

LMP REAL ESTATE INCOME FUND INC.  
Form N-Q  
May 28, 2014

**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)

**620 Eighth Avenue, 49<sup>th</sup> Floor, New York, NY 10018**

(Address of principal executive offices) (Zip code)

**Robert I. Frenkel, Esq.**

**Legg Mason & Co., LLC**

**100 First Stamford Place**

**Stamford, CT 06902**

(Name and address of agent for service)

Registrant's telephone number, including area code: (888) 777-0102

Date of fiscal year end: **December 31**

Date of reporting period: **March 31, 2014**

**ITEM 1. SCHEDULE OF INVESTMENTS.**

**LMP REAL ESTATE INCOME FUND INC.**

FORM N-Q

MARCH 31, 2014

**LMP REAL ESTATE INCOME FUND INC.****Schedule of investments (unaudited)****March 31, 2014**

SECURITY	SHARES	VALUE
<b>COMMON STOCKS - 90.0%</b>		
<b>Apartments - 4.6%</b>		
Apartment Investment and Management Co., Class A Shares	98,200	\$ 2,967,604 <sup>(a)</sup>
AvalonBay Communities Inc.	20,700	2,718,324 <sup>(a)</sup>
Equity Residential	16,300	945,237
<i>Total Apartments</i>		<i>6,631,165</i>
<b>Diversified - 15.7%</b>		
Digital Realty Trust Inc.	74,200	3,938,536 <sup>(a)</sup>
Dundee Real Estate Investment Trust	125,000	3,285,843 <sup>(a)</sup>
DuPont Fabros Technology Inc.	72,500	1,745,075
EPR Properties	112,000	5,979,680 <sup>(a)</sup>
Lexington Corporate Properties Trust	105,100	1,146,641
Liberty Property Trust	176,000	6,504,960 <sup>(a)</sup>
<i>Total Diversified</i>		<i>22,600,735</i>
<b>Health Care - 12.6%</b>		
HCP Inc.	116,390	4,514,768 <sup>(a)</sup>
Health Care REIT Inc.	63,800	3,802,480 <sup>(a)</sup>
Healthcare Trust of America Inc., Class A Shares	170,100	1,937,439
OMEGA Healthcare Investors Inc.	108,000	3,620,160 <sup>(a)</sup>
Senior Housing Properties Trust	190,000	4,269,300 <sup>(a)</sup>
<i>Total Health Care</i>		<i>18,144,147</i>
<b>Industrial - 2.0%</b>		
DCT Industrial Trust Inc.	362,360	2,855,397 <sup>(a)</sup>
<b>Lodging/Resorts - 4.7%</b>		
Hersha Hospitality Trust	190,000	1,107,700
Hospitality Properties Trust	166,000	4,767,520 <sup>(a)</sup>
LaSalle Hotel Properties	27,700	867,287
<i>Total Lodging/Resorts</i>		<i>6,742,507</i>
<b>Mortgage - 8.2%</b>		
American Capital Agency Corp.	115,310	2,478,012 <sup>(a)</sup>
Annaly Capital Management Inc.	224,700	2,464,959 <sup>(a)</sup>
Starwood Property Trust Inc.	292,000	6,888,280 <sup>(a)</sup>
<i>Total Mortgage</i>		<i>11,831,251</i>
<b>Office - 12.3%</b>		
Alexandria Real Estate Equities Inc.	24,600	1,784,976
BioMed Realty Trust Inc.	177,200	3,630,828 <sup>(a)</sup>
First Potomac Realty Trust	163,619	2,113,958
Highwoods Properties Inc.	110,200	4,232,782 <sup>(a)</sup>

Edgar Filing: LMP REAL ESTATE INCOME FUND INC. - Form N-Q

Kilroy Realty Corp.	103,740	6,077,089 <sup>(a)</sup>
<i>Total Office</i>		<i>17,839,633</i>
<b>Regional Malls - 8.5%</b>		
Macerich Co.	125,000	7,791,250 <sup>(a)</sup>
Simon Property Group Inc.	27,300	4,477,200 <sup>(a)</sup>
<i>Total Regional Malls</i>		<i>12,268,450</i>
<b>Retail - Free Standing - 2.9%</b>		
Spirit Realty Capital Inc.	384,769	4,224,763
<b>Shopping Centers - 18.5%</b>		
Excel Trust Inc.	249,000	3,157,320 <sup>(a)</sup>
Inland Real Estate Corp.	480,000	5,064,000 <sup>(a)</sup>
Kite Realty Group Trust	264,000	1,584,000
Ramco-Gershenson Properties Trust	247,620	4,036,206 <sup>(a)</sup>
Regency Centers Corp.	88,500	4,518,810 <sup>(a)</sup>
Retail Properties of America Inc., Class A Shares	168,200	2,277,428 <sup>(a)</sup>

See Notes to Schedule of Investments.

**LMP REAL ESTATE INCOME FUND INC.****Schedule of investments (unaudited) (cont d)****March 31, 2014**

SECURITY	SHARES	VALUE
<b>Shopping Centers - 18.5% (continued)</b>		
Urstadt Biddle Properties, Class A Shares	46,000	\$ 950,360 <sup>(a)</sup>
Westfield Group	534,000	5,078,374 <sup>(b)</sup>
<i>Total Shopping Centers</i>		<i>26,666,498</i>
<b>TOTAL COMMON STOCKS</b>		
(Cost - \$99,438,510)		129,804,546
<b>PREFERRED STOCKS - 32.9%</b>		
<b>Diversified - 7.3%</b>		
DuPont Fabros Technology Inc., Cumulative, Series B	7.625%	103,000 2,583,240
EPR Properties, Series E	9.000%	60,000 1,842,000
LBA Realty Fund LP, Cumulative Redeemable	8.750%	90,000 3,841,875
Retail Properties of America Inc., Cumulative	7.000%	90,000 2,223,000
<i>Total Diversified</i>		<i>10,490,115</i>
<b>Lodging/Resorts - 8.8%</b>		
Ashford Hospitality Trust, Series E	9.000%	64,000 1,722,240 <sup>(a)</sup>
Chesapeake Lodging Trust, Series A	7.750%	70,000 1,815,800
Hersha Hospitality Trust, Series B	8.000%	120,000 3,060,000
LaSalle Hotel Properties, Series I	6.375%	30,000 667,800
Pebblebrook Hotel Trust, Series C	6.500%	27,000 602,640
Pebblebrook Hotel Trust, Series A	7.875%	118,000 3,059,740
Sunstone Hotel Investors Inc., Series D	8.000%	65,583 1,692,041
<i>Total Lodging/Resorts</i>		<i>12,620,261</i>
<b>Office - 2.8%</b>		
Alexandria Real Estate Equities Inc., Series D	7.000%	50,000 1,343,500
Corporate Office Properties Trust, Series L	7.375%	105,000 2,671,200
<i>Total Office</i>		<i>4,014,700</i>
<b>Regional Malls - 4.5%</b>		
CBL & Associates Properties Inc., Series E	6.625%	70,000 1,676,500
General Growth Properties Inc., Series A	6.375%	96,000 2,228,160
Glimcher Realty Trust, Series H	7.500%	105,000 2,637,600
<i>Total Regional Malls</i>		<i>6,542,260</i>
<b>Retail - Free Standing - 2.3%</b>		
National Retail Properties Inc., Series E	5.700%	85,000 1,788,528
National Retail Properties Inc., Series D	6.625%	64,001 1,551,384

Edgar Filing: LMP REAL ESTATE INCOME FUND INC. - Form N-Q

<i>Total Retail - Free Standing</i>			3,339,912
<b>Shopping Centers - 6.2%</b>			
Cedar Realty Trust Inc., Series B	7.250%	107,400	2,524,974
Excel Trust Inc., Series B	8.125%	67,000	1,733,960
Kite Realty Group Trust, Series A	8.250%	98,438	2,530,841
Urstadt Biddle Properties Inc., Cumulative, Series F	7.125%	87,500	2,148,125
<i>Total Shopping Centers</i>			8,937,900
<b>Storage - 1.0%</b>			
CubeSmart, Cumulative, Series A	7.750%	56,817	1,462,470
<b>TOTAL PREFERRED STOCKS</b>			
(Cost - \$47,090,070)			47,407,618
<b>TOTAL INVESTMENTS - 122.9%</b>			
(Cost - \$146,528,580#)			177,212,164
Liabilities in Excess of Other Assets - (22.9)%			(33,063,205)
<b>TOTAL NET ASSETS - 100.0%</b>			\$ 144,148,959

(a) All or a portion of this security is pledged as collateral pursuant to the loan agreement.

(b) Security is valued in good faith in accordance with procedures approved by the Board of Directors (See Note 1).

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

**See Notes to Schedule of Investments.**

**LMP REAL ESTATE INCOME FUND INC.**

**Schedule of investments (unaudited) (cont d)**

**March 31, 2014**

Abbreviation used in this schedule:

REIT Real Estate Investment Trust

**See Notes to Schedule of Investments.**



---

**Notes to Schedule of Investments (unaudited)**

**1. Organization and significant accounting policies**

LMP 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 Fund's primary investment objective is high current income and the Fund's secondary objective is capital appreciation.

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 reported sales price or official closing price on the primary market or exchange on which they trade. The valuations for fixed income securities (which may include, but are not limited to, corporate, government, municipal, mortgage-backed, collateralized mortgage obligations and asset-backed securities) and certain derivative instruments are typically the prices supplied by independent third party pricing services, which may use market prices or broker/dealer quotations or a variety of valuation techniques and methodologies. The independent third party pricing services use inputs that are observable such as issuer details, interest rates, yield curves, prepayment speeds, credit risks/spreads, default rates and quoted prices for similar securities. Short-term fixed income securities that will mature in 60 days or less are valued at amortized cost, unless it is determined that using this method would not reflect an investment's fair value. When the Fund holds securities or other assets that are denominated in a foreign currency, the Fund will normally use the currency exchange rates as of 4:00 p.m. (Eastern Time). If independent third party pricing services are unable to supply prices for a portfolio investment, or if the prices supplied are deemed by the manager to be unreliable, the market price may be determined by the manager using quotations from one or more broker/dealers or at the transaction price if the security has recently been purchased and no value has yet been obtained from a pricing service or pricing broker. When reliable prices are not readily available, 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 values these securities as determined in accordance with procedures approved by the Fund's Board of Directors.

The Board of Directors is responsible for the valuation process and has delegated the supervision of the daily valuation process to the Legg Mason North American Fund Valuation Committee (the Valuation Committee). The Valuation Committee, pursuant to the policies adopted by the Board of Directors, is responsible for making fair value determinations, evaluating the effectiveness of the Fund's pricing policies, and reporting to the Board of Directors. When determining the reliability of third party pricing information for investments owned by the Fund, the Valuation Committee, among other things, conducts due diligence reviews of pricing vendors, monitors the daily change in prices and reviews transactions among market participants.

The Valuation Committee will consider pricing methodologies it deems relevant and appropriate when making fair value determinations. Examples of possible methodologies include, but are not limited to, multiple of earnings; discount from market of a similar freely traded security; discounted cash-flow analysis; book value or a multiple thereof; risk premium/yield analysis; yield to maturity; and/or fundamental investment analysis. The Valuation Committee will also consider factors it deems relevant and appropriate in light of the facts and circumstances. Examples of possible factors include, but are not limited to, the type of security; the issuer's financial statements; the purchase price of the security; the discount from market value of unrestricted securities of the same class at the time of purchase; analysts' research and observations from financial institutions; information regarding any transactions or offers with respect to the security; the existence of merger proposals or tender offers affecting the security; the price and extent of public trading in similar securities of the issuer or comparable companies; and the existence of a shelf registration for restricted securities.

For each portfolio security that has been fair valued pursuant to the policies adopted by the Board of Directors, the fair value price is compared against the last available and next available market quotations. The Valuation Committee reviews the results of such back testing monthly and fair valuation occurrences are reported to the Board of Directors quarterly.

The Fund uses valuation techniques to measure fair value that are consistent with the market approach and/or income approach, depending on the type of security and the particular circumstance. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable securities. The income approach uses valuation techniques to discount estimated future cash flows to present value.

GAAP establishes a disclosure hierarchy that categorizes the inputs to valuation techniques used to value assets and liabilities at measurement date. These inputs are summarized in the three broad levels listed below:

Edgar Filing: LMP REAL ESTATE INCOME FUND INC. - Form N-Q

Level 1 quoted prices in active markets for identical investments

**Notes to Schedule of Investments (unaudited) (continued)**

Level 2 other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)

Level 3 significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)  
The inputs or methodologies used to value securities are not necessarily an indication of the risk associated with investing in those securities.

The following is a summary of the inputs used in valuing the Fund's assets carried at fair value:

DESCRIPTION	ASSETS			TOTAL
	QUOTED PRICES (LEVEL 1)	OTHER SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)	
Long-term investments :				
Common stocks:				
Shopping centers	\$ 21,588,124	\$ 5,078,374		\$ 26,666,498
Other common stocks	103,138,048			103,138,048
Preferred stocks:				
Diversified	6,648,240	3,841,875		10,490,115
Retail-free standing	1,551,384	1,788,528		3,339,912
Other preferred stocks	33,577,591			33,577,591
Total investments	\$ 166,503,387	\$ 10,708,777		\$ 177,212,164

See Schedule of Investments for additional detailed categorizations.

For the period ended March 31, 2014, as a result of the fair value pricing procedures for international equities utilized by the Fund, certain securities have transferred in and out of Level 1 and Level 2 measurements during the period. The Fund's policy is to recognize transfers between levels as of the end of the reporting period. At March 31, 2014, securities valued at \$5,078,374 were temporarily transferred from Level 1 to Level 2 within the fair value hierarchy because fair value procedures were applied when the change in value of a domestic equity security index suggested that the closing prices on foreign exchanges may no longer have represented the value of those securities at the time of closing of the NYSE.

**(b) Repurchase agreements.** The Fund may enter into repurchase agreements with institutions that its investment adviser has determined are creditworthy. Each repurchase agreement is recorded at cost. Under the terms of a typical repurchase agreement, the Fund acquires a debt security subject to an obligation of the seller to repurchase, and of the Fund to resell, the security at an agreed-upon price and time, thereby determining the yield during the Fund's holding period. When entering into repurchase agreements, it is the Fund's policy that its custodian or a third party custodian, acting on the Fund's behalf, take possession of the underlying collateral securities, the market value of which, at all times, at least equals the principal amount of the repurchase transaction, including accrued interest. To the extent that any repurchase transaction maturity exceeds one business day, the value of the collateral is marked-to-market and measured against the value of the agreement in an effort to ensure the adequacy of the collateral. If the counterparty defaults, the Fund generally has the right to use the collateral to satisfy the terms of the repurchase transaction. However, if the market value of the collateral declines during the period in which the Fund seeks to assert its rights 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) REIT Distributions.** The character of distributions received from Real Estate Investment Trusts (REITs) held by the Fund is generally comprised of net investment income, capital gains, and return of capital. It is the policy of the Fund to estimate the character of distributions

## Edgar Filing: LMP REAL ESTATE INCOME FUND INC. - Form N-Q

received from underlying REITs based on historical data provided by the REITs. After each calendar year end, REITs report the actual tax character of these distributions. Differences between the estimated and actual amounts reported by the REITs are reflected in the Fund's records in the year in which they are reported by the REITs by adjusting related investment cost basis, capital gains and income, as necessary.

**(d) 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.

**(e) 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.

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

**Notes to Schedule of Investments (unaudited) (continued)**

**2. Investments**

At March 31, 2014, the aggregate gross unrealized appreciation and depreciation of investments for federal income tax purposes were substantially as follows:

Gross unrealized appreciation	\$ 33,692,938
Gross unrealized depreciation	(3,009,354)
Net unrealized appreciation	\$ 30,683,584

**3. Derivative instruments and hedging activities**

GAAP requires enhanced disclosure about an entity's derivative and hedging activities.

During the period ended March 31, 2014, the Fund did not invest in any derivative instruments.

**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/ **KENNETH D. FULLER**  
**Kenneth D. Fuller**  
**Chief Executive Officer**

Date: May 23, 2014

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/ **KENNETH D. FULLER**  
**Kenneth D. Fuller**  
**Chief Executive Officer**

Date: May 23, 2014

By: /s/ **RICHARD F. SENNETT**  
**Richard F. Sennett**  
**Principal Financial Officer**

Date: May 23, 2014