

LMP REAL ESTATE INCOME FUND INC.

Form N-Q

November 28, 2006

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM N-Q

**QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED
MANAGEMENT INVESTMENT COMPANY**

Investment Company Act file number

811-21098

LMP Real Estate Income Fund Inc.
(Exact name of registrant as specified in charter)

125 Broad Street, New York, NY
(Address of principal executive offices)

10004
(Zip code)

Robert I. Frenkel, Esq.
Legg Mason & Co., LLC
300 First Stamford Place
Stamford, CT 06902
(Name and address of agent for service)

Registrant's telephone number, including area code:

1-800-451-2010

Date of fiscal year end: December 31

Date of reporting period: September 30, 2006

LMP REAL ESTATE INCOME

FUND INC.

FORM NQ

SEPTEMBER 30, 2006

ITEM 1. SCHEDULE OF INVESTMENTS

LMP Real Estate Income Fund Inc.

Schedule of Investments (unaudited)

September 30, 2006

| Shares | | Security | Value |
|----------------------------------|--------------|----------------------------------------|-------------------|
| COMMON STOCKS | 72.8% | | |
| Apartments | 9.7% | | |
| | 34,000 | Archstone-Smith Trust | \$ 1,850,960 |
| | 245,000 | Camden Property Trust | 18,622,450 |
| | 55,400 | CentraCore Properties Trust | 1,758,950 |
| | 185,000 | GMH Communities Trust | 2,334,700 |
| | 100,000 | Mid-America Apartment Communities Inc. | 6,122,000 |
| | 140,000 | United Dominion Realty Trust Inc. | 4,228,000 |
| | | Total Apartments | 34,917,060 |
| Diversified | 5.5% | | |
| | 300,000 | iStar Financial Inc. | 12,510,000 |
| | 190,000 | Lexington Corporate Properties Trust | 4,024,200 |
| | 290,000 | Spirit Finance Corp. | 3,366,900 |
| | | Total Diversified | 19,901,100 |
| Health Care | 11.7% | | |
| | 174,000 | Health Care Property Investors Inc. | 5,402,700 |
| | 305,000 | Healthcare Realty Trust Inc. | 11,715,050 |
| | 122,400 | Nationwide Health Properties Inc. | 3,272,976 |
| | 325,000 | OMEGA Healthcare Investors Inc. | 4,878,250 |
| | 511,700 | Senior Housing Properties Trust | 10,919,678 |
| | 150,000 | Ventas Inc. | 5,781,000 |
| | | Total Health Care | 41,969,654 |
| Home Financing | 0.9% | | |
| | 108,500 | Municipal Mortgage & Equity LLC | 3,082,485 |
| Industrial | 3.9% | | |
| | 185,000 | EastGroup Properties Inc. (a) | 9,224,100 |
| | 161,700 | First Potomac Realty Trust | 4,886,574 |
| | | Total Industrial | 14,110,674 |
| Industrial/Office - Mixed | 3.1% | | |
| | 235,000 | Liberty Property Trust | 11,230,650 |
| Lodging/Resorts | 2.9% | | |
| | 300,000 | Ashford Hospitality Trust | 3,579,000 |
| | 146,000 | Hospitality Properties Trust | 6,891,200 |
| | | Total Lodging/Resorts | 10,470,200 |
| Office | 16.0% | | |
| | 290,000 | Brandywine Realty Trust | 9,439,500 |
| | 72,000 | Glenborough Realty Trust Inc. | 1,852,560 |
| | 290,000 | Highwoods Properties Inc. | 10,790,900 |
| | 848,700 | HRPT Properties Trust | 10,141,965 |
| | 135,000 | Kilroy Realty Corp. | 10,170,900 |
| | 170,000 | Mack-Cali Realty Corp. | 8,806,000 |
| | 134,500 | Parkway Properties Inc. | 6,252,905 |
| | | Total Office | 57,454,730 |
| Regional Malls | 4.5% | | |
| | 196,000 | Glimcher Realty Trust | 4,856,880 |
| | 148,100 | Macerich Co. | 11,308,916 |

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| | | | |
|-------------------------------|-------------|-------------------------------------------|------------|
| Retail - Free Standing | 4.1% | Total Regional Malls | 16,165,796 |
| 171,900 | | National Retail Properties Inc. | 3,713,040 |
| 85,000 | | National Retail Properties Inc., Series A | 2,170,475 |
| 220,000 | | Realty Income Corp. | 5,436,200 |
| 260,000 | | Trustreet Properties Inc. | 3,252,600 |
| | | Total Retail - Free Standing | 14,572,315 |

See Notes to Schedule of Investments.

LMP Real Estate Income Fund Inc.

Schedule of Investments (unaudited) (continued)

September 30, 2006

| Shares | Security | Value |
|-------------------------------|------------------------------------------------------------------------------|-------------------|
| Self Storage 1.0% | | |
| 200,000 | Extra Space Storage Inc. | \$ 3,462,000 |
| Shopping Centers 7.0% | | |
| 385,000 | Cedar Shopping Centers Inc. | 6,225,450 |
| 198,000 | Equity One Inc. | 4,746,060 |
| 51,000 | Heritage Property Investment Trust | 1,859,460 |
| 250,000 | Primaris Retail Real Estate Investment Trust | 4,079,986 |
| 135,000 | Ramco-Gershenson Properties Trust | 4,313,250 |
| 104,000 | Tanger Factory Outlet Centers Inc. | 3,704,480 |
| | Total Shopping Centers | 24,928,686 |
| Specialty 2.5% | | |
| 185,000 | Entertainment Properties Trust | 9,124,200 |
| | TOTAL COMMON STOCKS | |
| | (Cost \$166,101,651) | 261,389,550 |
| PREFERRED STOCKS 25.4% | | |
| Apartments 3.2% | | |
| 75,000 | Apartment Investment & Management Co., Cumulative, Series G, 9.375% | 1,989,000 |
| 113,000 | Apartment Investment & Management Co., Cumulative, Series U, 7.750% | 2,866,810 |
| 120,000 | Apartment Investment & Management Co., Cumulative, Series Y, 7.875% | 3,036,000 |
| 150,000 | BRE Properties Inc., Series C, 6.750% | 3,702,000 |
| | Total Apartments | 11,593,810 |
| Diversified 6.8% | | |
| 109,400 | Crescent Real Estate Equities Co., Cumulative Redeemable, Series B, 9.500% | 2,810,486 |
| 175,000 | Duke Realty Corp., 6.950% | 4,459,000 |
| 90,000 | LBA Realty Fund LP, 8.750% (b)(c) | 4,352,400 |
| 108,400 | PS Business Parks Inc., Series M, 7.200% | 2,753,360 |
| 115,000 | PS Business Parks Inc., Series O, 7.375% | 2,921,000 |
| 150,000 | Vornado Realty Trust, Series G, 6.625% | 3,645,000 |
| 142,400 | Vornado Realty Trust, Series H, 6.750% | 3,525,824 |
| | Total Diversified | 24,467,070 |
| Health Care 1.9% | | |
| 150,000 | Health Care Property Investors Inc., Cumulative Redeemable, Series F, 7.100% | 3,795,000 |
| 120,400 | OMEGA Healthcare Investors Inc., Cumulative Redeemable, Series D, 8.375% | 3,152,072 |
| | Total Health Care | 6,947,072 |
| Lodging/Resorts 2.1% | | |
| 71,100 | Hospitality Properties Trust, Cumulative Redeemable, Series B, 8.875% | 1,835,802 |
| 26,000 | LaSalle Hotel Properties, Cumulative Redeemable, Series A, 10.250% | 666,120 |
| 90,000 | Strategic Hotels Capital Inc., 8.250% | 2,345,625 |
| 100,100 | Sunstone Hotel Investors Inc., Cumulative Redeemable, Series A, 8.000% | 2,558,806 |

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| | | | |
|-----------------------|-------------|----------------------------------------------------------------|------------|
| | | Total Lodging/Resorts | 7,406,353 |
| Office | 3.0% | | |
| | 50,000 | Brandywine Realty Trust, Series D, 7.375% | 1,256,750 |
| | 110,000 | Corporate Office Properties Trust, Series J, 7.625% | 2,860,000 |
| | 255,600 | HRPT Properties Trust, Cumulative Redeemable, Series B, 8.750% | 6,620,040 |
| | | Total Office | 10,736,790 |
| Regional Malls | 2.4% | | |
| | 85,000 | Glimcher Realty Trust, Cumulative Redeemable, Series F, 8.750% | 2,155,600 |
| | 6,000 | Pennsylvania Real Estate Investment Trust, Cumulative, 11.000% | 331,200 |
| | 32,700 | Simon Property Group Inc., Cumulative, Series C, 7.890% | 1,693,249 |
| | 169,600 | Taubman Centers Inc., Cumulative Redeemable, Series H, 7.625% | 4,436,108 |
| | | Total Regional Malls | 8,616,157 |

See Notes to Schedule of Investments.

LMP Real Estate Income Fund Inc.

Schedule of Investments (unaudited) (continued)

September 30, 2006

| Shares | Security | Value |
|------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|
| Retail - Free Standing 0.2% | | |
| 25,200 | Realty Income Corp., Cumulative Redeemable, Series D, 7.375% | \$ 640,080 |
| Shopping Centers 5.8% | | |
| 73,000 | Cedar Shopping Centers Inc., Cumulative Redeemable, Series A, 8.875% | 1,941,070 |
| 21,200 | Developers Diversified Realty Corp., Cumulative Redeemable, Class F, 8.000% | 543,780 |
| 130,000 | Developers Diversified Realty Corp., Cumulative Redeemable, Class G, 8.600% | 3,305,900 |
| 131,000 | Federal Realty Investment Trust, Cumulative Redeemable, Series B, 8.500% | 3,333,950 |
| 75,000 | New Plan Excel Realty Trust Inc., Cumulative Redeemable, Series E, 7.625% | 1,915,500 |
| 34,800 | Ramco-Gershenson Properties Trust, Cumulative Redeemable, Series B, 9.500% | 931,422 |
| 80,000 | Urstadt Biddle Properties Inc., Cumulative, Series C, 8.500% | 8,660,000 |
| | Total Shopping Centers | 20,631,622 |
| | TOTAL PREFERRED STOCKS | |
| | (Cost \$89,051,302) | 91,038,954 |
| | TOTAL INVESTMENTS BEFORE SHORT-TERM INVESTMENT | |
| | (Cost \$255,152,953) | 352,428,504 |
| Face Amount | | |
| SHORT-TERM INVESTMENT 1.8% | | |
| Repurchase Agreement 1.8% | | |
| \$ 6,381,000 | Interest in \$13,682,000 joint tri-party repurchase agreement dated 9/29/06 with Deutsche Bank Securities Inc., 5.300% due 10/2/06; Proceeds at maturity - \$6,383,818; (Fully collateralized by U.S. Government Agency Obligation, 6.000% due 9/15/36; Market value - \$6,508,620) (Cost \$6,381,000) | 6,381,000 |
| | TOTAL INVESTMENTS 100.0% (Cost \$261,533,953#) | \$ 358,809,504 |

(a) All or a portion of this security is segregated for swap contracts.

(b) Security is valued in good faith at fair value by or under the direction of the Board of Directors (See Note 1).

(c) Security is exempt from registration under Rule 144A of the Securities Act of 1933. This security may be resold in transactions that are exempt from registration, normally to qualified institutional buyers. This security has been deemed liquid pursuant to guidelines approved by the Board of Directors, unless otherwise noted.

Aggregate cost for federal income tax purposes is substantially the same.

See Notes to Schedule of Investments.

Notes to Schedule of Investments (unaudited)

1. Organization and Significant Accounting Policies

LMP Real Estate Income Fund Inc. (formerly known as Real Estate Income Fund Inc.) (the Fund) was incorporated in Maryland and is registered as a non-diversified, closed-end management investment company under the Investment Company Act of 1940, as amended, (the 1940 Act).

The following are significant accounting policies consistently followed by the Fund and are in conformity with U.S. generally accepted accounting principles (GAAP).

(a) Investment Valuation. Equity securities for which market quotations are available are valued at the last sale price or official closing price on the primary market or exchange on which they trade. Debt securities are valued at the mean between the bid and asked prices provided by an independent pricing service that are based on transactions in debt obligations, quotations from bond dealers, market transactions in comparable securities and various other relationships between securities. When prices are not readily available, or are determined not to reflect fair value, such as when the value of a security has been significantly affected by events after the close of the exchange or market on which the security is principally traded, but before the Fund calculates its net asset value, the Fund may value these investments at fair value as determined in accordance with the procedures approved by the Fund's Board of Directors. Short-term obligations with maturities of 60 days or less are valued at amortized cost, which approximates market value.

(b) Repurchase Agreements. When entering into repurchase agreements, it is the Fund's policy that its custodian or a third party custodian take possession of the underlying collateral securities, the market value of which at least equals the principal amount of the repurchase transaction, including accrued interest. To the extent that any repurchase transaction exceeds one business day, the value of the collateral is marked-to-market to ensure the adequacy of the collateral. If the seller defaults, and the market value of the collateral declines or if bankruptcy proceedings are commenced with respect to the seller of the security, realization of the collateral by the Fund may be delayed or limited.

(c) Concentration Risk. The Fund invests in securities related to the real estate industry and is subject to the risks of real estate markets, including fluctuating property values, changes in interest rates and other mortgage related risks.

(d) Swap Contracts. Swaps involve the exchange by the Fund with another party of the respective amounts payable with respect to a notional principal amount related to one or more indices. The Fund may enter into these transactions to preserve a return or spread on a particular investment or portion of its assets, as a duration management technique or to protect against any increase in the price of securities the Fund anticipates purchasing at a later date. The Fund may also use these transactions for speculative purposes, such as to obtain the price performance of a security without actually purchasing the security in circumstances where, for example, the subject security is illiquid, is unavailable for direct investment or available only on less attractive terms.

Swaps are marked-to-market daily based upon quotations from market makers and the change, if any, is recorded as an unrealized gain or loss in the Statement of Operations. Net receipts or payments of interest are recorded as realized gains or losses, respectively.

Swaps have risks associated with them, including possible default by the counterparty to the transaction, illiquidity and, where swaps are used as hedges, the risk that the use of a swap could result in losses greater than if the swap had not been employed.

(e) Foreign Currency Translation. Investment securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollar amounts based upon prevailing exchange rates on the date of valuation. Purchases and sales of investment securities and income and expense items denominated in foreign currencies are translated into U.S. dollar amounts based upon prevailing exchange rates on the respective dates of such transactions.

Foreign security and currency transactions may involve certain considerations and risks not typically associated with those of U.S. dollar denominated transactions as a result of, among other factors, the possibility of lower levels of governmental supervision and regulation of foreign securities markets and the possibility of political or economic instability.

(f) Security Transactions. Security transactions are accounted for on a trade date basis.

Notes to Schedule of Investments (unaudited) (continued)

2. Investments

At September 30, 2006, the aggregate gross unrealized appreciation and depreciation of investments for federal income tax purposes were substantially as follows:

| | | |
|-------------------------------|----|-------------|
| Gross unrealized appreciation | \$ | 98,483,192 |
| Gross unrealized depreciation | | (1,207,641) |
| Net unrealized appreciation | \$ | 97,275,551 |

At September 30, 2006, the Fund held the following interest rate swap contracts:

| | |
|--------------------------------------------------|--------------------------------------|
| Swap Counterparty: | Merrill Lynch Capital Services, Inc. |
| Effective Date: | 7/22/05 |
| Notional Amount: | \$30,000,000 |
| Payments Made by Fund: | Fixed Rate, 4.44% |
| Payments Received by Fund: | Floating Rate (One-Month LIBOR) |
| Termination Date: | 7/22/12 |
| Unrealized Appreciation as of September 30, 2006 | \$783,075 |

| | |
|--------------------------------------------------|--------------------------------------|
| Swap Counterparty: | Merrill Lynch Capital Services, Inc. |
| Effective Date: | 11/25/02 |
| Notional Amount: | \$19,500,000 |
| Payments Made by Fund: | Fixed Rate, 4.117% |
| Payments Received by Fund: | Floating Rate (One-Month LIBOR) |
| Termination Date: | 11/25/09 |
| Unrealized Appreciation as of September 30, 2006 | \$459,971 |

| | |
|--------------------------------------------------|--------------------------------------|
| Swap Counterparty: | Merrill Lynch Capital Services, Inc. |
| Effective Date: | 11/25/02 |
| Notional Amount: | \$26,000,000 |
| Payments Made by Fund: | Fixed Rate, 3.634% |
| Payments Received by Fund: | Floating Rate (One-Month LIBOR) |
| Termination Date: | 11/25/07 |
| Unrealized Appreciation as of September 30, 2006 | \$443,477 |

At September 30, 2006, the Fund had total unrealized appreciation of \$1,686,523 from swap contracts.

ITEM 2. CONTROLS AND PROCEDURES.

(a) The registrant's principal executive officer and principal financial officer have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940, as amended (the "1940 Act")) are effective as of a date within 90 days of the filing date of this report that includes the disclosure required by this paragraph, based on their evaluation of the disclosure controls and procedures required by Rule 30a-3(b) under the 1940 Act and 15d-15(b) under the Securities Exchange Act of 1934.

(b) There were no changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act) that occurred during the registrant's last fiscal quarter that have materially affected, or are likely to materially affect the registrant's internal control over financial reporting.

ITEM 3. EXHIBITS.

Certifications pursuant to Rule 30a-2(a) under the Investment Company Act of 1940, as amended, are attached hereto.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LMP Real Estate Income Fund Inc.

By /s/ R. Jay Gerken
R. Jay Gerken
Chief Executive Officer

Date: November 28, 2006

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By /s/ R. Jay Gerken
R. Jay Gerken
Chief Executive Officer

Date: November 28, 2006

By /s/ Kaprel Ozsolak
Kaprel Ozsolak
Chief Financial Officer

Date: November 28, 2006