

LMP REAL ESTATE INCOME FUND INC.  
Form N-CSRS  
August 23, 2012

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)

620 Eight Avenue, 49th Floor, New York, NY  
(Address of principal executive offices)

10018  
(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: June 30, 2012

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ITEM 1.

REPORT TO STOCKHOLDERS.

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

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June 30, 2012

**Semi-Annual Report**

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

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**

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**Letter from the chairman**

**Dear Shareholder,**

## Edgar Filing: LMP REAL ESTATE INCOME FUND INC. - Form N-CSRS

We are pleased to provide the semi-annual report of LMP Real Estate Income Fund Inc. for the six-month reporting period ended June 30, 2012. Please read on for Fund performance information and a detailed look at prevailing economic and market conditions during the Fund's reporting period.

### Special shareholder notice

On August 13, 2012, the Fund announced that ClearBridge Advisors, LLC ( ClearBridge ) has been appointed subadvisor to the Fund, effective September 1, 2012. Pursuant to a new subadvisory agreement delegating to ClearBridge the investment advisory duties of the Fund's current investment manager, Legg Mason Partners Fund Advisor, LLC ( LMPFA ), ClearBridge will provide day-to-day portfolio management services to the Fund while LMPFA will continue to provide management and administrative services to the Fund and will supervise the Fund-related activities of ClearBridge.

It is not anticipated that this new arrangement will result in a reduction in the nature or quality of the services provided to the Fund. The current individuals providing portfolio management services will continue to manage and execute the Fund's investment program, which remains unchanged. The overall management fee paid by the Fund for investment management services will also remain unchanged.

As always, we remain committed to providing you with excellent service and a full spectrum of investment choices. We also remain committed to supplementing the support you receive from your financial advisor. One way we accomplish this is through our website, [www.lmcef.com](http://www.lmcef.com). Here you can gain immediate access to market and investment information, including:

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

We look forward to helping you meet your financial goals.

Sincerely,

R. Jay Gerken, CFA

Chairman, President and Chief Executive Officer

August 13, 2012

**Investment commentary****Economic review**

The U.S. economy continued to grow over the six months ended June 30, 2012, albeit at an uneven pace. Looking back, U.S. gross domestic product (GDP) growth, as reported by the U.S. Department of Commerce, was 4.1% in the fourth quarter of 2011. Economic growth in the U.S. then decelerated, as the Commerce Department reported that first quarter 2012 GDP growth was 2.0%. The preliminary estimate for GDP growth in the second quarter was 1.5%. Moderating growth was partially due to weaker consumer spending, which rose 1.5% in the second quarter, versus 2.4% during the first three months of the year.

Two factors constraining economic growth were the weak job market and continued troubles in the housing market. While there was some improvement during the reporting period, unemployment remained elevated. When the reporting period began, unemployment, as reported by the U.S. Department of Labor, was 8.5%. Unemployment then generally declined over the next four months and was 8.1% in April 2012, the lowest rate since January 2009. However, the unemployment rate then moved up to 8.2% in May and was unchanged in June. Within the housing market, sales are still a bit soft, though home prices appear to be firming. According to the National Association of Realtors (NAR), existing-home sales fluctuated throughout the period. Existing-home sales fell 5.4% on a seasonally adjusted basis in June 2012 versus the previous month. However, the NAR reported that the median existing-home price for all housing types was \$189,400 in June 2012, up 7.9% from June 2011. This marked the fourth consecutive month that home prices rose from a year earlier, the first such occurrence since February through May 2006. In addition, the inventory of unsold homes fell 3.2% in June versus the previous month.

The manufacturing sector, a relative pillar of strength since the end of the Great Recession, weakened during the reporting period. Based on the Institute for Supply Management's PMI (PMI)ii, in December 2011 it had a reading of 53.9 (a reading below 50 indicates a contraction, whereas a reading above 50 indicates an expansion). Activity in the manufacturing sector fluctuated during the first half of the period and was 54.8 in April, its highest reading since June 2011. The PMI then dipped to 53.5 in May 2012 and fell to 49.7 in June. The latter represented the first contraction in the manufacturing sector since July 2009. In addition, whereas thirteen of the eighteen industries in the PMI grew in May, only seven expanded in June.

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**Investment commentary (cont d)**

**Market review**

**Q. How did the Federal Reserve Board ( Fed )<sup>iii</sup> respond to the economic environment?**

A. The Fed took a number of actions as it sought to meet its dual mandate of fostering maximum employment and price stability. Looking back, in September 2011, the Fed announced its intention to purchase \$400 billion of longer-term Treasury securities and to sell an equal amount of shorter-term Treasury securities by June 2012 (often referred to as Operation Twist ). In January 2012, the Fed extended the period it expects to keep the federal funds rate<sup>iv</sup> at a historically low range between zero and 0.25%, saying economic conditions including low rates of resource utilization and a subdued outlook for inflation over the medium run are likely to warrant exceptionally low levels for the federal funds rate at least through late 2014. In June, the Fed announced that it would extend Operation Twist until the end of 2012 and that it was prepared to take further action as appropriate to promote a stronger economic recovery and sustained improvement in labor market conditions in a context of price stability.

**Q. What factors impacted the U.S. stock market during the reporting period?**

A. After a strong start, the U.S. stock market gave back a portion of its gains in the second half of the reporting period. Investor risk appetite was generally robust over the first half of the period due to some better-than-expected economic data and signs of progress in Europe. However, fears related to the European sovereign debt crisis caused the market to modestly weaken in April. The sell-off escalated in May, given renewed fears of contagion from Europe and some disappointing economic data in the U.S. The market then rallied in June, given some positive developments in the Eurozone, as well as increased expectations for a third round of quantitative easing by the Fed. All told, for the six months ended June 30, 2012, the S&P 500 Index<sup>v</sup> returned 9.49%.

Looking at the U.S. stock market more closely, large-cap stocks generated the best returns during the six months ended June 30, 2012, with the large-cap Russell 1000 Index<sup>vi</sup> returning 9.38%. In contrast, the Russell Midcap Index<sup>vii</sup> and the small-cap Russell 2000 Index<sup>viii</sup> returned 7.97% and 8.53%, respectively. From an investment style perspective, growth and value stocks, as measured by the Russell 3000 Growth<sup>ix</sup> and Russell 3000 Value<sup>x</sup> Indices, returned 9.98% and 8.64%, respectively.

**Performance review**

For the six months ended June 30, 2012, LMP Real Estate Income Fund Inc. returned 13.81% based on its net asset value ( NAV )<sup>xi</sup> and 16.46% based on its New York Stock Exchange ( NYSE ) market price per share. The Fund's unmanaged benchmark, the MSCI U.S. REIT Index<sup>xii</sup>, returned 14.88% for the same period. The Lipper Real Estate Closed-End Funds Category Average<sup>xiii</sup> returned 14.86% over the same time



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frame. Please note that Lipper performance returns are based on each fund's NAV.

During this six-month period, the Fund made distributions to shareholders totaling \$0.36 per share, which may have included a return of capital. The performance table shows the Fund's six-month total return based on its

NAV and market price as of June 30, 2012. **Past performance is no guarantee of future results.**

### Performance Snapshot

as of June 30, 2012 (unaudited)

Price Per Share	6-Month Total Return*
\$11.80 (NAV)	13.81%
\$10.40 (Market Price)	16.46%

**All figures represent past performance and are not a guarantee of future results. Performance figures for periods shorter than one year represent cumulative figures and are not annualized.**

\* Total returns are based on changes in NAV or market price, respectively.

**Total return assumes the reinvestment of all distributions, including returns of capital, if any, at NAV. Prior to January 1, 2012, total return assumed the reinvestment of all distributions in additional shares in accordance with the Fund's Dividend Reinvestment Plan.**

**Total return assumes the reinvestment of all distributions, including returns of capital, if any, in additional shares in accordance with the Fund's Dividend Reinvestment Plan.**

### 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.lmcef.com](http://www.lmcef.com).

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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 Time, for the Fund's current NAV, market price and other information.

As always, thank you for your confidence in our stewardship of your assets.

Sincerely,

R. Jay Gerken, CFA

Chairman, President and Chief Executive Officer

July 27, 2012

*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. Leverage may result in greater volatility of NAV and the market price of common shares and increases a shareholder's risk of loss. 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 investments are subject to risk including the possible loss of principal. Past performance is no guarantee of future results. All index performance reflects no deduction for fees, expenses or taxes. Please note that an investor cannot invest directly in an index.

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.

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**Investment commentary (cont d)**

- 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 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.
- iv 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.
- v 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.
- vi 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.
- vii 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.
- viii 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.
- ix 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.)
- x 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.
- xi 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.
- xii 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.
- xiii Lipper, Inc., a wholly-owned subsidiary of Reuters, provides independent insight on global collective investments. Returns are based on the six-month period ended June 30, 2012, including the reinvestment of all distributions, including returns of capital, if any, calculated among the 11 funds in the Fund 's Lipper category.

**Fund at a glance (unaudited)**

**Investment breakdown (%) as a percent of total investments**

The bar graph above represents the composition of the Fund's investments as of June 30, 2012 and December 31, 2011. The Fund is actively managed. As a result, the composition of the Fund's investments is subject to change at any time.

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**Schedule of investments (unaudited)**

June 30, 2012

**LMP Real Estate Income Fund Inc.**

	<b>Shares</b>	<b>Value</b>
<b>Security</b>		
<b>Common Stocks 85.0%</b>		
<b>Apartments 3.6%</b>		
Apartment Investment and Management Co., Class A Shares	63,000	\$ 1,702,890
Campus Crest Communities Inc.	308,220	3,202,406(a)
<b>Total Apartments</b>		<b>4,905,296</b>
<b>Diversified 14.5%</b>		
Digital Realty Trust Inc.	45,000	3,378,150(a)
Dundee Real Estate Investment Trust	125,000	4,688,881
Entertainment Properties Trust	112,000	4,604,320(a)
Liberty Property Trust	176,000	6,483,840(a)
Retail Properties of America Inc., Class A Shares	37,500	364,500
<b>Total Diversified</b>		<b>19,519,691</b>
<b>Health Care 15.7%</b>		
HCP Inc.	119,800	5,289,170(a)
Health Care REIT Inc.	83,000	4,838,900(a)
OMEGA Healthcare Investors Inc.	300,000	6,750,000(a)
Senior Housing Properties Trust	190,000	4,240,800(a)
<b>Total Health Care</b>		<b>21,118,870</b>
<b>Industrial 6.2%</b>		
DCT Industrial Trust Inc.	557,830	3,514,329(a)
First Potomac Realty Trust	410,000	4,825,700(a)
<b>Total Industrial</b>		<b>8,340,029</b>
<b>Lodging/Resorts 3.0%</b>		
Hospitality Properties Trust	166,000	4,111,820(a)
<b>Mortgage 5.3%</b>		
Annaly Capital Management Inc.	210,000	3,523,800
Starwood Property Trust Inc.	168,000	3,580,080
<b>Total Mortgage</b>		<b>7,103,880</b>
<b>Office 11.7%</b>		
BioMed Realty Trust Inc.	130,000	2,428,400(a)
Commonwealth REIT	100,000	1,912,000(a)
Highwoods Properties Inc.	82,000	2,759,300(a)
Kilroy Realty Corp.	106,700	5,165,347(a)
Mack-Cali Realty Corp.	120,000	3,488,400(a)
<b>Total Office</b>		<b>15,753,447</b>
<b>Regional Malls 5.5%</b>		
Macerich Co.	125,000	7,381,250(a)
<b>Shopping Centers 19.5%</b>		
Excel Trust Inc.	192,000	2,296,320(a)
Inland Real Estate Corp.	480,000	4,022,400(a)

See Notes to Financial Statements.

**LMP Real Estate Income Fund Inc.**

		<b>Shares</b>	<b>Value</b>
<b>Security</b>			
<i>Shopping Centers continued</i>			
Kite Realty Group Trust		264,000	\$ 1,317,360
Primaris Retail Real Estate Investment Trust		196,000	4,535,665(a)
Ramco-Gershenson Properties Trust		247,620	3,112,583(a)
Regency Centers Corp.		85,000	4,043,450(a)
Urstadt Biddle Properties, Class A Shares		33,000	652,410
Westfield Group		650,000	6,332,743(b)
<b>Total Shopping Centers</b>			<b>26,312,931</b>
<b>Total Common Stocks (Cost \$87,964,414)</b>			<b>114,547,214</b>
	<b>Rate</b>		
<b>Preferred Stocks 37.7%</b>			
<i>Apartments 2.7%</i>			
Apartment Investment & Management Co.	7.000%	135,000	3,551,850
<i>Diversified 5.0%</i>			
Digital Realty Trust Inc., Cumulative, Series F	6.625%	70,000	1,812,300
DuPont Fabros Technology Inc., Cumulative, Series B	7.625%	68,000	1,766,640
LBA Realty Fund LP, Cumulative Redeemable	8.750%	90,000	3,164,067*
<b>Total Diversified</b>			<b>6,743,007</b>
<i>Lodging/Resorts 11.1%</i>			
Ashford Hospitality Trust, Series E	9.000%	97,000	2,546,250(a)
Hersha Hospitality Trust	8.000%	102,000	2,595,900
LaSalle Hotel Properties, Series H	7.500%	26,266	675,562
Pebblebrook Hotel Trust, Series A	7.875%	101,000	2,613,880
Strategic Hotels Capital Inc., Series B	8.250%	94,300	2,251,177(a)
Sunstone Hotel Investors Inc., Cumulative Redeemable, Series A	8.000%	103,900	2,591,006(a)
Sunstone Hotel Investors Inc.	8.000%	67,325	1,709,718
<b>Total Lodging/Resorts</b>			<b>14,983,493</b>
<i>Office 1.2%</i>			
Corporate Office Properties Trust	7.375%	65,000	1,640,600*
<i>Regional Malls 3.7%</i>			
CBL & Associates Properties Inc., Series D	7.375%	60,000	1,533,000(a)
Glimcher Realty Trust, Series G	8.125%	137,000	3,457,880
<b>Total Regional Malls</b>			<b>4,990,880</b>
<i>Retail - Free Standing 2.5%</i>			
National Retail Properties Inc.	6.625%	85,000	2,210,000
Realty Income Corp., Cumulative, Series F	6.625%	44,070	1,189,890
<b>Total Retail - Free Standing</b>			<b>3,399,890</b>

See Notes to Financial Statements.



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**Schedule of investments (unaudited) (cont d)**

June 30, 2012

**LMP Real Estate Income Fund Inc.**

<b>Security</b>	<b>Rate</b>	<b>Shares</b>	<b>Value</b>
<b><i>Shopping Centers 10.2%</i></b>			
Cedar Shopping Centers Inc., Cumulative Redeemable, Series A	8.875%	94,374	\$ 2,401,818(a)
Excel Trust Inc.	8.125%	67,000	1,700,460
Kite Realty Group Trust, Series A	8.250%	134,019	3,417,485(a)
Urstadt Biddle Properties Inc., Cumulative, Series C	8.500%	59,900	6,261,347
<b><i>Total Shopping Centers</i></b>			<b><i>13,781,110</i></b>
<b><i>Storage 1.3%</i></b>			
CubeSmart, Cumulative, Series A	7.750%	66,000	<b><i>1,736,460</i></b>
<b>Total Preferred Stocks (Cost \$48,810,310)</b>			<b>50,827,290</b>