

LMP REAL ESTATE INCOME FUND INC.
Form N-CSR
March 02, 2010

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

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: December 31, 2009

ITEM 1. REPORT TO STOCKHOLDERS.

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

ANNUAL REPORT / DECEMBER 31, 2009

LMP Real Estate Income Fund Inc.

(RIT)

Managed by **AEW CAPITAL MANAGEMENT**

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

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

What's inside

Letter from the chairman	I
Fund overview	1
Fund at a glance	5
Schedule of investments	6
Statement of assets and liabilities	9
Statement of operations	10
Statements of changes in net assets	11
Statement of cash flows	12
Financial highlights	13
Notes to financial statements	15
Report of independent registered public accounting firm	25
Board approval of management and advisory agreements	26
Additional information	31
Annual chief executive officer and chief financial officer certifications	37
Dividend reinvestment plan	38
Important tax information	40

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

Letter from the chairman

Dear Shareholder,

While the U.S. economy was weak during the first half of the twelve-month reporting period ended December 31, 2009, the lengthiest recession since the Great Depression finally appeared to have ended during the second half of the year.

Looking back, the U.S. Department of Commerce reported that first quarter 2009 U.S. gross domestic product (GDP) contracted 6.4%. The economic environment then started to get relatively better during the second quarter, as GDP fell 0.7%. The economy's more modest contraction was due, in part, to smaller declines in both exports and business spending. After contracting four consecutive quarters, the Commerce Department reported that third quarter 2009 GDP growth was 2.2%. A variety of factors helped the economy to expand, including the government's \$787 billion stimulus program, its Cash for Clunkers car rebate program, which helped spur an increase in car sales, and tax credits for first-time home buyers. Economic growth then accelerated during the fourth quarter of 2009, as the advance estimate for GDP growth was 5.7%. The Commerce Department cited a slower drawdown in business inventories and consumer spending as contributing factors spurring the economy's higher growth rate.

Even before GDP advanced in the third quarter, there were signs that the economy was starting to regain its footing. The manufacturing sector, as measured by the Institute for Supply Management's PMIⁱⁱ, rose to 52.9 in August 2009, the first time it surpassed 50 since January 2008 (a reading below 50 indicates a contraction, whereas a reading above 50 indicates an expansion). PMI data subsequently showed that manufacturing expanded from September through December as well. In addition, December's PMI reading of 55.9 was the highest since April 2006.

The housing market also saw some improvement during the reporting period. According to its most recent data, the S&P/Case-Shiller Home Price Indexⁱⁱⁱ indicated that home prices rose for the fifth straight month in October. In addition, the National Association of Realtors reported that existing home sales rose 7.4% in November.

Letter from the chairman *continued*

One area that remained weak and could hamper the magnitude of economic recovery was the labor market. While monthly job losses have moderated compared to earlier in the year, the unemployment rate remained elevated during the reporting period. After reaching a twenty-six-year high of 10.1% in October 2009, the unemployment rate fell to 10.0% in November and remained unchanged the following month. Since December 2007, the unemployment rate has more than doubled and the number of unemployed workers has risen by more than eight million.

The Federal Reserve Board (Fed)iv continued to pursue an accommodative monetary policy during the reporting period. After reducing the federal funds ratev from 5.25% in August 2007 to a range of 0 to 1/4 percent in December 2008 a historic low the Fed maintained this stance through the end of 2009 and during its first meeting in January 2010. In conjunction with its January 2010 meeting, the Fed said that it will maintain the target range for the federal funds rate at 0 to 1/4 percent and continues to anticipate that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels of the federal funds rate for an extended period.

After falling nearly 30% from September through November 2008 (before the reporting period began), the U.S. stock market, as measured by the S&P 500 Indexvi (the Index), rallied and, overall, generated strong results during the twelve-month reporting period. Stock prices fell during the first two months of the reporting period, due to the rapidly weakening global economy, an ongoing credit crisis and plunging corporate profits. Stock prices continued to decline in early March, reaching a twelve-year low on March 9th. Stocks then moved sharply and posted positive returns during nine of the last ten months of the year. From its March trough through the end of December, the Index gained approximately 67%, its fastest rebound since 1933. The market s rally was attributed to a number of factors, including optimism that the economy was gaining traction and that corporate profits would continue to improve. All told, the Index returned 26.46% over the twelve-month reporting period ended December 31, 2009, its best calendar year since 2003.

Looking at the U.S. stock market more closely, in terms of market capitalizations, large-, mid- and small-cap stocks, as measured by the Russell 1000vii, Russell Midcapviii and Russell 2000ix Indices, returned 28.43%, 40.48% and 27.17%, respectively, during the twelve-month period ended December 31, 2009. From an investment style perspective, growth and value stocks, as measured by the Russell 3000 Growthx and Russell 3000 Valuexi Indices, returned 37.01% and 19.76%, respectively.

A special note regarding increased market volatility

Dramatically higher volatility in the financial markets has been very challenging for many investors. Market movements have been rapid sometimes in reaction to economic news, and sometimes creating the news.

II

LMP Real Estate Income Fund Inc.

In the midst of this evolving market environment, we at Legg Mason want 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. 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.

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.

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 developments 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 29, 2010

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

Letter from the chairman *continued*

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 Institute for Supply Management's PMI is based on a survey of purchasing executives who buy the raw materials for manufacturing at more than 350 companies. It offers an early reading on the health of the manufacturing sector.
- iii The S&P/Case-Shiller Home Price Index measures the residential housing market, tracking changes in the value of the residential real estate market in twenty metropolitan regions across the United States.
- iv 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.
- v 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.
- vi 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.
- vii 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.
- viii 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.
- ix 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.
- x 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.)
- xi 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.

IV

LMP Real Estate Income Fund Inc.

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 Capital Management, 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. On the heels of their worst-ever annual performance in 2008, REITs, as measured by the MSCI U.S. REIT Indexⁱⁱ, started 2009 in dismal fashion losing over 40% from January 1st through early March, as worries over the economy and banking system took a particularly heavy toll on real estate securities as did the continued struggles in the credit markets and deteriorating property fundamentals. The sector began to rally in March, however, and the rally continued largely unabated through the final three quarters of the year with U.S. REITs up 28.61% for the twelve-month period. The sector's rebound was catalyzed by several factors including the positive impact of new equity raise activity which helped to improve the financial condition of several REITs and reverse some of the negative sentiment facing the sector, improving capital market conditions as the year progressed, solid gains in the financial sector, which was also up strongly during the year, and a general perception that most REITs have successfully weathered the worst of the recession.

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

A. Our bottom-up value-oriented investment approach remained the same during 2009. Against the backdrop of uncertainty in the economy and increased volatility in the equity market, we continued to focus on security selection within each property sector, with the goal of constructing a

Fund overview *continued*

diversified portfolio of income-producing real estate securities that we believe will provide the best risk-adjusted returns for the Fund.

The Fund continued to maintain its exposure to interest rate swaps during the reporting period. These positions were used to manage the Fund's exposure to interest rate fluctuations. Overall, these positions had a minimal impact on performance during the period.

Performance review

For the twelve months ended December 31, 2009, LMP Real Estate Income Fund Inc. returned 63.57% based on its net asset value (NAV)ⁱⁱⁱ and 97.75% based on its New York Stock Exchange (NYSE) market price per share. The Fund's unmanaged benchmark, the MSCI U.S. REIT Index, returned 28.61% for the same period. The Lipper Real Estate Closed-End Funds Category Average^{iv} returned 47.73% over the same time frame. Please note that Lipper performance returns are based on each fund's NAV.

During the twelve-month period, the Fund made distributions to shareholders totaling \$0.94 per share, which includes a return of capital of \$0.50 per share. The performance table shows the Fund's twelve-month total return based on its NAV and market price as of December 31, 2009. **Past performance is no guarantee of future results.**

PERFORMANCE SNAPSHOT as of December 31, 2009 (unaudited)

PRICE PER SHARE	12-MONTH TOTAL RETURN*
\$8.98 (NAV)	63.57%
\$8.05 (Market Price)	97.75%

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?

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A. On an individual stock basis, top contributors to the Fund's performance during the period included Regional Malls REIT **Macerich Co.** and Office REIT **HRPT Properties Trust**. The performance of Macerich Co., which was among the weakest performers in the Regional Malls sector for the six-month period from September 30, 2008 through March 31, 2009, was attributable in large part to the company's efforts to deleverage and remove much of its near-term balance sheet risks. HRPT Properties Trust's strong performance for the year was largely attributable to the company facing minimal financial risk due to a largely stable balance sheet, as well as a lack of development property exposure.

From a sector perspective, the Fund's underweights to the Health Care and Storage sectors, which underperformed on a relative basis, also contributed positively to performance. The performance of the Fund's preferred stock

2

LMP Real Estate Income Fund Inc. 2009 Annual Report

portfolio generally outperformed its common share segment due in large part to the positive impact of the stabilization of the credit markets.

Q. What were the leading detractors from performance?

A. Top individual Fund detractors during 2009 included holdings in Shopping Centers company **Kimco Realty Corp.** and Office REIT **Kilroy Realty Corp.** Consistent with the rest of the REIT sector, Kimco Realty suffered significant erosion in its share price early in 2009 due to concerns over the company's exposure to development, pending debt maturities and potential write-downs of non-core investments. The company's price has rebounded somewhat since that time, however, as a result of an improving balance sheet through debt repayment and an overall perception that the company has managed its portfolio well through the downturn, thus positioning itself to benefit as the economy recovers. The performance of Kilroy Realty suffered in large part during the first quarter due to market concerns over the company's exposure to markets in Southern California, which have suffered considerably during the recession, and some scheduled lease expirations. Kilroy Realty's shares have also bounced back considerably since the first quarter due largely to the strength of its balance sheet, which compares favorably to many of its Office REIT peers, and positive sentiment towards the company's limited exposure to new development and the fact that it has addressed most of its funding requirements for the near term.

On a sector basis, the Fund's overweight to the Shopping Centers sector, which underperformed on a relative basis, and underweight to the Regional Malls sector, which outperformed on a relative basis, also detracted from Fund performance for the period.

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

A. There were no significant changes made to the Fund's portfolio during the twelve months ended December 31, 2009. We made marginal changes to the Fund's holdings based on our ongoing assessment of the relative value of each company in the Fund's investment universe consistent with the Fund's investment objective of high current income. At the end of the reporting period, the Fund's REIT common stock exposure was approximately 59% of its total investments, with 41% in preferred shares. This compares to 55% and 45%, respectively, as of year end 2008.

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.

Fund overview *continued*

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 5:30 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,

Portfolio Management
AEW Capital Management, L.P.

January 19, 2010

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, 2009 and are subject to change and may not be representative of the portfolio manager's current or future investments. The Fund's top ten holdings (as a percentage of total investments) as of this date were: Urstadt Biddle Properties Inc., Cumulative, Series C, 8.500% (4.6%), Macerich Co. (4.3%), Camden Property Trust (4.1%), Mack-Cali Realty Corp. (4.0%), Kimco Realty Corp., Series G 7.750% (3.8%), Kilroy Realty Corp. (3.5%), Public Storage Inc., Cumulative Redeemable, Series L, 6.750% (3.4%), First Potomac Realty Trust (3.4%), OMEGA Healthcare Investors Inc. (3.4%) and National Retail Properties Inc. (3.3%). Please refer to pages 6 through 8 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 total investments) as of December 31, 2009 were: Office (17.2%), Shopping Centers (15.6%), Health Care (12.8%), Apartments (10.6%) and Retail Free Standing (7.7%). 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. The Fund may make significant investments in derivative instruments. Derivative instruments can be illiquid, may disproportionately increase losses, and have a potentially large impact on Fund

performance.

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 MSCI U.S. REIT Index is a free float-adjusted market capitalization weighted index that is comprised of equity Real Estate Investment Trusts (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.
- iii 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.
- iv Lipper, Inc., a wholly-owned subsidiary of Reuters, provides independent insight on global collective investments. Returns are based on the twelve-month period ended December 31, 2009, including the reinvestment of all distributions, including returns of capital, if any, calculated among the 19 funds in the Fund's Lipper category.

4

LMP Real Estate Income Fund Inc. 2009 Annual Report

Fund at a glance (unaudited)

INVESTMENT BREAKDOWN (%) As a percent of total investments

The bar graphs above represent the composition of the Fund's investments as of December 31, 2009 and December 31, 2008 and do not include derivatives. The Fund is actively managed. As a result, the composition of the Fund's investments is subject to change at any time.

Schedule of investments

December 31, 2009

LMP REAL ESTATE INCOME FUND INC.

SHARES	SECURITY	VALUE
COMMON STOCKS 58.4%		
129,800	Apartments 7.3%	
60,000	Camden Property Trust	\$ 5,499,626
141,059	Equity Residential	2,026,800
	UDR Inc.	2,319,010
	<i>Total Apartments</i>	<i>9,845,436</i>
	Health Care 10.1%	
130,000	HCP Inc.	3,970,200
90,300	Nationwide Health Properties Inc.	3,176,754
235,000	OMEGA Healthcare Investors Inc.	4,570,750
90,000	Senior Housing Properties Trust	1,968,300
	<i>Total Health Care</i>	<i>13,686,004</i>
	Industrial 4.8%	
375,000	DCT Industrial Trust Inc.	1,882,500
365,000	First Potomac Realty Trust	4,588,050
	<i>Total Industrial</i>	<i>6,470,550</i>
	Industrial/Office - Mixed 2.5%	
105,000	Liberty Property Trust	3,361,050
	Lodging/Resorts 0.5%	
29,600	Hospitality Properties Trust	701,816
	Office 12.6%	
112,000	BioMed Realty Trust Inc.	1,767,360
60,400	Highwoods Properties Inc.	2,014,340
500,000	HRPT Properties Trust	3,235,000
155,000	Kilroy Realty Corp.	4,753,850
155,600	Mack-Cali Realty Corp.	5,379,092
	<i>Total Office</i>	<i>17,149,642</i>
	Regional Malls 4.7%	
172,800	Glimcher Realty Trust	466,560
163,731	Macerich Co.	5,886,129
	<i>Total Regional Malls</i>	<i>6,352,689</i>
	Retail - Free Standing 5.0%	
209,400	National Retail Properties Inc.	4,443,468
93,000	Realty Income Corp.	2,409,630
	<i>Total Retail - Free Standing</i>	<i>6,853,098</i>
	Self Storage 1.8%	
215,000	Extra Space Storage Inc.	2,483,250
	Shopping Centers 6.2%	
130,000	Kimco Realty Corp.	1,758,900
415,000	Kite Realty Group Trust	1,689,050

See Notes to Financial Statements.

LMP REAL ESTATE INCOME FUND INC.

SHARES	SECURITY	VALUE
	Shopping Centers 6.2%<i>continued</i>	
205,000	Primaris Retail Real Estate Investment Trust	\$ 3,163,647
50,000	Regency Centers Corp.	1,753,000
	<i>Total Shopping Centers</i>	8,364,597
	Specialty 2.9%	
110,000	Entertainment Properties Trust	3,879,700
	TOTAL COMMON STOCKS (Cost \$74,340,031)	79,147,832
PREFERRED STOCKS 41.0%		
	Apartments 3.3%	
	Apartment Investment & Management Co., Cumulative:	
70,000	Series U, 7.750%	1,561,000
70,000	Series Y, 7.875%	1,565,900
60,000	BRE Properties Inc., Series C, 6.750%	1,344,600
	<i>Total Apartments</i>	4,471,500
	Diversified 7.7%	
175,000	Duke Realty Corp., Series M, 6.950%	3,531,500
90,000	LBA Realty Fund LP, 8.750%(a)	1,980,000
	PS Business Parks Inc.:	
45,000	Cumulative Redeemable, Series O, 7.375%	1,050,975
75,000	Series M, 7.200%	1,642,500
100,000	Vornado Realty Trust, Cumulative Redeemable, Series G, 6.625%	2,165,000
	<i>Total Diversified</i>	10,369,975
	Health Care 2.7%	
100,000	HCP Inc., Series F, 7.100%	2,288,000
55,000	OMEGA Healthcare Investors Inc., Cumulative Redeemable, Series D, 8.375%	1,388,200
	<i>Total Health Care</i>	3,676,200
	Lodging/Resorts 4.8%	
71,100	Hospitality Properties Trust, Cumulative Redeemable, Series B, 8.875%	1,745,505
52,900	LaSalle Hotel Properties, Cumulative Redeemable, Series G, 7.250%	1,127,431
94,300	Strategic Hotels Capital Inc., Series B, 8.250%	1,286,488
100,100	Sunstone Hotel Investors Inc., Cumulative Redeemable, Series A, 8.000%	2,323,571
	<i>Total Lodging/Resorts</i>	6,482,995
	Office 4.6%	
130,000	BioMed Realty Trust Inc., Series A, 7.375%	3,016,000
46,400	Brandywine Realty Trust, Series D, 7.375%	1,035,648
40,000	Corporate Office Properties Trust, Cumulative Redeemable, Series J, 7.625%	950,000
51,183	HRPT Properties Trust, Cumulative Redeemable, Series B, 8.750%	1,248,865
	<i>Total Office</i>	6,250,513

See Notes to Financial Statements.

Schedule of investments *continued*

December 31, 2009

LMP REAL ESTATE INCOME FUND INC.

SHARES	SECURITY	VALUE
	Regional Malls 2.4%	
85,000	Glimcher Realty Trust, Cumulative Redeemable, Series F, 8.750%	\$ 1,560,600
70,000	Taubman Centers Inc., Cumulative Redeemable, Series H, 7.625%	1,664,691
	<i>Total Regional Malls</i>	<i>3,225,291</i>
	Retail - Free Standing 2.7%	
85,000	National Retail Properties Inc., Cumulative Redeemable, Series C, 7.375%	2,045,313
70,000	Realty Income Corp., Cumulative Redeemable, Series E, 6.750%	1,674,400
	<i>Total Retail - Free Standing</i>	<i>3,719,713</i>
	Shopping Centers 9.4%	
50,000	Cedar Shopping Centers Inc., Cumulative Redeemable, Series A, 8.875%	1,198,500
13,300	Developers Diversified Realty Corp., Cumulative Redeemable, Class G, 8.000%	266,000
209,100	Kimco Realty Corp. Series G, 7.750%	5,133,405
63,800	Urstadt Biddle Properties Inc., Cumulative, Series C, 8.500%	6,204,550
	<i>Total Shopping Centers</i>	<i>12,802,455</i>
	Storage 3.4%	
200,000	Public Storage Inc., Cumulative Redeemable, Series L, 6.750%	4,656,000
	TOTAL PREFERRED STOCKS (Cost \$63,670,170)	55,654,642
	TOTAL INVESTMENTS BEFORE SHORT-TERM INVESTMENT	
	(Cost \$138,010,201)	134,802,474
FACE AMOUNT		
SHORT-TERM INVESTMENT 0.6%		
\$ 810,000	Repurchase Agreement 0.6%	
	Interest in \$283,704,000 joint tri-party repurchase agreement dated 12/31/09 with Barclays Capital Inc., 0.000% due 1/4/10; Proceeds at maturity \$810,000; (Fully collateralized by various U.S. government obligations, 1.875% to 3.125% due 2/28/14 to 10/31/16; Market value \$826,200) (Cost \$810,000)	810,000
	TOTAL INVESTMENTS 100.0% (Cost \$138,820,201#)	\$ 135,612,474

(a) 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 \$139,284,739.

See Notes to Financial Statements.

8 LMP Real Estate Income Fund Inc. 2009 Annual Report

Statement of assets and liabilities**December 31, 2009**

ASSETS:	
Investments, at value (Cost \$138,820,201)	\$ 135,612,474
Cash	172
Dividends and interest receivable	906,018
Cash deposits with brokers for swap contracts	823,345
Unrealized appreciation on swaps	228,355
Prepaid expenses	1,730
<i>Total Assets</i>	<i>137,572,094</i>
LIABILITIES:	
Loan payable (Note 5)	34,000,000
Unrealized depreciation on swaps	516,997
Interest payable (Note 5)	104,174
Investment management fee payable	101,155
Interest payable for open swap contracts	23,533
Directors' fees payable	5,621
Accrued expenses	135,514
<i>Total Liabilities</i>	<i>34,886,994</i>
TOTAL NET ASSETS	\$ 102,685,100
NET ASSETS:	
Par value (\$0.001 par value; 11,431,201 shares issued and outstanding; 100,000,000 shares authorized)	\$ 11,431
Paid-in capital in excess of par value	139,979,893
Undistributed net investment income	518,440
Accumulated net realized loss on investments, swap contracts and foreign currency transactions	(34,328,226)
Net unrealized depreciation on investments, swap contracts and foreign currencies	(3,496,438)
TOTAL NET ASSETS	\$ 102,685,100
Shares Outstanding	11,431,201
Net Asset Value	\$8.98

See Notes to Financial Statements.

Statement of operations**For the Year Ended December 31, 2009**

INVESTMENT INCOME:	
Dividends	\$ 6,988,975
Interest	1,917
Less: Foreign taxes withheld	(25,660)
<i>Total Investment Income</i>	<i>6,965,232</i>
EXPENSES:	
Investment management fee (Note 2)	930,663
Interest expense (Note 5)	373,814
Commitment fees (Note 5)	211,063
Legal fees	100,902
Shareholder reports	95,130
Transfer agent fees	58,239
Audit and tax	53,785
Stock exchange listing fees	21,593
Directors' fees	16,445
Custody fees	9,935
Insurance	4,810
Miscellaneous expenses	8,274
<i>Total Expenses</i>	<i>1,884,653</i>
Less: Fee waivers and/or expense reimbursements (Note 2)	(51,185)
<i>Net Expenses</i>	<i>1,833,468</i>
NET INVESTMENT INCOME	5,131,764
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS, REIT DISTRIBUTIONS, SWAP CONTRACTS AND FOREIGN CURRENCY TRANSACTIONS (NOTES 1, 3 AND 4):	
Net Realized Loss From:	
Investment transactions	(23,148,432)
REIT distributions	916,318
Swap contracts	(1,056,112)
Foreign currency transactions	(1,570)
<i>Net Realized Loss</i>	<i>(23,289,796)</i>
Change in Net Unrealized Appreciation/Depreciation From:	
Investments	56,460,022
Swap contracts	1,108,872
Foreign currencies	56
<i>Change in Net Unrealized Appreciation/Depreciation</i>	<i>57,568,950</i>
NET GAIN ON INVESTMENTS, REIT DISTRIBUTIONS, SWAP CONTRACTS AND FOREIGN CURRENCY TRANSACTIONS	34,279,154
INCREASE IN NET ASSETS FROM OPERATIONS	\$ 39,410,918

See Notes to Financial Statements.

Statements of changes in net assets

FOR THE YEARS ENDED DECEMBER 31,	2009	2008
OPERATIONS:		
Net investment income	\$ 5,131,764	\$ 10,121,573
Net realized loss	(23,289,796)	(10,120,365)
Change in net unrealized appreciation/depreciation	57,568,950	(81,595,578)
Distributions paid to taxable auction rate preferred stockholders		(2,336,449)
<i>Increase (Decrease) in Net Assets From Operations</i>	<i>39,410,918</i>	<i>(83,930,819)</i>
DISTRIBUTIONS TO SHAREHOLDERS FROM (NOTE 1):		
Net investment income	(5,005,137)	(7,976,386)
Net realized gains		(5,481,194)
Return of capital	(5,686,906)	(11,039,452)
<i>Decrease in Net Assets From Distributions to Shareholders</i>	<i>(10,692,043)</i>	<i>(24,497,032)</i>
FUND SHARE TRANSACTIONS (NOTE 7):		
Proceeds from shares issued on reinvestments of distributions (85,193 and 136,353 shares issued, respectively)	628,877	2,001,570
<i>Increase in Net Assets From Fund Share Transactions</i>	<i>628,877</i>	<i>2,001,570</i>
INCREASE (DECREASE) IN NET ASSETS	29,347,752	(106,426,281)
NET ASSETS:		
Beginning of year		