

Edgar Filing: AEW REAL ESTATE INCOME FUND - Form N-Q

AEW REAL ESTATE INCOME FUND

Form N-Q

December 27, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM N-Q
QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED
MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number: 811-21206

AEW Real Estate Income Fund

(Exact name of registrant as specified in charter)

399 Boylston Street, Boston, Massachusetts 02116

(Address of principal executive offices) (Zip code)

Coleen Downs Dinneen, Esq.
IXIS Asset Management Distributors, L.P.
399 Boylston Street
Boston, Massachusetts 02116

(Name and address of agent for service)

Registrant's telephone number, including area code: (617) 449-2810

Date of fiscal year end: January 31

Date of reporting period: October 31, 2005

ITEM I SCHEDULE OF INVESTMENTS

AEW REAL ESTATE INCOME FUND -- SCHEDULE OF INVESTMENTS

Investments as of October 31, 2005 (unaudited)

| Shares | Description | Value (+) (b) |
|---------------|------------------------------|---------------|
| ----- | | |
| Common Stocks | -- 94.3% of Total Net Assets | |
| | Real Estate | -- 1.2% |
| | Apartments | -- 1.2% |

Edgar Filing: AEW REAL ESTATE INCOME FUND - Form N-Q

| | | | |
|---------|--------------------------------------------------------------------------------------------|--------------|-------|
| 41,500 | Municipal Mortgage & Equity LLC | \$ 1,031,690 | |
| | | | ----- |
| | Real Estate Investment Trusts | -- 93.1% | |
| | REITs - Apartments | -- 11.0% | |
| 44,000 | Archstone Smith Trust | 1,785,080 | |
| 82,500 | Camden Property Trust | 4,648,875 | |
| 55,000 | GMH Communities Trust | 823,350 | |
| 40,000 | Mid-America Apartment Communities, Inc. | 1,866,000 | |
| | | | ----- |
| | | 9,123,305 | ----- |
| | REITs - Diversified | -- 5.8% | |
| 90,000 | iStar Financial, Inc. | 3,318,300 | |
| 70,000 | Lexington Corporate Properties Trust | 1,524,600 | |
| | | | ----- |
| | | 4,842,900 | ----- |
| | REITs - Factory Outlets | -- 1.3% | |
| 40,000 | Tanger Factory Outlet Centers, Inc. | 1,075,600 | |
| | | | ----- |
| | REITs - Healthcare | -- 12.8% | |
| 65,000 | Health Care Property Investors, Inc. 1,654,250 121,000 Healthcare Realty Trust, Inc. | 4,578,640 | |
| 80,000 | Omega Healthcare Investors, Inc. | 983,200 | |
| 190,500 | Senior Housing Properties Trust | 3,373,755 | |
| | | | ----- |
| | | 10,589,845 | ----- |
| | REITs - Industrial | -- 6.7% | |
| 25,000 | EastGroup Properties, Inc. | 1,092,500 | |
| 62,400 | First Potomac Realty Trust | 1,581,216 | |
| 68,100 | Liberty Property Trust | 2,839,089 | |
| | | | ----- |
| | | 5,512,805 | ----- |
| | REITs - Lodging/Resorts | -- 3.7% | |
| 55,000 | Eagle Hospitality Properties Trust, Inc. | 523,050 | |
| 63,000 | Hospitality Properties Trust | 2,501,100 | |
| | | | ----- |
| | | 3,024,150 | ----- |
| | REITs - Mortgage | -- 1.8% | |
| 50,000 | Ventas Inc. | 1,531,500 | |
| | | | ----- |
| | REITs - Office | -- 28.3% | |
| 77,000 | Arden Realty, Inc. | 3,475,780 | |
| 32,500 | Brandywine Realty Trust, Inc. | 890,500 | |
| 65,000 | CarrAmerica Realty Corp. | 2,140,450 | |
| 77,000 | Glenborough Realty Trust, Inc. | 1,473,010 | |
| 95,000 | Highwoods Properties, Inc. | 2,679,950 | |
| 311,300 | HRPT Properties Trust | 3,396,283 | |
| 43,000 | Kilroy Realty Corp. | 2,414,450 | |
| 68,000 | Mack-Cali Realty Corp. | 2,900,200 | |
| 30,000 | Maguire Properties, Inc. | 900,000 | |
| 80,000 | Prentiss Properties Trust | 3,156,800 | |
| | | | ----- |

Edgar Filing: AEW REAL ESTATE INCOME FUND - Form N-Q

| | | |
|---------------------------|-------------------------------------------------------|--------------|
| | | 23,427,423 |
| | | ----- |
| | REITs - Regional Malls -- 4.4% | |
| 62,000 | Glimcher Realty Trust | 1,424,140 |
| 35,000 | Macerich Co. (The) | 2,249,450 |
| | | ----- |
| | | 3,673,590 |
| | | ----- |
| | REITs - Shopping Centers -- 15.3% | |
| 140,000 | Cedar Shopping Centers, Inc. | 1,962,800 |
| | | ----- |
| Shares | Description | Value(+) (b) |
| | | ----- |
| | REITs - Shopping Centers - continued | |
| 100,000 | Commercial Net Lease Realty | \$ 1,938,000 |
| 30,000 | Equity One, Inc. | 703,500 |
| 94,000 | Heritage Property Investment Trust | 3,064,400 |
| 39,000 | Inland Real Estate Corp. | 555,750 |
| 12,000 | New Plan Excel Realty Trust | 275,880 |
| 150,000 | Primaris Retail,144A | 1,907,302 |
| 39,000 | Ramco-Gershenson Properties Trust | 1,081,860 |
| 55,000 | Realty Income Corp. | 1,224,850 |
| | | ----- |
| | | 12,714,342 |
| | | ----- |
| | REITs - Specialty -- 2.0% | |
| 20,500 | Correctional Properties Trust | 576,050 |
| 27,000 | Entertainment Properties Trust | 1,082,700 |
| | | ----- |
| | | 1,658,750 |
| | | ----- |
| | Total Real Estate Investment Trusts | 77,174,210 |
| | | ----- |
| | Total Common Stocks (Identified Cost \$55,921,565) | 78,205,900 |
| | | ----- |
| Preferred Stocks -- 37.5% | | |
| | Real Estate Investment Trusts -- 37.5% | |
| | REITs - Apartments -- 5.1% | |
| 50,000 | Apartment Investment & Management Co., Series G | 1,310,000 |
| 29,400 | Apartment Investment & Management Co., Series R | 758,814 |
| 42,000 | Apartment Investment & Management Co., Series U | 1,046,640 |
| 45,000 | Apartment Investment & Management Co., Series Y | 1,125,000 |
| | | ----- |
| | | 4,240,454 |
| | | ----- |
| | REITs - Diversified -- 2.6% | |
| 54,800 | Crescent Real Estate Equities Co., Series B | 1,409,456 |
| 30,000 | Vornado Realty Trust, Series H | 715,500 |
| | | ----- |
| | | 2,124,956 |
| | | ----- |

Edgar Filing: AEW REAL ESTATE INCOME FUND - Form N-Q

| | | |
|---------|-----------------------------------------------------|-----------|
| | REITs - Factory Outlets -- 1.9% | |
| 35,500 | Mills Corp. (The), Series B | 909,865 |
| 25,000 | Mills Corp. (The), Series E | 648,750 |
| | | ----- |
| | | 1,558,615 |
| | | ----- |
| | REITs - Healthcare -- 3.5% | |
| 50,000 | Health Care Property Investors, Inc., Class F | 1,275,000 |
| 65,400 | Omega Healthcare Investors, Inc., Series D | 1,648,080 |
| | | ----- |
| | | 2,923,080 |
| | | ----- |
| | REITs - Lodging/Resorts -- 5.8% | |
| 75,000 | Boykin Lodging Co., Series A | 1,931,250 |
| 25,000 | Felcor Lodging Trust, Inc., Series C | 602,500 |
| 71,900 | Hospitality Properties Trust, Series B | 1,903,193 |
| 15,000 | LaSalle Hotel Properties, Series A | 394,500 |
| | | ----- |
| | | 4,831,443 |
| | | ----- |
| | REITs - Office -- 7.7% | |
| 30,000 | Bedford Property Investors, Inc., Series A, 144A | 1,467,189 |
| 100,000 | CarrAmerica Realty Corp., Series E | 2,570,000 |

 AEW REAL ESTATE INCOME FUND -- SCHEDULE OF INVESTMENTS (continued)

Investments as of October 31, 2005 (unaudited)

| Shares | Description | Value(+) (b) |
|--------|-------------------------------------------|--------------|
| ----- | | |
| | Real Estate Investment Trusts - continued | |
| | REITs - Office - continued | |
| 90,400 | HRPT Properties Trust, Series B \$ | 2,347,688 |
| | | ----- |
| | | 6,384,877 |
| | | ----- |
| | REITs - Regional Malls -- 3.7% | |
| 75,000 | Glimcher Realty Trust, Series F | 1,917,750 |
| 45,000 | Taubman Centers, Inc., Series H | 1,120,500 |
| | | ----- |
| | | 3,038,250 |
| | | ----- |
| | REITs - Shopping Centers -- 7.2% | |
| 27,000 | Cedar Shopping Centers, Inc., | |

Edgar Filing: AEW REAL ESTATE INCOME FUND - Form N-Q

| | | |
|--------|----------------------------------------------------------|------------|
| | Series A | 719,550 |
| 42,200 | Developers Diversified Realty Corp., Series F | 1,088,760 |
| 21,300 | Developers Diversified Realty Corp., Series G | 549,540 |
| 13,000 | Federal Realty Investment Trust, Series B | 332,410 |
| 6,700 | Ramco-Gershenson Properties Trust, Series B | 179,895 |
| 9,000 | Realty Income Corp., Series D | 232,920 |
| 27,000 | Urstadt Biddle Properties, Inc., Series C | 2,887,380 |
| | | ----- |
| | | 5,990,455 |
| | | ----- |
| | Total Preferred Stocks (Identified Cost \$29,248,183) | 31,092,130 |
| | | ----- |

Principal
Amount

| | |
|--------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Short-Term Investment -- 0.3% | |
| \$ 234,033 | Tri-Party Repurchase Agreement with Fixed Income Clearing Corporation, dated 10/31/2005 at 1.75% to be repurchased at \$234,044 on 11/01/2005, collateralized by \$200,000 U.S Treasury Bond, 6.375%, due 08/15/2027 valued at \$243,949 (c) (Identified Cost \$234,033) |
| | 234,033 |
| | ----- |
| Total Investments -- 132.1% (Identified Cost \$85,403,781) (a) | 109,532,063 |
| | ----- |
| Auction Market Preferred Shares plus cumulative unpaid dividends (33.8%) | (28,019,981) |
| Other Assets Less Liabilities -- 1.7% | 1,398,700 |
| | ----- |
| Total Net Assets -- 100% | \$ 82,910,782 |
| | ===== |

(+) Equity securities for which market quotations are readily available are valued at market price on the basis of valuations furnished to the Fund by a pricing service which has been authorized by the Board of Trustees. The pricing service provides the last reported sale price for securities listed on an applicable securities exchange or, if no sale was reported and in the case of over-the-counter securities not so listed, the last reported bid price. Securities traded on the NASDAQ National Market are valued at the NASDAQ Official Closing Price ("NOCP"), or if lacking an NOCP, at the most recent bid quotation on the NASDAQ National Market. Debt securities for which market quotations are readily available (other than short-term

Edgar Filing: AEW REAL ESTATE INCOME FUND - Form N-Q

obligations with a remaining maturity of less than sixty days) are generally valued at market price on the basis of valuations furnished by a pricing service authorized by the Board of Trustees, which service determines valuations for normal, institutional-size trading units of such securities using market information, transactions for comparable securities and various relationships between securities which are generally recognized by institutional traders. Short-term obligations with a remaining maturity of less than sixty days are stated at amortized cost, which approximates market value. Securities traded on a foreign exchange will be valued at their market price on the non-U.S. exchange. The value of other securities principally traded outside the United States will be computed as of the completion of substantial trading for the day on the markets on which such securities principally trade. Occasionally, events affecting the value of securities principally traded outside the United States may occur between the completion of substantial trading of such securities for the day and the close of the New York Stock Exchange, which events would not be reflected in the computation of the Fund's net asset value. If, in the determination of the Board of Trustees or persons acting at their direction, events materially affecting the value of the Fund's securities occur during such period, then these securities may be fair valued at the time the Fund determines its net asset value by or pursuant to procedures approved by the Board of Trustees. When fair valuing its securities, the Fund may, among other things, use modeling tools or other processes that may take into account factors such as securities market activity and/or significant events that occur after the close of the local market and before the time the Fund's net asset value is calculated. All other securities and assets are valued at their fair value as determined in good faith by the Fund's investment advisor, pursuant to the procedures approved by the Board of Trustees. Security transactions are accounted for on trade date.

- (a) Federal Tax Information (Amounts exclude certain adjustments made at the end of the Fund's fiscal year for tax purposes. Such adjustments are primarily due to wash sales and return of capital included in dividends received from the Fund's investments in REITs):

At October 31, 2005, the net unrealized appreciation on investments based on cost of \$85,403,781 for federal income tax purposes was as follows:

| | |
|-----------------------------------------------------------------------------------------------------------------|---------------|
| Aggregate gross unrealized appreciation for all investments in which there is an excess of value over tax cost. | \$ 24,403,079 |
| Aggregate gross unrealized depreciation for all investments in which there is an excess of tax cost over value. | (274,797) |
| | ----- |
| Net unrealized appreciation | \$ 24,128,282 |
| | ===== |

- (b) The books and records of the fund are maintained in U.S. dollars. The value of securities, currencies and other assets and liabilities denominated in currencies other than U.S.

AEW REAL ESTATE INCOME FUND -- SCHEDULE OF INVESTMENTS (continued)

Edgar Filing: AEW REAL ESTATE INCOME FUND - Form N-Q

Investments as of October 31, 2005 (unaudited)

dollars are translated into U.S dollars based upon foreign exchange rates prevailing at the end of the period.

- (c) The Fund, through its custodian, receives delivery of the underlying securities collateralizing repurchase agreements. It is the Fund's policy that the market value of the collateral be at least equal to 102% of the repurchase price, including interest. The Fund's investment adviser is responsible for determining that the value of the collateral is at all times at least equal to 102% of the repurchase price, including interest. The repurchase agreements are tri-party arrangements whereby the collateral is held at the custodian bank in a segregated account for the benefit of the Fund and the counterparty. Repurchase agreements could involve certain risks in the event of default or insolvency of the counterparty including possible delays or restrictions upon the Fund's ability to dispose of the underlying securities.

REITs Real Estate Investments Trusts

- 144A Securities exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers. At the period end, the value of these securities amounted to \$3,374,491 or 4.1% of net assets.

AEW REAL ESTATE INCOME FUND -- SCHEDULE OF INVESTMENTS (continued)

Investments as of October 31, 2005 (unaudited)

Swap Agreements. The Fund may enter into swap agreements to manage its exposure to the financial markets. A swap is an agreement to exchange the return generated by one instrument for the return generated by another instrument. The Fund may enter into interest rate, total return and forward swap spread lock swap agreements to manage its exposure to interest rates. Interest rate swap agreements involve the exchange by the Fund with another party of their respective commitments to pay or receive interest, e.g., an exchange of floating rate payments for fixed rate payments with respect to a notional amount of principal.

Swaps are marked to market daily based upon quotations from market makers and the change in value, if any, is recorded as unrealized gain or loss. Payments received or made at the end of the measurement period are recorded as realized gain or loss. These financial instruments are not actively traded on financial markets. The values assigned to these instruments are based upon the best available information and because of the uncertainty of the valuation, these values may differ significantly from the values that would have been realized had a ready market for these instruments existed, and the differences could be material. Entering into these agreements involves, to varying degrees, elements of credit, legal, market and documentation risk in excess of the amounts recognized on the Statement of Assets and Liabilities. Such risks involve the possibility that there will be no liquid market for these agreements, that the counterparty to the agreements may default on its obligation to perform or disagree as to the meaning of contractual terms in the agreements, or that there

Edgar Filing: AEW REAL ESTATE INCOME FUND - Form N-Q

may be unfavorable changes in interest rates. A summary of the open swap agreements as of October 31, 2005 is as follows:

| Notional Amount ----- | Expiration Date ---- | Description ----- |
|--------------------------|----------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Interest Rate Swaps | | |
| \$ 2,800,000 | 3/1/2006 | Agreement with Bank of America dated 2/28/2003 to pay the notional amount multiplied by 2.345% and to receive the notional amount multiplied by the 1 week Floating Rate London Interbank Offering Rate ("LIBOR") adjusted by a specific spread. |
| \$ 14,000,000 | 3/3/2008 | Agreement with Bank of America dated 2/28/2003 to pay the notional amount multiplied by 3.104% and to receive the notional amount multiplied by the 1 week Floating Rate LIBOR adjusted by a specific spread. |
| \$ 8,400,000 | 3/1/2010 | Agreement with Bank of America dated 2/28/2003 to pay the notional amount multiplied by 3.622% and to receive the notional amount multiplied by the 1 week Floating Rate LIBOR adjusted by a specific spread. |

ITEM 2. CONTROLS AND PROCEDURES.

The registrant's principal executive officer and principal financial officer have concluded that the registrant's disclosure controls and procedures are sufficient to ensure that information required to be disclosed by the registrant in this Form N-Q was recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, based upon such officers' evaluation of these controls and procedures as of a date within 90 days of the filing date of the report. There were no changes in the registrant's internal control over financial reporting that occurred during the registrant's last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

ITEM 3. EXHIBITS

(a) (1) Certification for the principal executive officer as required by Rule 30a-2(a) of the Investment Company Act of 1940, as amended (the "Act") filed herewith.

(a) (2) Certification for the principal financial officer as required by Rule 30a-2(a) of the Act filed herewith.

Edgar Filing: AEW REAL ESTATE INCOME FUND - Form N-Q

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.

AEW Real Estate Income Fund

By: /s/ John T. Hailer

Name: John T. Hailer
Title: President and Chief Executive Officer
Date: December 20, 2005

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

AEW Real Estate Income Fund

By: /s/ John T. Hailer

Name: John T. Hailer
Title: President and Chief Executive Officer
Date: December 20, 2005

By: /s/ Michael C. Kardok

Name: Michael C. Kardok
Title: Treasurer
Date: December 20, 2005