

REAL ESTATE INCOME FUND INC  
Form N-Q  
November 29, 2005

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**

**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, 4<sup>th</sup> Floor  
Stamford, CT 06902  
(Name and address of agent for service)

Registrant's telephone number, including area code: 1-800-446-1013

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

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ITEM 1. SCHEDULE OF INVESTMENTS

**Real Estate Income Fund Inc**

FORM N-Q  
SEPTEMBER 30, 2005

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REAL ESTATE INCOME FUND INC.

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**Schedule of Investments (unaudited) September 30, 2005**

SHARES

SECURITY

VALUE

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| SHARES                              | SECURITY                                | VALUE             |
|-------------------------------------|---|-------------------|
| <b>COMMON STOCKS 70.9%</b>          |   |                   |
| <b>Apartments 8.9%</b>              |   |                   |
| 36,500                              | Archstone-Smith Trust                   | \$ 1,455,255      |
| 290,000                             | Camden Property Trust                   | 16,167,500        |
| 95,000                              | Gables Residential Trust                | 4,146,750         |
| 100,000                             | Mid-America Apartment Communities Inc.  | 4,651,000         |
| 140,000                             | United Dominion Realty Trust Inc.       | 3,318,000         |
| <b>Total Apartments</b>             |   | <b>29,738,505</b> |
| <b>Diversified 4.5%</b>             |   |                   |
| 265,000                             | iStar Financial Inc.                    | 10,713,950        |
| 190,000                             | Lexington Corporate Properties Trust    | 4,474,500         |
| <b>Total Diversified</b>            |   | <b>15,188,450</b> |
| <b>Health Care 10.2%</b>            |   |                   |
| 174,000                             | Health Care Property Investors Inc.     | 4,696,260         |
| 305,000                             | Healthcare Realty Trust Inc.            | 12,242,700        |
| 187,700                             | OMEGA Healthcare Investors Inc.         | 2,612,784         |
| 511,700                             | Senior Housing Properties Trust         | 9,722,300         |
| 150,000                             | Ventas Inc.                             | 4,830,000         |
| <b>Total Health Care</b>            |   | <b>34,104,044</b> |
| <b>Home Financing 0.8%</b>          |   |                   |
| 108,500                             | Municipal Mortgage & Equity LLC         | 2,709,245         |
| <b>Industrial 3.6%</b>              |   |                   |
| 185,000                             | EastGroup Properties Inc. (a)           | 8,093,750         |
| 161,700                             | First Potomac Realty Trust              | 4,155,690         |
| <b>Total Industrial</b>             |   | <b>12,249,440</b> |
| <b>Industrial/Office Mixed 2.9%</b> |   |                   |
| 230,000                             | Liberty Property Trust                  | 9,784,200         |
| <b>Lodging/Resorts 2.1%</b>         |   |                   |
| 66,100                              | Eagle Hospitality Properties Trust Inc. | 659,678           |
| 146,000                             | Hospitality Properties Trust            | 6,257,560         |
| <b>Total Lodging/Resorts</b>        |   | <b>6,917,238</b>  |
| <b>Manufactured Home 0.9%</b>       |   |                   |
| 90,000                              | Sun Communities Inc.                    | 2,948,400         |
| <b>Office 18.7%</b>                 |   |                   |
| 203,000                             | Arden Realty Inc.                       | 8,357,510         |
| 163,000                             | Brandywine Realty Trust                 | 5,067,670         |
| 160,000                             | CarrAmerica Realty Corp.                | 5,752,000         |
| 72,000                              | Glenborough Realty Trust Inc.           | 1,382,400         |
| 280,000                             | Highwoods Properties Inc.               | 8,262,800         |
| 848,700                             | HRPT Properties Trust                   | 10,532,367        |
| 135,000                             | Kilroy Realty Corp.                     | 7,564,050         |
| 161,000                             | Mack-Cali Realty Corp.                  | 7,235,340         |
| 210,000                             | Prentiss Properties Trust               | 8,526,000         |

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| SHARES                            | SECURITY                         | VALUE      |
|-----------------------------------|----------------------------------|------------|
| <b>Total Office</b>               |                                  | 62,680,137 |
| <b>Regional Malls 4.3%</b>        |                                  |            |
| 196,000                           | Glimcher Realty Trust            | 4,796,120  |
| 148,100                           | Macerich Co.                     | 9,617,614  |
| <b>Total Regional Malls</b>       |                                  | 14,413,734 |
| <b>Retail Free Standing 2.0%</b>  |                                  |            |
| 171,900                           | Commercial Net Lease Realty Inc. | 3,438,000  |
| 140,000                           | Realty Income Corp.              | 3,347,400  |
| <b>Total Retail Free Standing</b> |                                  | 6,785,400  |

See Notes to Schedule of Investments.

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REAL ESTATE INCOME FUND INC.

**Schedule of Investments (unaudited) (continued) September 30, 2005**

| SHARES                        | SECURITY  | VALUE              |
|-------------------------------|---|--------------------|
| <b>Shopping Centers 9.5%</b>  |   |                    |
| 385,000                       | Cedar Shopping Centers Inc.   | \$ 5,570,950       |
| 171,100                       | Equity One Inc.   | 3,978,075          |
| 252,000                       | Heritage Property Investment Trust                                      | 8,820,000          |
| 104,400                       | Inland Real Estate Corp.  | 1,634,904          |
| 75,000                        | New Plan Excel Realty Trust Inc.  | 1,721,250          |
| 250,000                       | Primaris Retail Real Estate Investment Trust                            | 3,456,221          |
| 135,000                       | Ramco-Gershenson Properties Trust                                       | 3,940,650          |
| 104,000                       | Tanger Factory Outlet Centers Inc.                                      | 2,892,240          |
| <b>Total Shopping Centers</b> |   | 32,014,290         |
| <b>Specialty 2.5%</b>         |   |                    |
| 185,000                       | Entertainment Properties Trust  | 8,256,550          |
| <b>TOTAL COMMON STOCKS</b>    |   | <b>237,789,633</b> |
| (Cost \$159,174,396)          |   |                    |
| <b>PREFERRED STOCK 28.3%</b>  |   |                    |
| <b>Apartments 4.3%</b>        |   |                    |
| 75,000                        | Apartment Investment & Management Co., Cumulative,<br>Series G, 9.375%  | 1,986,000          |
| 115,000                       | Apartment Investment & Management Co., Cumulative,<br>Series R, 10.000% | 2,973,900          |
| 113,000                       | Apartment Investment & Management Co., Cumulative,<br>Series U, 7.750%  | 2,828,390          |
| 120,000                       |   | 3,012,000          |

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| SHARES                              | SECURITY  | VALUE             |
|-------------------------------------|---|-------------------|
| 150,000                             | Apartment Investment & Management Co., Cumulative,<br>Series Y, 7.875%<br>BRE Properties Inc., Series C, 6.750% | 3,747,000         |
| <b>Total Apartments</b>             |   | <b>14,547,290</b> |
| <b>Diversified 2.1%</b>             |   |                   |
| 109,400                             | Crescent Real Estate Equities Co., Cumulative Redeemable,<br>Series B, 9.500%                                   | 2,943,954         |
| 67,000                              | PS Business Parks Inc., Series M, 7.200%  | 1,678,350         |
| 100,000                             | Vornado Realty Trust, Series H, 6.750%  | 2,450,000         |
| <b>Total Diversified</b>            |   | <b>7,072,304</b>  |
| <b>Health Care 2.0%</b>             |   |                   |
| 150,000                             | Health Care Property Investors Inc., Cumulative Redeemable,<br>Series F, 7.100%                                 | 3,802,500         |
| 120,400                             | Omega Healthcare Investors Inc., Cumulative Redeemable,<br>Series D, 8.375%                                     | 3,123,176         |
| <b>Total Health Care</b>            |   | <b>6,925,676</b>  |
| <b>Industrial/Office Mixed 1.3%</b> |   |                   |
| 90,000                              | Bedford Property Investors Inc., Cumulative Redeemable,<br>Series A, 8.750% (b)                                 | 4,412,817         |
| <b>Lodging/Resorts 3.2%</b>         |   |                   |
| 220,000                             | Boykin Lodging Co., Cumulative, Class A, 10.500%  | 5,852,000         |
| 71,100                              | Hospitality Properties Trust, Cumulative Redeemable,<br>Series B, 8.875%  | 1,919,700         |
| 26,000                              | LaSalle Hotel Properties, Cumulative Redeemable,<br>Series A, 10.250%   | 691,600           |
| 90,000                              | Sunstone Hotel Investors Inc., Cumulative Redeemable,<br>Series A, 8.000%                                       | 2,314,692         |
| <b>Total Lodging/Resorts</b>        |   | <b>10,777,992</b> |
| <b>Office 4.9%</b>                  |   |                   |
| 50,000                              | Brandywine Realty Trust, Series D, 7.375%   | 1,255,000         |
| 275,000                             | CarrAmerica Realty Corp., Cumulative Redeemable,<br>Series E, 7.500%  | 7,114,250         |
| 50,000                              | HRPT Properties Trust, Cumulative Redeemable,<br>Series A, 9.875%   | 1,286,000         |
| 255,600                             | HRPT Properties Trust, Cumulative Redeemable,<br>Series B, 8.750%   | 6,775,956         |
| <b>Total Office</b>                 |   | <b>16,431,206</b> |
| <b>Regional Malls 3.6%</b>          |   |                   |
| 85,000                              | Glimcher Realty Trust, Cumulative Redeemable, Series F, 8.750%  | 2,207,348         |
| 91,700                              | Mills Corp., Cumulative Redeemable, Series B, 9.000%  | 2,397,955         |
| 35,000                              | Mills Corp., Cumulative Redeemable, Series E, 8.750%  | 927,500           |
| 6,000                               | Pennsylvania Real Estate Investment Trust, Cumulative, 11.000%  | 346,500           |
| 32,700                              | Simon Property Group Inc., Cumulative, Series C, step to<br>yield 7.890%  | 1,708,575         |

See Notes to Schedule of Investments.

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SHARES

SECURITY

VALUE

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REAL ESTATE INCOME FUND INC.

Schedule of Investments (unaudited) (continued) September 30, 2005

| SHARES  | SECURITY  | VALUE              |
|---|---|--------------------|
| <b>Regional Malls 3.6% (continued)</b>  |   |                    |
| 169,600   | Taubman Centers Inc., Cumulative Redeemable, Series H, 7.625%               | \$ 4,372,509       |
| <b>Total Regional Malls</b>   |   | 11,960,387         |
| <b>Retail Free Standing 0.9%</b>  |   |                    |
| 85,000  | Commercial Net Lease Realty Inc., Cumulative, Series A, 9.000%              | 2,244,850          |
| 25,200  | Realty Income Corp., Cumulative Redeemable, Series D, 7.375%                | 663,768            |
| <b>Total Retail Free Standing</b>   |   | 2,908,618          |
| <b>Self Storage 0.3%</b>  |   |                    |
| 35,000  | Public Storage Inc., Cumulative, Series R, 8.000%                           | 894,600            |
| <b>Shopping Centers 5.7%</b>  |   |                    |
| 73,000  | Cedar Shopping Centers Inc., Cumulative Redeemable, Series A, 8.875%        | 1,898,000          |
| 21,200  | Developers Diversified Realty Corp., Cumulative Redeemable, Class F, 8.000% | 549,504            |
| 130,000   | Developers Diversified Realty Corp., Cumulative Redeemable, Class G, 8.600% | 3,367,000          |
| 131,000   | Federal Realty Investment Trust, Cumulative Redeemable, Series B, 8.500%    | 3,411,240          |
| 75,000  | New Plan Excel Realty Trust Inc., Cumulative Redeemable, Series E, 7.625%   | 1,995,000          |
| 34,800  | Ramco-Gershenson Properties Trust, Cumulative Redeemable, Series B, 9.500%  | 938,904            |
| 63,000  | Urstadt Biddle Properties Inc., Cumulative, Series C, 8.500%                | 6,879,600          |
| <b>Total Shopping Centers</b>   |   | 19,039,248         |
| <b>TOTAL PREFERRED STOCK</b><br>(Cost \$91,981,056)                           |   | <b>94,970,138</b>  |
| <b>TOTAL INVESTMENTS BEFORE SHORT-TERM INVESTMENT</b><br>(Cost \$251,155,452) |   | <b>332,759,771</b> |
| <b>FACE AMOUNT</b>  |   |                    |

SHORT-TERM INVESTMENT 0.1%

Repurchase Agreement 0.1%

|            |   |         |
|------------|---|---------|
| \$ 410,000 | Interest in \$836,655,000 joint tri-party repurchase agreement dated 9/30/05 with Greenwich Capital Markets Inc., | 410,000 |
|------------|---|---------|

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| SHARES   | SECURITY  | VALUE                 |
|--|---|-----------------------|
|  | 3.850% due 10/3/05, Proceeds at maturity \$410,132;<br>(Fully collateralized by various U.S. government agency<br>& Treasury obligations, 0.000% to 9.375% due 10/15/05<br>to 8/6/38; Market value \$418,200)<br>(Cost \$410,000) |                       |
| <b>TOTAL INVESTMENTS</b> 99.3% (Cost \$251,565,452#) |   | <b>333,169,771</b>    |
| Other Assets in Excess of Liabilities 0.7%           |   | 2,291,389             |
| <b>TOTAL NET ASSETS</b> 100.0%                       |   | <b>\$ 335,461,160</b> |

- (a) All or a portion of this security is segregated as collateral for swap transactions.
- (b) 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.

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

**1. Organization and Significant Accounting Policies**

The 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 (1940 Act), as amended.

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 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 takes 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) **Interest Rate Swaps.** In order to manage interest rate sensitivity (duration), the Fund has entered into an interest rate swap agreement with Merrill Lynch Capital Services Inc. (counterparty) pursuant to which, the Fund has guaranteed to make semi-annual payments to the counterparty at predetermined fixed rates, in exchange for floating payments from the counterparty at the 1-month LIBOR, based on notional principal amount. During the term of the outstanding swap agreement, changes in the underlying value of the swap are recorded as unrealized gains or losses. Net periodic interest payments to be received or paid are accrued daily and recorded in the Statement of Operations as an adjustment to realized gain or loss.

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**(d) 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.

**(e) Security Transactions.** Security Transactions are accounted for on a trade date basis.

### 2. Investments

At September 30, 2005, the aggregate gross unrealized appreciation and depreciation of investments for federal income tax purposes were substantially as follows:

|                               |               |
|-------------------------------|---------------|
| Gross unrealized appreciation | \$ 82,374,995 |
| Gross unrealized depreciation | (770,676)     |
| Net unrealized appreciation   | \$ 81,604,319 |

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

At September 30, 2005 the fund was invested in the following interest rate swap contracts with the intent to reduce or eliminate the risk that an increase in short-term interest rates could have an adverse effect on the Fund's net earnings as a result of leverage.

|                            |                                     |
|----------------------------|-------------------------------------|
| Swap Counterparty:         | Merrill Lynch Capital Services Inc. |
| Effective Date:            | 11/25/02                            |
| Notional Amount:           | \$6,500,000                         |
| Payments Made by Fund:     | Fixed Rate 2.9325%                  |
| Payments Received by Fund: | Floating Rate (1-Month Libor)       |
| Termination Date:          | 11/25/05                            |
| Unrealized Appreciation    | \$9,323                             |

|                            |                                     |
|----------------------------|-------------------------------------|
| Swap Counterparty:         | Merrill Lynch Capital Services Inc. |
| Effective Date:            | 11/25/02                            |
| Notional Amount:           | \$26,000,000                        |
| Payments Made by Fund:     | Fixed Rate 3.6335%                  |
| Payments Received by Fund: | Floating Rate (1-Month Libor)       |
| Termination Date:          | 11/25/07                            |
| Unrealized Appreciation    | \$440,321                           |

|                            |                                     |
|----------------------------|-------------------------------------|
| 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 (1-Month Libor)       |
| Termination Date:          | 11/25/09                            |
| Unrealized Appreciation    | \$285,648                           |

|                            |                                     |
|----------------------------|-------------------------------------|
| 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 (1-Month Libor)       |
| Termination Date:          | 7/22/12                             |
| Unrealized Appreciation    | \$226,603                           |

At September 30, 2005 the Fund had total unrealized appreciation of \$961,895 from swap contracts.

#### ITEM 2. CONTROLS AND PROCEDURES.

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- (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.

Real Estate Income Fund Inc.

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

Date: November 28, 2005

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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  
Chief Executive Officer

Date: November 28, 2005

By: /s/ Kaprel Ozsolak  
Chief Financial Officer

Date: November 28, 2005