

REAL ESTATE INCOME FUND INC
Form N-CSRS
September 07, 2005

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

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number **811-21098**

Real Estate Income Fund Inc.

(Exact name of registrant as specified in charter)

125 Broad Street, New York, NY 10004
(Address of principal executive offices) (Zip code)

Robert I. Frenkel, Esq.
c/o Citigroup Asset Management
300 First Stamford Place, 4th Floor
Stamford, CT 06902
(Name and address of agent for service)

Registrant's telephone number, including area code: (800) 451-2010

Date of fiscal year end: **December 31**
Date of reporting period: **June 30, 2005**

ITEM 1. REPORT TO STOCKHOLDERS.

The Semi-Annual Report to Stockholders is filed herewith.

WHAT'S INSIDE

<u>Letter from the Chairman</u>	1
<u>Fund at a Glance</u>	5
<u>Schedule of Investments</u>	6
<u>Statement of Assets and Liabilities</u>	10
<u>Statement of Operations</u>	11
<u>Statements of Changes in Net Assets</u>	12
<u>Financial Highlights</u>	13
<u>Notes to Financial Statements</u>	15
<u>Financial Data</u>	24
<u>Additional Information</u>	25
<u>Dividend Reinvestment Plan</u>	26

LETTER FROM THE CHAIRMAN

Dear Shareholder,

The U.S. economy overcame a number of obstacles and continued to expand during the six-month reporting period. Rising interest rates, record high oil prices and geopolitical issues threatened to send the economy into a soft patch. However, when all was said and done, first quarter 2005 gross domestic product (GDP) growth was 3.8%, mirroring the solid gain that occurred during the fourth quarter of 2004.

R. JAY GERKEN, CFA
*Chairman, President and
Chief Executive Officer*

Given the overall strength of the economy, the Federal Reserve Board (Fed) continued to raise interest rates over the period in an attempt to ward off inflation. Following five rate hikes from June 2004 through December 2004, the Fed again increased its target for the federal funds rateⁱⁱⁱ in 0.25% increments four additional times during the reporting period. All told, the Fed's nine rate hikes brought the target for the federal funds rate from 1.00% to 3.25%.

During the six months covered by this report, the U.S. stock market was relatively flat, with the S&P 500 Index^{iv} returning -0.81%. Stocks were weak early in the reporting period, as the issues discussed above caused investors to remain on the sidelines. Equities then rallied in the second quarter of 2005, as the economy appeared to be on solid footing and inflation was largely under control. Looking at the reporting period as a whole, mid-cap stocks generated superior returns, with the Russell Midcap,^v Russell 1000,^{vi} and Russell 2000^{vii} Indexes returning 3.92%, 0.11%, and -1.25%, respectively. From a market style perspective, value-oriented stocks outperformed their growth counterparts.

Performance Review

For the six months ended June 30, 2005, the Real Estate Income Fund returned 3.45%, based on its New York Stock Exchange (NYSE) market price and 6.31% based on its net asset value (NAV^{viii}) per share. In comparison, the Lipper Sector Equity Closed-End Funds Category Average^{ix} increased 4.95% over the same time frame. Please note that Lipper performance returns are based on each fund's NAV per share.

During this six-month period, the Fund made distributions to shareholders totaling \$0.6540 per share (which may have included a return of capital). The performance table shows the Fund's 30-day SEC yield as well as its six-month total return based on its NAV and market price as of June 30, 2005. **Past performance is no guarantee of future results. The Fund's yields will vary.**

**FUND PERFORMANCE
AS OF JUNE 30, 2005
(unaudited)**

Price Per Share	30-Day SEC Yield	Six-Month Total Return
\$21.55 (NAV)	7.03%	6.31%
\$18.40 (Market Price)	8.25%	3.45%

All figures represent past performance and are not a guarantee of future results. The Fund's yields will vary.

Management has agreed to waive a portion of the management fee. The waiver will be eliminated on August 1, 2009. Absent this waiver, the total returns would have been lower and the 30-Day SEC yields would have been 6.62% and 7.77%, respectively.

Total returns are based on changes in NAV or market price, respectively. Total returns assume the reinvestment of all distributions, if any, in additional shares. The SEC yield is a return figure often quoted by bond and other fixed-income mutual funds. This quotation is based on the most recent 30-day (or one-month) period covered by the Fund's filings with the SEC. The yield figure reflects the income dividends and interest earned during the period after deduction of the Fund's expenses for the period. These yields are as of June 30, 2005 and are subject to change.

Special Shareholder Notice

On June 24, 2005, Citigroup Inc. (Citigroup) announced that it has signed a definitive agreement under which Citigroup will sell substantially all of its worldwide asset management business to Legg Mason, Inc. (Legg Mason).

As part of this transaction, Citi Fund Management Inc (the Manager), currently an indirect wholly owned subsidiary of Citigroup, would become an indirect wholly owned subsidiary of Legg Mason. The Manager is the investment manager to the Fund.

The transaction is subject to certain regulatory approvals, as well as other customary conditions to closing. Subject to such approvals and the satisfaction of the other conditions, Citigroup expects the transaction to be completed later this year.

Under the Investment Company Act of 1940, consummation of the transaction will result in the automatic termination of the investment management contract between the Fund and the Manager. Therefore, the Fund's Board of Directors will be asked to approve a new investment management contract between the Fund and the Manager. If approved by the Board, the new investment management contract will be presented to the shareholders of the Fund for their approval.

Subsequently, on August 1, 2005, the Board approved the new investment management contract between the Fund and the Manager.

Information About Your Fund

As you may be aware, several issues in the mutual fund industry have recently come under the scrutiny of federal and state regulators. The Fund's Manager and some of its affiliates have received requests for information from various government regulators regarding market timing, late trading, fees, and other mutual fund issues in connection with various investigations. The regulators appear to be examining, among other things, the Fund's response to market timing and shareholder exchange activity, including compliance with prospectus disclosure related to these subjects. The Fund has been informed that the Manager and its affiliates are responding to those information requests, but are not in a position to predict the outcome of these requests and investigations.

Important information concerning the Fund and its Manager with regard to recent regulatory developments is contained in the Additional Information note in the Notes to the Financial Statements included in this report.

Looking for Additional Information?

The Fund is traded under the symbol RIT and its closing market price is available in most newspapers under the NYSE listings. The daily NAV is available on-line under symbol XRITX. *Barron's* and *The Wall Street Journal's* Monday editions carry closed-end fund tables that will provide additional information. In addition, the Fund issues a quarterly press release that can be found on most major financial websites as well as www.citigroupam.com.

In a continuing effort to provide information concerning the Fund, shareholders may call 1-888-735-6507, Monday through Friday from 8:00 a.m. to 6:00 p.m. Eastern Time, for the Fund's current net asset value, market price, and other information.

As always, thank you for your confidence in our stewardship of your assets. We look forward to helping you continue to meet your financial goals.

Sincerely,

R. Jay Gerken, CFA
Chairman, President and Chief Executive Officer

August 2, 2005

Real Estate Income Fund Inc.

3

Edgar Filing: REAL ESTATE INCOME FUND INC - Form N-CSRS

The information provided is not intended to be a forecast of future events, a guarantee of future results or investment advice. Views expressed may differ from those of the firm as a whole.

RISKS: Funds that invest in securities related to the real estate industry are subject to the risks of real estate markets, including fluctuating property values, changes in interest rates and other mortgage-related risks. In addition, investment in funds that concentrate their investments in one sector or industry may involve greater risk than more broadly diversified funds.

All index performance reflects no deduction for fees, expenses or taxes. Please note that an investor cannot invest directly in an index.

- i Gross domestic product is a market value of goods and services produced by labor and property in a given country.
- ii The Federal Reserve Board is responsible for the formulation of a policy designed to promote economic growth, full employment, stable prices, and a sustainable pattern of international trade and payments.
- iii The federal funds rate is the interest rate that banks with excess reserves at a Federal Reserve district bank charge other banks that need overnight loans.
- iv The S&P 500 Index is an unmanaged index of 500 stocks that is generally representative of the performance of larger companies in the U.S.
- v The Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index whose average market capitalization was approximately \$4.7 billion as of 6/24/05.
- vi The Russell 1000 Index measures the performance of the 1,000 largest companies in the Russell 3000 Index, which represents approximately 92% of the total market capitalization of the Russell 3000 Index.
- vii The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index.
- viii NAV is calculated by subtracting total liabilities and outstanding preferred stock from the closing value of all securities held by the Fund (plus all other assets) and dividing the result (total net assets) by the total number of the common shares outstanding. The NAV fluctuates with changes in the market prices of securities in which the Fund has invested. However, the price at which an investor may buy or sell shares of the Fund is at the Fund's market price as determined by supply of and demand for the Fund's shares.
- ix Lipper, Inc. is a major independent mutual-fund tracking organization. Returns are based on the 6-month period ended June 30, 2005, including the reinvestment of dividends and capital gains distributions, if any, calculated among the 42 funds in the Fund's Lipper category, and excluding sales charges.

Fund at a Glance (unaudited)

Investment Breakdown

Real Estate Income Fund Inc.

5

Schedule of Investments (unaudited)

June 30, 2005

SHARES	SECURITY	VALUE
COMMON STOCK 70.9%		
Apartments 9.5%		
36,500	Archstone-Smith Trust	\$ 1,409,630
290,000	Camden Property Trust	15,587,500
170,000	Gables Residential Trust	7,349,100
100,000	Mid-America Apartment Communities, Inc.	4,542,000
Total Apartments		28,888,230
Diversified 4.4%		
215,000	iStar Financial, Inc.	8,941,850
190,000	Lexington Corporate Properties Trust	4,618,900
Total Diversified		13,560,750
Health Care 10.2%		
174,000	Health Care Property Investors, Inc.	4,704,960
280,000	Healthcare Realty Trust, Inc.	10,810,800
97,700	OMEGA Healthcare Investors, Inc.	1,256,422
511,700	Senior Housing Properties Trust	9,676,247
150,000	Ventas, Inc.	4,530,000
Total Health Care		30,978,429
Home Financing 0.9%		
108,500	Municipal Mortgage & Equity LLC	2,819,915
Industrial 3.9%		
185,000	Eastgroup Properties, Inc. (a)	7,790,350
161,700	First Potomac Realty Trust	4,010,160
Total Industrial		11,800,510
Industrial/Office Mixed 5.7%		
88,000	Brandywine Realty Trust	2,697,200
135,000	Kilroy Realty Corp.	6,411,150
190,000	Liberty Property Trust	8,418,900
Total Industrial/Office Mixed		17,527,250
Lodging/Resorts 2.3%		
66,100	Eagle Hospitality Properties Trust, Inc.	602,171
146,000	Hospitality Properties Trust	6,434,220
Total Lodging/Resorts		7,036,391
Office 15.7%		
203,000	Arden Realty Group, Inc.	7,303,940
160,000	CarrAmerica Realty Corp.	5,788,800
72,000	Glenborough Realty Trust, Inc.	1,482,480

Edgar Filing: REAL ESTATE INCOME FUND INC - Form N-CSRS

260,000	Highwoods Properties, Inc.	7,737,600
848,700	HRPT Properties Trust	10,549,341
161,000	Mack-Cali Realty Corp.	7,293,300
210,000	Prentiss Properties Trust	7,652,400
Total Office		47,807,861

See Notes to Financial Statements.

Schedule of Investments (unaudited) (continued)

June 30, 2005

SHARES	SECURITY	VALUE
Regional Malls 5.0%		
196,000	Glimcher Realty Trust	\$ 5,439,000
148,100	Macerich Co.	9,930,105
Total Regional Malls		15,369,105
Retail Free Standing 1.8%		
171,900	Commercial Net Lease Realty, Inc.	3,518,793
75,000	Realty Income Corp.	1,878,000
Total Retail Free Standing		5,396,793
Shopping Centers 9.6%		
330,000	Cedar Shopping Centers, Inc.	4,867,500
105,000	Equity One, Inc.	2,383,500
252,000	Heritage Property Investment Trust	8,825,040
104,400	Inland Real Estate Corp.	1,678,752
75,000	New Plan Excel Realty Trust, Inc.	2,037,750
250,000	Primaris Retail Real Estate (b)	2,886,106
135,000	Ramco-Gershenson Properties Trust	3,952,800
104,000	Tanger Factory Outlet Centers, Inc.	2,800,720
Total Shopping Centers		29,432,168
Specialty 1.9%		
127,000	Entertainment Properties Trust	5,842,000
TOTAL COMMON STOCK (Cost \$138,850,332)		216,459,402
PREFERRED STOCK 28.1%		
Apartments 3.5%		
Apartment Investment & Management Co.:		
113,000	Cumulative, Series U, 7.750%	2,836,300
120,000	Cumulative, Series Y, 7.875%	3,012,000
75,000	Cumulative, Series G, 9.375%	1,995,000
115,000	Cumulative, Series R, 10.000%	3,007,250
Total Apartments		10,850,550
Diversified 1.0%		
109,400	Crescent Real Estate Equities Co., Cumulative Redeemable, Series B, 9.500%	2,925,356
Health Care 2.3%		
150,000	Health Care Property Investors, Inc., Cumulative Redeemable, Series F, 7.100%	3,828,000
120,400	OMEGA Healthcare Investors, Inc., Cumulative Redeemable, Series D, 8.375%	3,190,600

Total Health Care

7,018,600

See Notes to Financial Statements.

Real Estate Income Fund Inc.

7

Schedule of Investments (unaudited) (continued)

June 30, 2005

SHARES	SECURITY	VALUE
Industrial/Office Mixed 1.5%		
90,000	Bedford Property Investors, Inc., Cumulative Redeemable, Series A, 8.750% (b)	\$ 4,463,442