

LMP REAL ESTATE INCOME FUND INC.  
Form N-Q  
May 26, 2015

**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, 2015**

**ITEM 1. SCHEDULE OF INVESTMENTS.**

**LMP REAL ESTATE INCOME FUND INC.**

FORM N-Q

MARCH 31, 2015

**LMP REAL ESTATE INCOME FUND INC.****Schedule of investments (unaudited)****March 31, 2015**

| SECURITY  | SHARES  | VALUE                       |
|---|---------|-----------------------------|
| <b>REAL ESTATE INVESTMENT TRUST COMMON STOCKS - 92.7%</b> |         |                             |
| <b>Apartments - 10.1%</b>                                 |         |                             |
| Apartment Investment and Management Co., Class A Shares   | 107,800 | \$ 4,243,008 <sup>(a)</sup> |
| AvalonBay Communities Inc.                                | 24,200  | 4,216,850 <sup>(a)</sup>    |
| Camden Property Trust                                     | 13,300  | 1,039,129                   |
| Equity Residential  | 58,720  | 4,571,939                   |
| UDR Inc.  | 87,600  | 2,981,028                   |
| <i>Total Apartments</i>                                   |         | <i>17,051,954</i>           |
| <b>Diversified - 15.1%</b>                                |         |                             |
| Digital Realty Trust Inc.                                 | 74,200  | 4,894,232 <sup>(a)</sup>    |
| Dream Office Real Estate Investment Trust                 | 125,000 | 2,600,568                   |
| DuPont Fabros Technology Inc.                             | 88,600  | 2,895,448                   |
| EPR Properties  | 120,000 | 7,203,600 <sup>(a)</sup>    |
| Lexington Corporate Properties Trust                      | 105,100 | 1,033,133                   |
| Liberty Property Trust                                    | 176,000 | 6,283,200 <sup>(a)</sup>    |
| STORE Capital Corp.                                       | 25,200  | 588,420                     |
| <i>Total Diversified</i>                                  |         | <i>25,498,601</i>           |
| <b>Health Care - 12.4%</b>                                |         |                             |
| HCP Inc.  | 116,390 | 5,029,212 <sup>(a)</sup>    |
| Health Care REIT Inc.                                     | 63,800  | 4,935,568 <sup>(a)</sup>    |
| Healthcare Trust of America Inc., Class A Shares          | 85,050  | 2,369,493                   |
| OMEGA Healthcare Investors Inc.                           | 108,000 | 4,381,560 <sup>(a)</sup>    |
| Senior Housing Properties Trust                           | 190,000 | 4,216,100 <sup>(a)</sup>    |
| <i>Total Health Care</i>                                  |         | <i>20,931,933</i>           |
| <b>Industrial - 1.9%</b>                                  |         |                             |
| DCT Industrial Trust Inc.                                 | 90,590  | 3,139,849                   |
| <b>Lodging/Resorts - 5.7%</b>                             |         |                             |
| Hersha Hospitality Trust                                  | 310,100 | 2,006,347                   |
| Hospitality Properties Trust                              | 166,000 | 5,476,340 <sup>(a)</sup>    |
| LaSalle Hotel Properties                                  | 55,100  | 2,141,186                   |
| <i>Total Lodging/Resorts</i>                              |         | <i>9,623,873</i>            |
| <b>Mortgage - 7.3%</b>                                    |         |                             |
| American Capital Agency Corp.                             | 115,310 | 2,459,562 <sup>(a)</sup>    |
| Annaly Capital Management Inc.                            | 224,700 | 2,336,880 <sup>(a)</sup>    |
| Starwood Property Trust Inc.                              | 307,100 | 7,462,530 <sup>(a)</sup>    |
| <i>Total Mortgage</i>                                     |         | <i>12,258,972</i>           |
| <b>Office - 14.7%</b>                                     |         |                             |
| Alexandria Real Estate Equities Inc.                      | 31,400  | 3,078,456                   |

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|                                  |         |                          |
|----------------------------------|---------|--------------------------|
| BioMed Realty Trust Inc.         | 209,700 | 4,751,802 <sup>(a)</sup> |
| First Potomac Realty Trust       | 163,619 | 1,945,430                |
| Highwoods Properties Inc.        | 110,200 | 5,044,956 <sup>(a)</sup> |
| Kilroy Realty Corp.              | 103,740 | 7,901,876 <sup>(a)</sup> |
| Paramount Group Inc.             | 60,000  | 1,158,000                |
| Parkway Properties Inc.          | 59,800  | 1,037,530                |
| <i>Total Office</i>              |         | <i>24,918,050</i>        |
| <b>Regional Malls - 6.2%</b>     |         |                          |
| CBL & Associates Properties Inc. | 50,800  | 1,005,840                |
| Macerich Co.                     | 34,350  | 2,896,736                |
| Simon Property Group Inc.        | 34,000  | 6,651,760 <sup>(a)</sup> |
| <i>Total Regional Malls</i>      |         | <i>10,554,336</i>        |

**See Notes to Schedule of Investments.**

**LMP REAL ESTATE INCOME FUND INC.****Schedule of investments (unaudited) (cont d)****March 31, 2015**

|                                     | SECURITY  | SHARES  | VALUE                    |
|-------------------------------------|---|---------|--------------------------|
| <b>Retail -Free Standing - 2.7%</b> |   |         |                          |
|                                     | Spirit Realty Capital Inc.                        | 384,769 | \$ 4,648,010             |
| <b>Shopping Centers - 16.6%</b>     |   |         |                          |
|                                     | Excel Trust Inc.                                  | 249,000 | 3,490,980 <sup>(a)</sup> |
|                                     | Inland Real Estate Corp.                          | 480,000 | 5,131,200 <sup>(a)</sup> |
|                                     | Kite Realty Group Trust                           | 66,000  | 1,859,220                |
|                                     | Ramco-Gershenson Properties Trust                 | 247,620 | 4,605,732 <sup>(a)</sup> |
|                                     | Regency Centers Corp.                             | 88,500  | 6,021,540 <sup>(a)</sup> |
|                                     | Retail Properties of America Inc., Class A Shares | 186,900 | 2,996,007 <sup>(a)</sup> |
|                                     | Urstadt Biddle Properties, Class A Shares         | 46,000  | 1,060,760 <sup>(a)</sup> |
|                                     | Westfield Corp.                                   | 394,000 | 2,858,292 <sup>(b)</sup> |
|                                     | <i>Total Shopping Centers</i>                     |         | <i>28,023,731</i>        |

**REAL ESTATE INVESTMENT TRUST TOTAL COMMON STOCKS**(Cost - \$110,131,193) 156,649,309

|  | RATE   |         |                          |
|--|--------|---------|--------------------------|
| <b>REAL ESTATE INVESTMENT TRUST PREFERRED STOCKS - 26.2%</b> |        |         |                          |
| <b>Diversified - 6.6%</b>                                    |        |         |                          |
|  |        |         |                          |
|  | 7.625% | 103,000 | 2,652,250                |
|  | 9.000% | 60,000  | 2,039,400                |
|  | 8.750% | 90,000  | 4,089,375*               |
|  | 7.000% | 90,000  | 2,360,700                |
|  |        |         |                          |
|  |        |         | <i>11,141,725</i>        |
| <b>Lodging/Resorts - 6.6%</b>                                |        |         |                          |
|  | 9.000% | 64,000  | 1,702,400 <sup>(a)</sup> |
|  | 7.750% | 70,000  | 1,844,500                |
|  | 8.000% | 120,000 | 3,126,000                |
|  | 6.375% | 30,000  | 756,000                  |
|  | 7.875% | 118,000 | 3,066,820                |
|  | 6.500% | 27,000  | 681,750                  |
|  |        |         |                          |
|  |        |         | <i>11,177,470</i>        |
| <b>Office - 2.5%</b>   |        |         |                          |
|  | 7.000% | 50,000  | 1,475,000                |
|  | 7.375% | 105,000 | 2,756,250                |
|  |        |         |                          |
|  |        |         | <i>4,231,250</i>         |

**Regional Malls - 2.5%**

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|  |        |        |                  |
|--|--------|--------|------------------|
| CBL & Associates Properties Inc., Series E | 6.625% | 70,000 | 1,778,700        |
| General Growth Properties Inc., Series A   | 6.375% | 96,000 | 2,448,000        |
| <i>Total Regional Malls</i>                |        |        | <i>4,226,700</i> |
| <b>Retail-Free Standing - 2.3%</b>         |        |        |                  |
| National Retail Properties Inc., Series D  | 6.625% | 64,001 | 1,680,666        |
| National Retail Properties Inc., Series E  | 5.700% | 85,000 | 2,120,750        |
| <i>Total Retail-Free Standing</i>          |        |        | <i>3,801,416</i> |

**See Notes to Schedule of Investments.**

**LMP REAL ESTATE INCOME FUND INC.**

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

**March 31, 2015**

| SECURITY   | RATE   | SHARES  | VALUE            |
|--|--------|---------|------------------|
| <b>Shopping Centers - 5.7%</b>                             |        |         |                  |
| Cedar Realty Trust Inc., Series B                          | 7.250% | 107,400 | \$ 2,752,662     |
| Excel Trust Inc., Series B                                 | 8.125% | 67,000  | 1,780,860        |
| Urstadt Biddle Properties Inc., Cumulative, Series F       | 7.125% | 87,500  | 2,319,625        |
| WP Glimcher Inc.   | 7.500% | 105,000 | 2,787,750        |
| <i>Total Shopping Centers</i>                              |        |         | <i>9,640,897</i> |
| <b>REAL ESTATE INVESTMENT TRUST TOTAL PREFERRED STOCKS</b> |        |         |                  |
| (Cost - \$41,012,481)                                      |        |         | 44,219,458       |
| <b>TOTAL INVESTMENTS - 118.9%</b>                          |        |         |                  |
| (Cost - \$151,143,674#)                                    |        |         | 200,868,767      |
| Liabilities in Excess of Other Assets - (18.9)%            |        |         | (31,922,753)     |
| <b>TOTAL NET ASSETS - 100.0%</b>                           |        |         |                  |
|  |        |         | \$ 168,946,014   |

\* Non-income producing security.

(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.

Abbreviation used in this schedule:

REIT Real Estate Investment Trust

This Schedule of Investments is unaudited and is intended to provide information about the Fund's portfolio holdings as of the date of the schedule. Other information regarding the Fund is available in the Fund's most recent annual or semi-annual shareholder report.

**See Notes to Schedule of Investments.**



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**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 Atlantic Fund Valuation Committee (formerly, 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.

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

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:

Level 1 quoted prices in active markets for identical investments

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<br>(LEVEL 1) | OTHER SIGNIFICANT<br>OBSERVABLE INPUTS<br>(LEVEL 2) | SIGNIFICANT<br>UNOBSERVABLE<br>INPUTS<br>(LEVEL 3) |                |
| Long-term investments :                             |                            |   |  |                |
| Real estate investment trust common stocks:         |                            |   |  |                |
| Shopping centers                                    | \$ 25,165,439              | \$ 2,858,292  |  | \$ 28,023,731  |
| Other real estate investment trust common stocks    | 128,625,578                |   |  | 128,625,578    |
| Real estate investment trust preferred stocks:      |                            |   |  |                |
| Diversified   | 7,052,350                  | 4,089,375   |  | 11,141,725     |
| Other real estate investment trust preferred stocks | 33,077,733                 |   |  | 33,077,733     |
| Total investments                                   | \$ 193,921,100             | \$ 6,947,667  |  | \$ 200,868,767 |

See Schedule of Investments for additional detailed categorizations.

**2. Investments**

At March 31, 2015, the aggregate gross unrealized appreciation and depreciation of investments for federal income tax purposes were substantially as follows:

|                               |               |
|-------------------------------|---------------|
| Gross unrealized appreciation | \$ 52,056,945 |
| Gross unrealized depreciation | (2,331,852)   |
| Net unrealized appreciation   | \$ 49,725,093 |



**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.

