

LMP REAL ESTATE INCOME FUND INC.
Form N-CSR
March 05, 2009

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

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

55 Water Street, New York, NY
(Address of principal executive offices)

10041
(Zip code)

Robert I. Frenkel, Esq.

Legg Mason & Co., LLC

100 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 December 31,
end:

Date of reporting period: December 31, 2008

ITEM 1. REPORT TO STOCKHOLDERS.

The **Annual** Report to Stockholders is filed herewith.

ANNUAL REPORT / DECEMBER 31, 2008

**LMP Real Estate
Income Fund Inc.
(RIT)**

Managed by **AEW Management and Advisors**

INVESTMENT PRODUCTS: NOT FDIC INSURED • NO BANK GUARANTEE • MAY LOSE VALUE

Fund objective

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

What's inside

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Legg Mason Partners Fund Advisor, LLC (LMPFA) is the Fund's investment manager. AEW Management and Advisors, L.P. (AEW) is the Fund's subadviser. LMPFA is a wholly-owned subsidiary of Legg Mason, Inc.

Letter from the chairman

Dear Shareholder,

The U.S. economy weakened significantly during the 12-month reporting period ended December 31, 2008. Looking back, U.S. gross domestic product (GDP) contracted 0.2% in the fourth quarter of 2007. This was due to continued weakness in the housing market, an ongoing credit crunch and soaring oil and food prices. The economy then expanded 0.9% and 2.8% during the first and second quarters of 2008, respectively. Contributing to this rebound were rising exports that were buoyed by a weakening U.S. dollar. In addition, consumer spending accelerated, aided by the government's tax rebate program. However, the dollar's rally and the end of the rebate program, combined with other strains on the economy, caused GDP to take a step backward during the second half of 2008. According to the U.S. Department of Commerce, third quarter 2008 GDP declined 0.5% and its advance estimate for fourth quarter GDP decline was 3.8%, the latter being the worst quarterly reading since 1982.

While there were increasing signs that the U.S. was headed for a recession, the speculation ended in December 2008. At that time, the National Bureau of Economic Research (NBER) which has the final say on when one begins and ends announced that a recession had begun in December 2007. The NBER determined that a recession had already started using its definition, which is based on a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in production, employment, real income and other indicators.

Regardless of how one defines a recession, it felt like we were in the midst of an economic contraction for much of 2008. Consumer spending, which represents approximately two-thirds of GDP, has been disappointing. According to the International Council of Shopping Centers, retail sales rose a tepid 1% in 2008, the weakest level in at least 38 years. In terms of the job market, the U.S. Department of Labor reported that payroll employment declined in each of the 12 months of 2008. During 2008 as a whole, 2.6 million jobs were lost, the largest annual decline since World War II ended in 1945. In addition, at the end of 2008, the unemployment rate had risen to 7.2%, its highest level since January 1993.

Letter from the chairman *continued*

Ongoing issues related to the housing and subprime mortgage markets and seizing credit markets prompted the Federal Reserve Board (Fed)ⁱⁱ to take aggressive and, in some cases, unprecedented actions. When 2008 began, the federal funds rateⁱⁱⁱ was 4.25%. This was quickly brought down to 3.00% by the end of January 2008, on the back of two Fed rate cuts. The Fed continued to lower the federal funds rate to 2.00% by the end of April 2008, but then left rates on hold for several months. This was due to growing inflationary pressures as a result of soaring oil and commodity prices, coupled with the sagging U.S. dollar. However, as inflation receded along with oil prices and the global financial crisis escalated, the Fed cut rates twice in October to 1.00%. Then, in mid-December 2008, it reduced the federal funds rate to a range of zero to 0.25%, an historic low. In conjunction with its December meeting, the Fed stated that it will employ all available tools to promote the resumption of sustainable economic growth and to preserve price stability. In particular, the Committee anticipates that weak economic conditions are likely to warrant exceptionally low levels of the federal funds rate for some time.

In addition to the interest rate cuts, the Fed took several actions to improve liquidity in the credit markets. In March 2008, it established a new lending program allowing certain brokerage firms, known as primary dealers, to also borrow from its discount window. Also in March, the Fed played a major role in facilitating the purchase of Bear Stearns by JPMorgan Chase. In mid-September 2008, it announced an \$85 billion rescue plan for ailing AIG and pumped \$70 billion into the financial system as Lehman Brothers' bankruptcy and mounting troubles at other financial firms roiled the markets.

The U.S. Department of the Treasury has also taken an active role in attempting to stabilize the financial system, as it orchestrated the government's takeover of mortgage giants Fannie Mae and Freddie Mac in September 2008. In addition, on October 3, 2008, the Treasury's \$700 billion Troubled Asset Relief Program (TARP) was approved by Congress and signed into law by President Bush. As part of TARP, the Treasury had planned to purchase bad loans and other troubled financial assets. However, in November 2008, Treasury Secretary Paulson said,

Our assessment at this time is that this is not the most effective way to use TARP funds, but we will continue to examine whether targeted forms of asset purchase can play a useful role, relative to other potential uses of TARP resources, in helping to strengthen our financial system and support lending.

The U.S. stock market was extremely volatile and generated very poor results during the 12 months ended December 31, 2008. Stock prices declined during each of the first three months of the reporting period. This was due, in part, to the credit crunch, weakening corporate profits, rising inflation and fears of an impending recession. The market then reversed

II LMP Real Estate Income Fund Inc.

course and posted positive returns in April and May 2008. The market's gains were largely attributed to hopes that the U.S. would skirt a recession and that corporate profits would rebound as the year progressed. However, given the escalating credit crisis and the mounting turmoil in the financial markets, stock prices moved lower during five of the last seven months of the reporting period, including S&P 500 Index^{iv} (the Index) returns of -8.91%, -16.79% and -7.18% in September, October and November 2008, respectively. While the Index rallied approximately 20% from its low on November 20, 2008 through the end of the year, it was too little, too late. All told, the Index returned -37.00% in 2008, its third worst year ever and the biggest calendar year loss since 1937.

Looking at the U.S. stock market more closely, its descent was broad in scope, with every major index posting double-digit losses. In terms of market capitalizations, large-, mid- and small-cap stocks, as measured by the Russell 1000^v, Russell Midcap^{vi} and Russell 2000^{vii} Indexes, returned -37.60%, -41.46% and -33.79%, respectively, during the 12-month period ended December 31, 2008. From an investment style perspective, growth and value stocks, as measured by the Russell 3000 Growth^{viii} and Russell 3000 Value^{ix} Indexes, returned -38.44% and -36.25%, respectively.

Special shareholder notice

On November 18, 2008, the Fund announced monthly distributions of \$0.08 per common share for the months of December 2008 and January and February 2009. The Fund had previously paid a monthly distribution of \$0.19 per share since March 2007.

In announcing the change in the monthly distribution rate, the Fund cited the broader economic conditions and the decline in real estate valuations that have affected the value of real-estate-related investments and has led to a decline in the level of capital gains and income available from these investments.

The Fund also utilizes a line of credit to enhance portfolio returns; this line of credit provides the Fund with the ability to moderate its use of leverage as market conditions and opportunities change. As a result of the market conditions outlined above, the manager's investment outlook and the need to maintain asset coverage requirements, the Fund has reduced its use of leverage.

Under the terms of the Fund's managed distribution policy, the Fund will seek to maintain a consistent distribution level, stated as a fixed rate per common share per month, that may be paid in part or in full from net investment income and realized capital gains, or a combination thereof. Shareholders should note, however, that if the Fund's aggregate net investment income and net realized capital gains are less than the amount

Letter from the chairman *continued*

of the distribution level, the difference will be distributed from the Fund's assets and will constitute a return of the shareholder's capital. A return of capital is not taxable; rather it reduces a shareholder's tax basis in his or her shares of the Fund.

The Board of Directors may reduce the Fund's monthly distribution rate in the future or terminate or suspend the managed distribution policy at any time. Any such reduction in the monthly distribution rate, termination or suspension could have an adverse effect on the market price of the Fund's shares.

A special note regarding increased market volatility

In recent months, we have experienced a series of events that have impacted the financial markets and created concerns among both novice and seasoned investors alike. In particular, we have witnessed the failure and consolidation of several storied financial institutions, periods of heightened market volatility, and aggressive actions by the U.S. federal government to steady the financial markets and restore investor confidence. While we hope that the worst is over in terms of the issues surrounding the credit and housing crises, it is likely that the fallout will continue to impact the financial markets and the U.S. economy well into 2009.

Like all asset management firms, Legg Mason has not been immune to these difficult and, in some ways, unprecedented times. However, today's challenges have only strengthened our resolve to do everything we can to help you reach your financial goals. Now, as always, we remain committed to providing you with excellent service and a full spectrum of investment choices. And rest assured, we will continue to work hard to ensure that our investment managers make every effort to deliver strong long-term results.

We also remain committed to supplementing the support you receive from your financial advisor. One way we accomplish this is through our enhanced website, www.leggmason.com/cef. Here you can gain immediate access to many special features to help guide you through difficult times, including:

- Fund prices and performance,
- Market insights and commentaries from our portfolio managers, and
- A host of educational resources.

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During periods of market unrest, it is especially important to work closely with your financial advisor and remember that reaching one's investment goals unfolds over time and through multiple market cycles. Time and again, history has shown that, over the long run, the markets have eventually recovered and grown.

IV LMP Real Estate Income Fund Inc.

Information about your fund

Please read on for a more detailed look at prevailing economic and market conditions during the Fund's reporting period and to learn how those conditions have affected Fund performance.

Important information with regard to recent regulatory and other matters that may affect the Fund is contained in the Notes to Financial Statements included in this report.

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

Sincerely,

R. Jay Gerken, CFA

Chairman, President and Chief Executive Officer

January 30, 2009

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 (GDP) is the market value of all final goods and services produced within a country in a given period of time.
- ii The Federal Reserve Board (Fed) is responsible for the formulation of policies 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 rate charged by one depository institution on an overnight sale of immediately available funds (balances at the Federal Reserve) to another depository institution; the rate may vary from depository institution to depository institution and from day to day.
- iv The S&P 500 Index is an unmanaged index of 500 stocks and is generally representative of the performance of larger companies in the U.S.
- v 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. The Russell 3000 Index measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the U.S. equity market.
- vi The Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index, which represents approximately 25% of the total market capitalization of the Russell 1000 Index.

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- 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 The Russell 3000 Growth Index measures the performance of those Russell 3000 Index companies with higher price-to-book ratios and higher forecasted growth values. (A price-to-book ratio is the price of a stock compared to the difference between a company's assets and liabilities.)
- ix The Russell 3000 Value Index measures the performance of those Russell 3000 Index companies with lower price-to-book ratios and lower forecasted growth values.

LMP Real Estate Income Fund Inc. **V**

Fund overview

Q. What is the Fund's investment strategy?

A. The Fund's primary investment objective is high current income with capital appreciation as a secondary investment objective. At AEW Management and Advisors, L.P., the Fund's subadviser, we employ a value-oriented investment strategy designed to identify securities that are priced below what we believe is their intrinsic value. We believe that the performance of real estate securities is ultimately dependent upon the performance of the underlying real estate assets and company management, as well as the overall influence of capital markets. Consequently, when selecting securities for the Fund, we draw upon the combined expertise of our real estate, research and securities professionals.

Under normal market conditions, the Fund invests at least 90% of its total assets in income-producing common shares, preferred shares, convertible preferred shares (preferred shares that, upon the passage of time or the happening of certain events, automatically convert into common shares) and debt securities issued by real estate companies, including real estate investment trusts (REITs). It is the Fund's intention to invest approximately 60% to 80% of its total assets in common shares issued by real estate companies and 20% to 40% of its total assets in preferred shares, including convertible preferred shares, issued by real estate companies. The actual percentage of common, preferred and convertible preferred shares and debt securities in the Fund's portfolio may vary over time based on our assessment of market conditions.

Q. What were the overall market conditions during the Fund's reporting period?

A. 2008 was a volatile year for the U.S. equities market as the battered economy and housing market, weakening consumer and business confidence, surging energy prices, increasing unemployment, the failure of several large financial institutions and deteriorated credit markets weighed heavily on stocks. Each of the major U.S. indexes suffered heavy losses for the 12 months ended December 31, 2008, with the S&P 500 Indexⁱⁱ shedding 37.00%, while the NASDAQ Composite Indexⁱⁱⁱ and the Dow Jones Industrial Average^{iv} were down 39.98% and 31.93%, respectively. The U.S. REIT market was not immune to the broader market strife, posting its worst-ever year of performance in 2008 with the MSCI U.S. REIT Index^v dropping 37.97%, which coincided with the worst year for the broader stock market since the Great Depression. REIT pricing was marked by significant bouts of volatility, and came under significant pressure from a host of factors, including the state of the slowing economy and the virtual standstill in the credit markets, and the resulting concerns over what impact these would have on real estate fundamentals and property values going forward. The market reacted

Fund overview *continued*

particularly harshly to those real estate stocks with debt issues on their balance sheets and/or with significant development exposure.

Q. How did we respond to these changing market conditions?

A. Despite the overall market volatility during the past year, our bottom-up value-oriented investment approach did not change. We continue to focus on securities selection within each property sector, with the goal of constructing a diversified portfolio of income-producing real estate securities. In this environment of heightened uncertainty in the economy and financial markets, we remain focused on our investment process and finding investments that provide the best risk-adjusted returns for the Fund.

Performance review

For the 12 months ended December 31, 2008, LMP Real Estate Income Fund Inc. returned -49.80% based on its net asset value (NAV)^{vi} and -58.88% based on its New York Stock Exchange (NYSE) market price per share. The Fund's unmanaged benchmark, the MSCI U.S. REIT Index, returned -37.97% for the same period. The Lipper Real Estate Closed-End Funds Category Average^{vii} returned -59.23% over the same time frame. Please note that Lipper performance returns are based on each fund's NAV.

During the 12-month period, the Fund made distributions, including a return of capital, to common shareholders totaling \$2.17 per share. The performance table shows the Fund's 12-month total return based on its NAV and market price as of December 31, 2008. **Past performance is no guarantee of future results.**

PERFORMANCE SNAPSHOT as of December 31, 2008 (unaudited)

	12-MONTH
PRICE PER SHARE	TOTAL RETURN*
\$6.46 (NAV)	-49.80%
\$4.79 (Market Price)	-58.88%

All figures represent past performance and are not a guarantee of future results.

*

Total returns are based on changes in NAV or market price, respectively. Total returns assume the reinvestment of all distributions in additional shares in accordance with the Fund's Dividend Reinvestment Plan.

Q. What were the leading contributors to performance?

A. In light of the downturn in REIT share prices during 2008, the performance of the Fund's common stock portfolio generally lagged the performance of its preferred share segment. At the end of December 2008, the Fund's REIT common stock exposure was reduced to roughly 55% of its gross assets, with 45% in preferred shares. This compares to 68% and 32%, respectively, as of year-end 2007. On an individual stock basis, top contributors to the Fund's performance during the period included Health

Care common stock **Omega Healthcare Investors Inc.** and Industrial REIT **Liberty Property Trust**. The performance of Omega Healthcare Investors Inc. reflected the defensive characteristics of the company's solid balance sheet and stable income stream, as well as the overall positive absolute returns realized in the Health Care sector during 2008. After being among the Fund's worst performers in 2007, Industrials REIT Liberty Property Trust reversed course in 2008 and was one of the top performers in the battered Industrial sector due to its better-than-average balance sheet and a lack of exposure to non-recurring income streams. From a sector perspective, the Fund's overweight to the overall best performing Health Care sector contributed positively to performance, as did its relative underweights to the underperforming Industrial and Regional Malls sectors.

Q. What were the leading detractors from performance?

A. Top individual Fund detractors during 2008 included real estate finance company **iStar Financial**, which we sold in September. The company continued to lose significant ground during the year as a result of the negative impact of its acquisition of a portfolio of commercial loans in July 2007, which included some distressed assets, and the overall state of the capital markets. An overweight position in Regional Malls REIT **Macerich Co.** was another detractor from performance as the company's share price suffered as a result of a combination of near-term debt maturities, a relative high exposure to re-development assets and reduced consumer spending. Shopping centers REIT **Developers Diversified Realty Corp.** was another detractor from performance, as its share price was also driven down due to concerns over its near-term debt maturities and weakening retail environment. On a sector basis, the Fund's underweightings to the Storage, Diversified and Apartments sectors, which outperformed on a relative basis, detracted from Fund performance.

Q. Were there any significant changes to the Fund during the reporting period?

A. The Fund made several changes to its portfolio during the year in light of the prevailing weakened market conditions. Primary among these was the restructuring of its financing. In August 2008, the Fund commenced a deleveraging program by redeeming all of the \$95 million Auction Rate Preferred Securities outstanding using a combination of bank borrowings under a revolving credit facility entered into with a major domestic bank and proceeds generated from the sale of a portion of the Fund's portfolio securities. The Fund subsequently paid down additional debt at various intervals between September and November 2008, which was driven by the Fund's obligation to maintain required debt-to-asset coverage levels. In December, as described in the Letter from the Chairman under the "Special Shareholder Notice" heading, the Fund reduced its dividend payout from

Fund overview *continued*

\$0.19 per share to \$0.08 per share to bring it closer to the recurring income from its holdings in light of the prevailing economic conditions.

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 the symbol *XRITX* on most financial websites. *Barron's* and *The Wall Street Journal's* Monday edition both carry closed-end fund tables that 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.leggmason.com/cef.

In a continuing effort to provide information concerning the Fund, shareholders may call 1-888-777-0102 (toll free), Monday through Friday from 8:00 a.m. to 6:00 p.m. Eastern Standard Time, for the Fund's current NAV, market price and other information.

Thank you for your investment in LMP Real Estate Income Fund Inc. As always, we appreciate that you have chosen us to manage your assets and we remain focused on achieving the Fund's investment goals.

Sincerely,

AEW Management and Advisors, L.P.

January 20, 2009

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.

Portfolio holdings and breakdowns are as of December 31, 2008 and are subject to change and may not be representative of the portfolio managers' current or future investments. The Fund's top 10 holdings (as a percentage of net assets) as of this date were: Urstadt Biddle Properties Inc., 8.500% (6.4%), Public Storage Inc., 6.750% (5.3%), Omega Healthcare Investors Inc., 8.375% (5.2%), Kimco Realty Corp., 7.750% (5.1%), Camden Property Trust (5.1%), National Retail Properties Inc., (4.8%), Nationwide Health Properties Inc. (4.1%), Liberty Property Trust (3.9%), Kilroy Realty Corp. (3.7%) and Senior Housing Properties Trust (3.5%). Please refer to pages 7 through 9 for a list and percentage breakdown of the Fund's holdings.

The mention of sector breakdowns is for informational purposes only and should not be construed as a recommendation to purchase or sell any securities. The information provided regarding such sectors is not a sufficient basis upon which to make an investment decision. Investors seeking financial advice regarding the appropriateness of investing in any securities or investment strategies discussed should consult their financial professional. The Fund's top five sector holdings (as a percentage of net assets) as of December 31, 2008 were: Shopping Centers (20.9%), Health Care (20.8%), Diversified (19.4%), Office (19.4%) and Apartments (11.3%). The Fund's portfolio composition is subject to change at any time.

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 Real Estate Investment Trusts (REITs) invest in real estate or loans secured by real estate and issue shares in such investments, which can be illiquid.
- ii The S&P 500 Index is an unmanaged index of 500 stocks and is generally representative of the performance of larger companies in the U.S.
- iii The NASDAQ Composite Index is a market-value weighted index, which measures all securities listed on the NASDAQ stock market.
- iv The Dow Jones Industrial Average is a widely followed measurement of the stock market. The average is comprised of 30 stocks that represent leading companies in major industries. These stocks, widely held by both individual and institutional investors, are considered to be all blue-chip companies.
- v The MSCI U.S. REIT Index is a free float-adjusted market capitalization weighted index that is comprised of equity REITs that are included in the MSCI U.S. Investable Market 2500 Index, with the exception of specialty equity REITs that do not generate a majority of their revenue and income from real estate rental and leasing operations. The Index represents approximately 85% of the U.S. REIT universe. The MSCI U.S. Investable Market 2500 Index represents the investable universe of companies in the U.S. equity market. This Index targets for inclusion 2,500 companies and represents, as of October 29, 2004, approximately 98% of the capitalization of the U.S. equity market.
- vi Net asset value (NAV) is calculated by subtracting total liabilities and outstanding preferred stock (if any) 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 the Fund's market price as determined by supply of and demand for the Fund's shares and as traded on the exchange.
- vii Lipper, Inc., a wholly-owned subsidiary of Reuters, provides independent insight on global collective investments. Returns are based on the 12-month period ended December 31, 2008, including the reinvestment of all distributions, including returns of capital, if any, calculated among the 29 funds in the Fund's Lipper category.

Fund at a glance (unaudited)

INVESTMENT BREAKDOWN (%) As a percent of total investments December 31, 2008

Schedule of investments

December 31, 2008

LMP REAL ESTATE INCOME FUND INC.

SHARES	SECURITY	VALUE
COMMON STOCKS 55.1%		
120,000	Apartments 5.1%	
100,000	Camden Property Trust	\$ 3,760,800
	UDR Inc.	1,379,000
	<i>Total Apartments</i>	5,139,800
105,000	Health Care 11.8%	
240,000	Nationwide Health Properties Inc.	3,015,600
145,000	Omega Healthcare Investors Inc.	3,832,800
70,000	Senior Housing Properties Trust	2,598,400
	Ventas Inc.	2,349,900
	<i>Total Health Care</i>	11,796,700
375,000	Industrial 4.4%	
267,500	DCT Industrial Trust Inc.	1,897,500
	First Potomac Realty Trust	2,487,750
	<i>Total Industrial</i>	4,385,250
125,000	Industrial/Office - Mixed 2.9%	
	Liberty Property Trust	2,853,750
40,000	Lodging/Resorts 1.6%	
135,000	Hospitality Properties Trust	594,800
	Host Hotels & Resorts Inc.	1,021,950
	<i>Total Lodging/Resorts</i>	1,616,750
75,000	Office 10.0%	
246,300	BioMed Realty Trust Inc.	879,000
650,000	Brandywine Realty Trust	1,898,973
80,000	HRPT Properties Trust	2,190,500
95,000	Kilroy Realty Corp.	2,676,800
	Mack-Cali Realty Corp.	2,327,500
	<i>Total Office</i>	9,972,773
120,000	Regional Malls 3.7%	
178,600	CBL & Associates Properties Inc.	780,000
134,200	Glimcher Realty Trust	501,866
	Macerich Co.	2,437,072
	<i>Total Regional Malls</i>	3,718,938
205,000	Retail - Free Standing 5.4%	
80,000	National Retail Properties Inc.	3,523,950
	Realty Income Corp.	1,852,000
	<i>Total Retail - Free Standing</i>	5,375,950
225,000	Self Storage 2.3%	
	Extra Space Storage Inc.	2,322,000

See Notes to Financial Statements.

Schedule of investments *continued*

December 31, 2008

LMP REAL ESTATE INCOME FUND INC.

SHARES	SECURITY	VALUE
	Shopping Centers 5.8%	
100,000	Cedar Shopping Centers Inc.	\$ 708,000
160,000	Developers Diversified Realty Corp.	780,800
110,000	Kimco Realty Corp.	2,010,800
201,300	Kite Realty Group Trust	1,119,228
140,000	Primaris Retail Real Estate Investment Trust	1,213,447
	<i>Total Shopping Centers</i>	<i>5,832,275</i>
	Specialty 2.1%	
70,000	Entertainment Properties Trust	2,086,000
	TOTAL COMMON STOCKS (Cost \$82,308,121)	55,100,186
PREFERRED STOCKS 43.9%		
	Apartments 3.2%	
	Apartment Investment & Management Co., Cumulative:	
70,000	Series U, 7.750%	969,500
70,000	Series Y, 7.875%	962,500
75,000	BRE Properties Inc., Series C, 6.750%	1,215,000
	<i>Total Apartments</i>	<i>3,147,000</i>
	Diversified 14.2%	
175,000	Duke Realty Corp., 6.950%	1,907,500
90,000	LBA Realty Fund LP, 8.750%(a)	2,160,000
	PS Business Parks Inc.:	
70,000	Cumulative Redeemable, Series O, 7.375%	1,190,000
108,400	Series M, 7.200%	1,940,360
200,000	Public Storage Inc., Cumulative Redeemable, Series L, 6.750%	3,912,000
	Vornado Realty Trust:	
100,000	Cumulative Redeemable, Series G, 6.625%	1,629,000
92,400	Series H, 6.750%	1,487,640
	<i>Total Diversified</i>	<i>14,226,500</i>
	Health Care 3.4%	
126,300	HCP Inc., Series F, 7.100%	2,096,580
70,000	Omega Healthcare Investors Inc., Cumulative Redeemable, Series D, 8.375%	1,325,100
	<i>Total Health Care</i>	<i>3,421,680</i>
	Lodging/Resorts 4.6%	
150,000	Ashford Hospitality Trust, Series D, 8.450%	930,000
71,100	Hospitality Properties Trust, Cumulative Redeemable, Series B, 8.875%	1,102,050
52,900	LaSalle Hotel Properties, Cumulative Redeemable, Series G, 7.250%	611,656
160,000	Strategic Hotels Capital Inc., 8.250%	686,800
100,100	Sunstone Hotel Investors Inc., Cumulative Redeemable, Series A, 8.000%	1,292,541
	<i>Total Lodging/Resorts</i>	<i>4,623,047</i>

See Notes to Financial Statements.

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LMP REAL ESTATE INCOME FUND INC.

SHARES	SECURITY	VALUE
	Office 4.2%	
150,000	BioMed Realty Trust Inc., Series A, 7.375%	\$ 2,118,000
46,400	Brandywine Realty Trust, Series D, 7.375%	618,976
50,000	Corporate Office Properties Trust, Cumulative Redeemable, Series J, 7.625%	869,500
51,183	HRPT Properties Trust, Cumulative Redeemable, Series B, 8.750%	632,110
	<i>Total Office</i>	<i>4,238,586</i>
	Regional Malls 2.0%	
85,000	Glimcher Realty Trust, Cumulative Redeemable, Series F, 8.750%	573,750
86,800	Taubman Centers Inc., Cumulative Redeemable, Series H, 7.625%	1,398,565
	<i>Total Regional Malls</i>	<i>1,972,315</i>
	Retail - Free Standing 2.8%	
96,000	National Retail Properties Inc., Cumulative Redeemable, Series C, 7.375%	1,542,000
70,000	Realty Income Corp., Cumulative Redeemable, Series E, 6.750%	1,231,300
	<i>Total Retail - Free Standing</i>	<i>2,773,300</i>
	Shopping Centers 9.5%	
64,100		