

LMP REAL ESTATE INCOME FUND INC.
Form N-Q
May 24, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-Q

QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED

MANAGEMENT INVESTMENT COMPANY

Investment Company Act file number **811-21098**

LMP Real Estate Income Fund Inc.

(Exact name of registrant as specified in charter)

620 Eighth Avenue, 49th Floor, New York, New York 10018

(Address of principal executive offices) (Zip code)

Robert I. Frenkel, Esq.

Legg Mason & Co., LLC

100 First Stamford Place

Stamford, CT 06902

(Name and address of agent for service)

Registrant's telephone number, including area code: (888)777-0102

Date of fiscal year end: **December 31**

Date of reporting period: **March 31, 2016**

ITEM 1. SCHEDULE OF INVESTMENTS.

LMP REAL ESTATE INCOME FUND INC.

FORM N-Q

MARCH 31, 2016

LMP REAL ESTATE INCOME FUND INC.**Schedule of investments (unaudited)****March 31, 2016**

SECURITY	SHARES	VALUE
REAL ESTATE INVESTMENT TRUST COMMON STOCKS - 85.8%		
Apartments - 13.1%		
Apartment Investment and Management Co., Class A Shares	124,300	\$ 5,198,226 ^(a)
AvalonBay Communities Inc.	25,900	4,926,180 ^(a)
Camden Property Trust	27,400	2,304,066 ^(a)
Equity Residential	64,420	4,833,433
UDR Inc.	104,300	4,018,679
<i>Total Apartments</i>		<i>21,280,584</i>
Diversified - 15.7%		
Digital Realty Trust Inc.	74,200	6,565,958 ^(a)
DuPont Fabros Technology Inc.	99,100	4,016,523
EPR Properties	120,000	7,994,400 ^(a)
Lexington Realty Trust	105,100	903,860
Liberty Property Trust	176,000	5,888,960 ^(a)
<i>Total Diversified</i>		<i>25,369,701</i>
Health Care - 8.1%		
Healthcare Trust of America Inc., Class A Shares	85,050	2,502,171
OMEGA Healthcare Investors Inc.	108,000	3,812,400 ^(a)
Senior Housing Properties Trust	167,200	2,991,208 ^(a)
Welltower Inc.	53,830	3,732,572 ^(a)
<i>Total Health Care</i>		<i>13,038,351</i>
Industrial - 4.2%		
DCT Industrial Trust Inc.	90,590	3,575,587 ^(a)
Prologis Inc.	64,200	2,836,356
Rexford Industrial Realty Inc.	25,600	464,896
<i>Total Industrial</i>		<i>6,876,839</i>
Lodging/Resorts - 5.4%		
Hersha Hospitality Trust	98,950	2,111,593
Hospitality Properties Trust	166,000	4,408,960 ^(a)
LaSalle Hotel Properties	88,360	2,236,392
<i>Total Lodging/Resorts</i>		<i>8,756,945</i>
Mortgage - 5.6%		
American Capital Agency Corp.	108,310	2,017,815 ^(a)
Annaly Capital Management Inc.	202,300	2,075,598 ^(a)
Starwood Property Trust Inc.	260,000	4,921,800 ^(a)
<i>Total Mortgage</i>		<i>9,015,213</i>
Office - 12.5%		

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Alexandria Real Estate Equities Inc.	40,900	3,717,401
First Potomac Realty Trust	232,379	2,105,354 ^(a)
Highwoods Properties Inc.	110,200	5,268,662 ^(a)
Kilroy Realty Corp.	103,740	6,418,394 ^(a)
Paramount Group Inc.	79,800	1,272,810
Parkway Properties Inc.	90,000	1,409,400 ^(a)
<i>Total Office</i>		<i>20,192,021</i>
Regional Malls - 7.9%		
General Growth Properties Inc.	157,500	4,682,475
Simon Property Group Inc.	39,400	8,182,986 ^(a)
<i>Total Regional Malls</i>		<i>12,865,461</i>
Retail-Free Standing - 2.7%		
Spirit Realty Capital Inc.	384,769	4,328,651 ^(a)

See Notes to Schedule of Investments.

LMP REAL ESTATE INCOME FUND INC.**Schedule of investments (unaudited) (cont d)****March 31, 2016**

SECURITY	SHARES	VALUE
Shopping Centers - 10.6%		
Kite Realty Group Trust	73,100	\$ 2,025,601
Ramco-Gershenson Properties Trust	247,620	4,464,589 ^(a)
Regency Centers Corp.	88,500	6,624,225 ^(a)
Retail Properties of America Inc., Class A Shares	193,650	3,069,352 ^(a)
Urstadt Biddle Properties Inc., Class A Shares	46,000	963,700 ^(a)
<i>Total Shopping Centers</i>		<i>17,147,467</i>
REAL ESTATE INVESTMENT TRUST TOTAL COMMON STOCKS		
(Cost - \$101,958,284)		138,871,233
	RATE	
REAL ESTATE INVESTMENT TRUST PREFERRED STOCKS - 20.5%		
Diversified - 3.6%		
DuPont Fabros Technology Inc., Cumulative, Series B	7.625%	103,000 2,622,380
EPR Properties, Series E	9.000%	60,000 2,100,000
PS Business Parks Inc., Series T	6.000%	40,500 1,045,305
<i>Total Diversified</i>		<i>5,767,685</i>
Lodging/Resorts - 3.1%		
Ashford Hospitality Trust Inc., Series E	9.000%	64,000 1,529,600 ^(a)
Chesapeake Lodging Trust, Series A	7.750%	70,000 1,838,900
LaSalle Hotel Properties, Series I	6.375%	40,500 1,032,750
Pebblebrook Hotel Trust, Series C	6.500%	27,000 694,980
<i>Total Lodging/Resorts</i>		<i>5,096,230</i>
Office - 2.6%		
Alexandria Real Estate Equities Inc., Series D	7.000%	50,000 1,455,000
Corporate Office Properties Trust, Series L	7.375%	105,000 2,730,000
<i>Total Office</i>		<i>4,185,000</i>
Regional Malls - 4.2%		
CBL & Associates Properties Inc., Series E	6.625%	70,000 1,679,300
General Growth Properties Inc., Series A	6.375%	96,000 2,486,400
WP Glimcher Inc., Series H	7.500%	105,000 2,730,000
<i>Total Regional Malls</i>		<i>6,895,700</i>
Retail-Free Standing - 2.4%		
National Retail Properties Inc., Series D	6.625%	64,001 1,670,426
National Retail Properties Inc., Series E	5.700%	85,000 2,211,700
<i>Total Retail-Free Standing</i>		<i>3,882,126</i>
Shopping Centers - 4.6%		

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Cedar Realty Trust Inc., Series B	7.250%	107,400	2,720,442
Retail Properties of America Inc., Cumulative, Series A	7.000%	90,000	2,391,300
Urstadt Biddle Properties Inc., Cumulative, Series F	7.125%	87,500	2,310,000
<i>Total Shopping Centers</i>			7,421,742
REAL ESTATE INVESTMENT TRUST TOTAL PREFERRED STOCKS			
(Cost - \$31,520,634)			33,248,483
TOTAL INVESTMENTS - 106.3%			
(Cost - \$133,478,918#)			172,119,716
Liabilities in Excess of Other Assets - (6.3)%			(10,276,382)
TOTAL NET ASSETS - 100.0%			\$ 161,843,334

(a) All or a portion of this security is pledged as collateral pursuant to the loan agreement.

Aggregate cost for federal income tax purposes is substantially the same.

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

See Notes to Schedule of Investments.

Notes to Schedule of Investments (unaudited)**1. Organization and significant accounting policies**

LMP Real Estate Income Fund Inc. (the Fund) was incorporated in Maryland and is registered as a non-diversified, closed-end management investment company under the Investment Company Act of 1940, as amended (the 1940 Act). The Fund's primary investment objective is high current income and the Fund's secondary objective is capital appreciation.

The following are significant accounting policies consistently followed by the Fund and are in conformity with U.S. generally accepted accounting principles (GAAP).

(a) Investment valuation. Equity securities for which market quotations are available are valued at the last reported sales price or official closing price on the primary market or exchange on which they trade. The valuations for fixed income securities (which may include, but are not limited to, corporate, government, municipal, mortgage-backed, collateralized mortgage obligations and asset-backed securities) and certain derivative instruments are typically the prices supplied by independent third party pricing services, which may use market prices or broker/dealer quotations or a variety of valuation techniques and methodologies. The independent third party pricing services use inputs that are observable such as issuer details, interest rates, yield curves, prepayment speeds, credit risks/spreads, default rates and quoted prices for similar securities. Short-term fixed income securities that will mature in 60 days or less are valued at amortized cost, unless it is determined that using this method would not reflect an investment's fair value. When the Fund holds securities or other assets that are denominated in a foreign currency, the Fund will normally use the currency exchange rates as of 4:00 p.m. (Eastern Time). If independent third party pricing services are unable to supply prices for a portfolio investment, or if the prices supplied are deemed by the manager to be unreliable, the market price may be determined by the manager using quotations from one or more broker/dealers or at the transaction price if the security has recently been purchased and no value has yet been obtained from a pricing service or pricing broker. When reliable prices are not readily available, such as when the value of a security has been significantly affected by events after the close of the exchange or market on which the security is principally traded, but before the Fund calculates its net asset value, the Fund values these securities as determined in accordance with procedures approved by the Fund's Board of Directors.

The Board of Directors is responsible for the valuation process and has delegated the supervision of the daily valuation process to the Legg Mason North Atlantic Fund Valuation Committee (the Valuation Committee). The Valuation Committee, pursuant to the policies adopted by the Board of Directors, is responsible for making fair value determinations, evaluating the effectiveness of the Fund's pricing policies, and reporting to the Board of Directors. When determining the reliability of third party pricing information for investments owned by the Fund, the Valuation Committee, among other things, conducts due diligence reviews of pricing vendors, monitors the daily change in prices and reviews transactions among market participants.

The Valuation Committee will consider pricing methodologies it deems relevant and appropriate when making fair value determinations. Examples of possible methodologies include, but are not limited to, multiple of earnings; discount from market of a similar freely traded security; discounted cash-flow analysis; book value or a multiple thereof; risk premium/yield analysis; yield to maturity; and/or fundamental investment analysis. The Valuation Committee will also consider factors it deems relevant and appropriate in light of the facts and circumstances. Examples of possible factors include, but are not limited to, the type of security; the issuer's financial statements; the purchase price of the security; the discount from market value of unrestricted securities of the same class at the time of purchase; analysts' research and observations from financial institutions; information regarding any transactions or offers with respect to the security; the existence of merger proposals or tender offers affecting the security; the price and extent of public trading in similar securities of the issuer or comparable companies; and the existence of a shelf registration for restricted securities.

For each portfolio security that has been fair valued pursuant to the policies adopted by the Board of Directors, the fair value price is compared against the last available and next available market quotations. The Valuation Committee reviews the results of such back testing monthly and fair valuation occurrences are reported to the Board of Directors quarterly.

The Fund uses valuation techniques to measure fair value that are consistent with the market approach and/or income approach, depending on the type of security and the particular circumstance. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable securities. The income approach uses valuation techniques to discount estimated future cash flows to present value.

GAAP establishes a disclosure hierarchy that categorizes the inputs to valuation techniques used to value assets and liabilities at measurement date. These inputs are summarized in the three broad levels listed below:

Level 1 quoted prices in active markets for identical investments

Notes to Schedule of Investments (unaudited) (continued)

Level 2 other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)

Level 3 significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)
The inputs or methodologies used to value securities are not necessarily an indication of the risk associated with investing in those securities.

The following is a summary of the inputs used in valuing the Fund's assets carried at fair value:

DESCRIPTION	ASSETS			TOTAL
	QUOTED PRICES (LEVEL 1)	OTHER SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)	
Long-term investments :				
Real Estate Investment Trust Common Stocks	\$ 138,871,233			\$ 138,871,233
Real Estate Investment Trust Preferred Stocks	33,248,483			33,248,483
Total Investments	\$ 172,119,716			\$ 172,119,716

See Schedule of Investments for additional detailed categorizations.

2. Investments

At March 31, 2016, the aggregate gross unrealized appreciation and depreciation of investments for federal income tax purposes were substantially as follows:

Gross unrealized appreciation	\$ 41,839,014
Gross unrealized depreciation	(3,198,216)
Net unrealized appreciation	\$ 38,640,798

3. Reorganization

On October 23, 2015, the Fund announced that the Fund's Board of Directors approved the conversion of the Fund from a closed-end fund to an open-end fund through a merger with and into ClearBridge Real Estate Opportunities Fund (CRO), a series of Legg Mason Funds Trust (LM Trust) (the Merger). LM Trust is newly organized and is registered as an open-end management investment company under the Investment Company Act of 1940, as amended. The Merger will require the approval of the Fund's stockholders. If approved by stockholders of the Fund, the Merger is anticipated to occur during the second quarter of 2016. If the Merger is consummated, stockholders of the Fund will become holders of Class O shares of CRO and will have the ability to redeem their shares at net asset value, subject to certain conditions including the imposition of a redemption fee of 1% for one year after the Merger.

The Fund and CRO have different investment objectives, but similar investment policies and strategies. The Fund's primary investment objective is high current income with capital appreciation as a secondary investment objective. CRO's primary investment objective is total return. CRO is expected to invest in a broader universe of real estate and real estate-related companies.

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As previously announced, Bulldog Investors, LLC (Bulldog) and the Fund have entered into a Settlement Agreement following a protracted proxy contest pursuant to which Bulldog has agreed to vote in favor of (i) the Merger, (ii) any routine management proposal, including a proposal relating to the election of directors or selection of auditors and (iii) the Board of Director s recommendation on any proposal submitted by a stockholder.

ITEM 2. CONTROLS AND PROCEDURES.

- (a) The registrant's principal executive officer and principal financial officer have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940, as amended (the "1940 Act")) are effective as of a date within 90 days of the filing date of this report that includes the disclosure required by this paragraph, based on their evaluation of the disclosure controls and procedures required by Rule 30a-3(b) under the 1940 Act and 15d-15(b) under the Securities Exchange Act of 1934.

- (b) There were no changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act) that occurred during the registrant's last fiscal quarter that have materially affected, or are likely to materially affect the registrant's internal control over financial reporting.

ITEM 3. EXHIBITS.

Certifications pursuant to Rule 30a-2(a) under the Investment Company Act of 1940, as amended, are attached hereto.

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.

LMP Real Estate Income Fund Inc.

By /s/ JANE TRUST
 Jane Trust
 Chief Executive Officer

Date: May 20, 2016

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/ JANE TRUST
 Jane Trust
 Chief Executive Officer

Date: May 20, 2016

By /s/ RICHARD F. SENNETT
 Richard F. Sennett
 Principal Financial Officer

Date: May 20, 2016