73)	(-1.81)
MB	0.025*	0.023	-0.551***	-0.552***
	(1.68)	(1.52)	(-33.42)	(-33.54)
Tangibility	-0.109**	-0.071	-0.001	0.001
	(-2.32)	(-1.48)	(-0.01)	(0.01)
Profit	-1.276***	-1.287***	-1.166***	-1.161***
	(-7.64)	(-7.68)	(-8.13)	(-8.12)
Advisor	-0.074***	-0.071**	0.031	0.032
	(-2.62)	(-2.52)	(1.03)	(1.07)
Constant	Yes	Yes	Yes	Yes
Property Type	Yes	Yes	Yes	Yes
Num of Obs.	538	538	554	554
Adjusted R^2	0.279	0.283	0.708	0.709

Table 4 Political Preference and Capital Expenditure

This table presents the relation between the political preference and corporate investment. The dependent variable is *Investment*, measured as capital expenditure in the observation year divided by total asset. The variables of interest are *DEM*, *DEM Amount* and *CEO Contribution*, as defined in Appendix 1. The control variables are *Log(Sale), Log(Asset),Cash*, *MB*, *Profit*, and *Advisor.* Coefficient estimates are presented, and T-statistics are included in parentheses. *, ** and *** represent the 10%, 5% and 1% significance levels, respectively.

	Investment	
	Column 1	Column 2
DEM	0.007**	
	(2.48)	
DEM Amount		0.001**
		(2.06)
CEO Contribution	-0.001	-0.001
	(-0.01)	(-0.29)
Log(Sale)	0.007**	0.006**
	(2.16)	(1.97)
Log(Asset)	-0.014***	-0.013***
	(-3.88)	(-3.67)
Cash	0.356***	0.363***
	(3.04)	(3.08)
MB	0.013**	0.013**
	(2.49)	(2.53)
Profit	-0.094**	-0.089**
	(-2.11)	(-2.00)
Advisor	-0.023***	-0.022***
	(-2.73)	(-2.63)
Constant	Yes	Yes
Property Type	Yes	Yes
No. of Obs.	327	327
Adjusted R^2	0.247	0.241

Table 5 Political Preference and Investment Riskiness

This table presents the relation between the political preference and investment riskiness. The dependent variable is *Volatility*, measured as yearly standard deviation of the stock return (excluding dividend payment) for a certain REIT, and *Systematic Risk*, measured as yearly standard deviation of the market premium for a certain REIT from CAPM. The variables of interest are *DEM*, *DEM Amount* and *CEO Contribution*, as defined in Appendix 1. The control variables are *Book Leverage, Log(Asset), Profit*, *Tangibility* and *Advisor.* Coefficient estimates are presented, and T-statistics are included in parentheses. *, ** and *** represent the 10%, 5% and 1% significance levels, respectively.

	Volatility		*Systematic Risk*	
	Column 1	Column 2	Column 3	Column 4
DEM	0.008**		0.064***	
	(2.02)		(3.01)	
DEM Amount		0.002**		0.013***
		(2.00)		(2.81)
CEO Contribution	0.002	0.001	-0.016	-0.018*
	(0.80)	(0.67)	(-1.47)	(-1.69)
Book Leverage	0.037**	0.036**	0.156*	0.151
	(2.13)	(2.08)	(1.69)	(1.64)
Log(Asset)	-0.001	-0.001	0.020	0.021
	(-0.42)	(-0.38)	(1.43)	(1.49)
Profit	-0.173**	-0.168**	-2.314***	-2.273***
	(-2.38)	(-2.31)	(-5.96)	(-5.85)
Advisor	0.023*	0.023*	0.172***	0.173***
	(1.94)	(1.95)	(2.82)	(2.84)
Tangibility	0.034*	0.033*	0.291***	0.282***
	(1.86)	(1.81)	(2.90)	(2.80)
Constant	Yes	Yes	Yes	Yes
Property Type	Yes	Yes	Yes	Yes
No. of Obs.	509	509	494	494
Adjusted R^2	0.0406	0.0410	0.117	0.118

Table 6 Political Preference and Corporate Social Responsibility

This table presents the relation between the political preference and corporate social responsibility. The dependent variables are the measures of corporate social responsibility, including Environmental Opportunities, Environmental Strengths, Environmental Concerns and the Composite Index. The variables of interest are *DEM*, *DEM Amount* and *CEO Contribution*, as defined in Appendix 1. The control variables are *Book Leverage, Log(Asset), Profit*, *Tangibility* and *Advisor.* Coefficient estimates are presented, and T-statistics are included in parentheses. *, ** and *** represent the 10%, 5% and 1% significance levels, respectively.

	Environmental Strengths		Environmental Opportunities		Environmental Concerns		Composite Index	
	Column (1)	Column (2)	Column (3)	Column (4)	Column (5)	Column (6)	Column (7)	Column (8)
DEM	0.070**		0.016		-0.006		0.093**	
	(1.97)		(0.85)		(-0.43)		(2.23)	
DEM Amount		0.015*		0.002		-0.002		0.020**
		(1.79)		(0.50)		(-0.53)		(2.10)
CEO Contribution	0.031*	0.027*	0.041***	0.040***	-0.013**	-0.013**	0.040**	0.036*
	(1.86)	(1.67)	(5.05)	(5.00)	(-2.22)	(-2.27)	(2.08)	(1.86)
Market Leverage	-0.194	-0.205	-0.163*	-0.159*	-0.103	-0.102	-0.190	-0.207
	(-1.07)	(-1.12)	(-1.85)	(-1.80)	(-1.60)	(-1.58)	(-0.89)	(-0.96)
Profit	-0.448	-0.482	-0.414	-0.393	0.107	0.105	-0.646	-0.700
	(-0.59)	(-0.63)	(-1.16)	(-1.11)	(0.40)	(0.40)	(-0.72)	(-0.78)
Advisor	0.046	0.056	-0.099*	-0.099*	-0.022	-0.021	0.014	0.026
	(0.44)	(0.53)	(-1.87)	(-1.86)	(-0.53)	(-0.52)	(0.11)	(0.21)
Tangibility	-0.082	-0.086	-0.074	-0.075	-0.028	-0.028	-0.083	-0.089
	(-0.36)	(-0.37)	(-0.66)	(-0.68)	(-0.36)	(-0.36)	(-0.31)	(-0.33)
Constant	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Property Type	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
No. of Obs.	540	540	540	540	540	540	540	540
Adjusted R^2	0.026	0.023	0.078	0.077	0.019	0.020	0.017	0.015

Table 7 Robustness Check: Two-Stage Least Squares (2SLS)

This table presents the robustness check using instruments. The dependent variables are *Book Leverage, Market Leverage, Investment, Volatility*, *Systematic Risk* and *CSR measures*. The variables of interest are *DEM (Instrument)*, *DEM Amount (Instrument)* and *CEO Contribution*, as defined in Appendix 1. Coefficients are presented, and T-statistics are included in parentheses. *, ** and *** represent the 10%, 5% and 1% significance levels, respectively.

Panel A

	Book Leverage		*Market Leverage*	
	Column 1	Column 2	Column 3	Column 4
DEM(Instrument)	0.018*		0.019*	
	(1.80)		(1.74)	
DEM Amount(Instrument)		0.006***		0.006**
		(2.76)		(2.38)
CEO Contribution	0.014***	0.013***	0.006	0.006
	(2.84)	(2.80)	(1.25)	(1.16)
Cash	-0.025	-0.043	-0.283*	-0.297*
	(-0.17)	(-0.29)	(-1.70)	(-1.79)
MB	0.023	0.023	-0.551***	-0.552***
	(1.55)	(1.50)	(-33.36)	(-33.48)
Tangibility	-0.073	-0.070	0.001	0.001
	(-1.52)	(-1.47)	(0.00)	(0.01)
Profit	-1.290***	-1.292***	-1.162***	-1.160***
	(-7.63)	(-7.68)	(-8.08)	(-8.09)
Advisor	-0.072**	-0.071**	0.030	0.032
	(-2.52)	(-2.52)	(1.02)	(1.06)
Constant	Yes	Yes	Yes	Yes
Property Type	Yes	Yes	Yes	Yes
No. of Obs.	537	537	553	553
Adjusted R^2	0.274	0.280	0.712	0.713

Panel B		
	Investment	
	Column 1	Column 2
DEM(Instrument)	0.006***	
	(2.61)	
DEM Amount(Instrument)		0.001**
		(2.07)
CEO Contribution	-0.001	-0.001
	(-0.68)	(-0.89)
Log(Sale)	0.015***	0.015***
	(5.06)	(4.89)
Log(Asset)	-0.016***	-0.016***
	(-4.95)	(-4.75)
Cash	0.248***	0.252***
	(6.93)	(7.03)
MB	0.016***	0.016***
	(3.41)	(3.39)
Profit	-0.079**	-0.076*
	(-2.00)	(-1.89)
Advisor	-0.019**	-0.018**
	(-2.52)	(-2.42)
Constant	Yes	Yes
Property Type	Yes	Yes
No. of Obs.	326	326
Adjusted R^2	0.246	0.240

Panel C				
	Volatility		*Systematic Risk*	
DEM (Instrument)	0.011***		0.056***	
	(2.64)		(2.65)	
DEM Amount (Instrument)		0.002**		0.012**
		(2.56)		(2.53)
CEO Contribution	0.002	0.002	-0.013	-0.015
	(1.03)	(0.87)	(-1.19)	(-1.36)
Book Leverage	0.035**	0.033*	0.160*	0.151
	(2.01)	(1.91)	(1.73)	(1.64)
Log(Asset)	-0.002	-0.001	0.019	0.019
	(-0.57)	(-0.55)	(1.32)	(1.36)
Profit	-0.179**	-0.180**	-2.258***	-2.259***
	(-2.46)	(-2.47)	(-5.82)	(-5.82)
Advisor	0.021*	0.021*	0.174***	0.175***
	(1.78)	(1.80)	(2.85)	(2.87)
Tangibility	0.027	0.025	0.325***	0.315***
	(1.39)	(1.29)	(3.10)	(3.00)
Constant	Yes	Yes	Yes	Yes
Property Type	Yes	Yes	Yes	Yes
No. of Obs.	508	508	494	494
Adjusted R^2	0.037	0.036	0.118	0.117

	Environmental Strengths		Environmental Opportunities		Environmental Concerns		Composite Index	
	Column (1)	Column (2)	Column (3)	Column (4)	Column (5)	Column (6)	Column (7)	Column (8)
DEM	0.067*		0.007		-0.012		0.089**	
	(1.91)		(0.38)		(-0.88)		(2.13)	
DEM Amount		0.014*		0.001		-0.003		0.019**
		(1.72)		(0.22)		(-0.93)		(2.00)
CEO Contribution	0.029*	0.026	0.040***	0.039***	-0.013**	-0.013**	0.037*	0.034*
	(1.75)	(1.59)	(4.99)	(4.98)	(-2.21)	(-2.28)	(1.94)	(1.76)
Market Leverage	-0.178	-0.191	-0.156*	-0.155*	-0.102	-0.099	-0.168	-0.187
	(-0.99)	(-1.05)	(-1.77)	(-1.75)	(-1.59)	(-1.53)	(-0.79)	(-0.87)
Profit	-0.409	-0.455	-0.387	-0.384	0.115	0.121	-0.590	-0.661
	(-0.54)	(-0.59)	(-1.09)	(-1.08)	(0.44)	(0.46)	(-0.66)	(-0.73)
Advisor	0.054	0.060	-0.098*	-0.098*	-0.022	-0.022	0.024	0.032
	(0.51)	(0.57)	(-1.85)	(-1.84)	(-0.53)	(-0.54)	(0.19)	(0.26)
Tangibility	-0.078	-0.083	-0.075	-0.076	-0.027	-0.028	-0.078	-0.085
	(-0.34)	(-0.36)	(-0.68)	(-0.69)	(-0.35)	(-0.36)	(-0.29)	(-0.31)
Constant	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Property Type	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
No. of Obs.	539	539	539	539	539	539	539	539
Adjusted R^2	0.025	0.022	0.076	0.076	0.022	0.022	0.015	0.013

Table 8 Political Preference and REITs Property Portfolio

This table presents the relation between the political preference and REITs property portfolio. The dependent variables are the measures of the property acquisition and the property disposition. Property acquisition is measured as properties acquired over the total properties in Democratic States and Republican States, and property disposition is measured as properties disposed over the total properties in Democratic States and Republican States, for each firm in each year. The variables of interest are *DEM*, *DEM Amount* and *CEO Contribution*, as defined in Appendix 1. The control variables are *Book Leverage, Log(Asset), Profit*, *Tangibility* and *Advisor.* Coefficient estimates are presented, and T-statistics are included in parentheses. *, ** and *** represent the 10%, 5% and 1% significance levels, respectively.

	Properties Acquired （%）				Properties Disposed （%）			
	in Democratic States		in Republican States		in Democratic States		in Republican Sta	
	Column(1)	Column(2)	Column(3)	Column(4)	Column(5)	Column(6)	Column(7)	Colu
DEM	-0.147		-0.521		0.047**		-0.064***	
	(1.692)		(1.252)		(0.022)		(0.021)	
DEM Amount		0.036		-0.025		0.008*		-0.0
		(0.393)		(0.291)		(0.005)		(0.
CEO Contribution	-1.194	-1.173	-0.966	-0.929	-0.016	-0.018	-0.019*	-0.
	(0.845)	(0.839)	(0.626)	(0.621)	(0.011)	(0.011)	(0.011)	(0.
Book Leverage	-19.286**	-19.350**	-17.860***	-17.940***	0.097	0.092	-0.179*	-0.
	(7.798)	(7.800)	(5.772)	(5.775)	(0.110)	(0.110)	(0.107)	(0.
Asset	3.060***	3.057***	1.622*	1.613*	0.045***	0.046***	0.007	0.
	(1.147)	(1.147)	(0.849)	(0.849)	(0.016)	(0.016)	(0.016)	(0.
Profit	-47.270	-47.417	-32.574	-32.781	0.618	0.630	-0.981**	-0.9
	(40.770)	(40.770)	(30.179)	(30.185)	(0.487)	(0.488)	(0.476)	(0.
Advisor	-3.750	-3.706	-1.553	-1.509	0.100	0.104	-0.112	-0.
	(6.131)	(6.135)	(4.538)	(4.542)	(0.089)	(0.090)	(0.087)	(0.
Tangibility	-5.717	-5.649	-5.563	-5.493	-0.078	-0.063	0.001	-0.
	(12.788)	(12.791)	(9.466)	(9.470)	(0.157)	(0.157)	(0.153)	(0.
Constant	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Y
Property Type	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Y
No. of Obs.	540	540	540	540	540	540	540	5
Adjusted R^2	0.087	0.087	0.028	0.027	0.133	0.134	0.077	0.

Table 9 Political Preference and REITs Financial Outcome

This table presents the relation between the political preference and REITs financial outcome. The dependent variables are ROE. The variables of interest are *DEM*, *DEM Amount* and *CEO Contribution*, as defined in Appendix 1. The control variables are *Cash, Log(Asset), CEO Turnover* and *Advisor.* Coefficient estimates are presented, and T-statistics are included in parentheses. *, ** and *** represent the 10%, 5% and 1% significance levels, respectively.

	Return on Equity			
	Post one year		Post two years	
	Column(1)	Column(2)	Column(3)	Column(4)
DEM	0.016		0.675**	
	(0.030)		(0.267)	
DEM Amount		0.004		0.188***
		(0.007)		(0.059)
CEO Contribution	-0.036**	-0.036**	0.501***	0.475***
	(0.015)	(0.015)	(0.131)	(0.130)
Cash	-1.630***	-1.642***	-5.068	-5.527
	(0.444)	(0.445)	(3.762)	(3.751)
Advisor	0.115	0.115	-1.225*	-1.174*
	(0.079)	(0.079)	(0.700)	(0.697)
Asset	0.008	0.008	-0.628***	-0.630***
	(0.013)	(0.013)	(0.114)	(0.113)
CEO Turnover	-0.064	-0.066	0.107	0.048
	(0.046)	(0.046)	(0.407)	(0.406)
Constant	Yes	Yes	Yes	Yes
Property Type	Yes	Yes	Yes	Yes
No. of Obs.	540	540	540	540
Adjusted R^2	0.045	0.045	0.076	0.084