

LMP REAL ESTATE INCOME FUND INC.  
Form N-CSRS/A  
October 03, 2007

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)

125 Broad Street, New York, NY  
(Address of principal executive offices)

10004  
(Zip code)

Robert I. Frenkel, Esq.  
Legg Mason & Co., LLC  
300 First Stamford Place, 4<sup>th</sup> Floor  
Stamford, CT 06902  
(Name and address of agent for service)

Registrant's telephone number, including area code: (800) 451-2010

Date of fiscal year end: December 31

Date of reporting period: June 30, 2007

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ITEM 1.

REPORT TO STOCKHOLDERS.

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

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

**SEMI-ANNUAL  
REPORT**

JUNE 30, 2007

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

**LMP Real Estate Income Fund Inc.**

Semi-Annual Report June 30,  
2007

**What's  
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The Fund's primary investment objective is high current income and the Fund's secondary investment objective is capital appreciation.	19
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**Letter from the Chairman**

Dear Shareholder,

The U.S. economy weakened during the six-month reporting period ended June 30, 2007. U.S. gross domestic product (GDP) expanded 2.5% in the fourth quarter of 2006. In the first quarter of 2007, GDP growth was a tepid 0.6%, according to the U.S. Commerce Department. This is the lowest growth rate since the fourth quarter of 2002. While consumer spending remained fairly solid, ongoing troubles in the housing market continued to negatively impact the economy. The advance estimate for second quarter 2007 GDP growth was a solid 3.4%, its fastest rate since the first quarter of 2006. While consumer spending slowed, this was offset by a sharp increase in business spending and exports.

**R. JAY GERKEN, CFA**  
Chairman, President and  
Chief Executive Officer

After increasing the federal funds rate<sup>ii</sup> to 5.25% in June 2006 the 17th consecutive rate hike the Federal Reserve Board (Fed<sup>ii</sup>) held rates steady at its last eight meetings. In its statement accompanying the June 2007 meeting, the Fed stated: "The economy seems likely to continue to expand at a moderate pace over coming quarters.... Readings on core inflation have improved modestly in recent months. However, a sustained moderation in inflation pressures has yet to be convincingly demonstrated.... In these circumstances, the Committee's predominant policy concern remains the risk that inflation will fail to moderate as expected."

Despite concerns regarding the economy and increased volatility in the financial markets, stock prices generally rose during the six-month reporting period. Stocks began the year on a positive note, as the S&P 500 Index<sup>iv</sup> hit a six-year high in January 2007. Stock prices rose on the back of optimism for continued solid corporate profits and hopes for a soft economic landing. The U.S. stock market's ascent continued during much of February 2007, before a sharp decline at the end of the month. This was, in part, triggered by an 8.8% fall in China's stock market on February 28th, its worst one-day

LMP Real Estate Income Fund Inc. I

performance in 10 years. After a modest increase in March 2007, U.S. stock prices rallied in April and May, thanks, in part, to surprisingly strong first quarter corporate profits. Stocks then gave up some ground in June due to continued weakness in the housing market, troubles in the subprime mortgage market and expectations that the Fed would not lower short-term interest rates in 2007. All told, the S&P 500 Index returned 6.96% during the six months ended June 30, 2007.

Looking at the U.S. stock market more closely, mid-cap stocks outperformed their large- and small-cap counterparts, as the Russell Midcap<sup>v</sup>, Russell 1000<sup>vi</sup>, and Russell 2000<sup>vii</sup> Indexes returned 9.90%, 7.18% and 6.45%, respectively, for the six months ended June 30, 2007. From an investment style perspective, growth stocks outperformed value stocks, with the Russell 3000 Growth<sup>viii</sup> and Russell 3000 Value<sup>ix</sup> Indexes returning 8.22% and 6.01%, respectively.

Since the close of the reporting period, the U.S. fixed-income markets have experienced a period of extreme volatility which has negatively impacted market liquidity conditions. Initially, the concern on the part of market participants was limited to the subprime segment of the mortgage-backed market. However, these concerns have since broadened to include a wide range of financial institutions and markets. As a result, other fixed income instruments have experienced increased price volatility.

#### **Performance Review**

For the six months ended June 30, 2007, the LMP Real Estate Income Fund Inc. returned -7.93% based on its net asset value ( NAV and 3.93% based on its New York Stock Exchange ( NYSE ) market price per share. In comparison, the Lipper Real Estate Closed-End Funds Category Average<sup>xi</sup> decreased 4.80% over the reporting period. Please note that Lipper performance returns are based on each fund 's NAV per share.

During this six-month period, the Fund made distributions to shareholders totaling \$0.98 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, 2007. **Past performance is no guarantee of future results.**

**Performance Snapshot as of June 30, 2007 (unaudited)**

<b>Price Per Share</b>	<b>Six-Month Total Return</b>
\$21.65 (NAV)	-7.93%
\$21.56 (Market Price)	3.93%

**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, including returns of capital, if any, in additional shares.

**Information About Your Fund**

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.

Prior to October 9, 2006, the Fund was known as Real Estate Income Fund Inc.

**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/InvestorServices](http://www.leggmason.com/InvestorServices).

In a continuing effort to provide information concerning the Fund, shareholders may call 1-888-777-0102 (toll free), Monday through Friday from 8:00 a.m. to 6:00 p.m. Eastern 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. We look forward to helping you meet your financial goals.

Sincerely,

R. Jay Gerken, CFA  
Chairman, President and Chief Executive Officer

*July 27, 2007*

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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.

**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 investment in more broadly diversified funds.

All index performance reflects no deduction for fees, expenses or taxes. Please note that an investor cannot invest directly in an index.

- i Gross domestic product ( GDP ) is the market value of all final goods and services produced within a country in a given period of time.
- ii The federal 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.
- 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 S&P 500 Index is an unmanaged index of 500 stocks that is generally representative of the performance of larger companies in the U.S.
- v 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.
- 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.
- vii The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index.
- viii The Russell 3000 Growth Index measures the performance of those Russell 3000 Index companies with higher price-to-book ratios and higher forecasted growth values. (A price-to-book ratio is the price of a stock compared to the difference between a company's assets and liabilities.)
- ix The Russell 3000 Value Index measures the performance of those Russell 3000 Index companies with lower price-to-book ratios and lower forecasted growth values.
- x NAV is calculated by subtracting total liabilities and outstanding preferred stock 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 at the Fund's market price, as determined by supply of and demand for the Fund's shares.
- xi Lipper, Inc. is a major independent mutual-fund tracking organization. Returns are based on the six-month period ended June 30, 2007, including the reinvestment of all distributions, including returns of capital, if any, calculated among the 24 funds in the Fund's Lipper category.

IV LMP Real Estate Income Fund Inc.



**Fund at a Glance (unaudited)**

**Investment Breakdown**

**As a Percent of Total Investments**





## Schedule of Investments (June 30, 2007) (unaudited)

## LMP REAL ESTATE INCOME FUND INC.

Shares	Security	Value
<b>COMMON STOCKS 70.7%</b>		
<b>Apartments 8.1%</b>		
50,000	Archstone-Smith Trust	\$ 2,955,500
224,000	Camden Property Trust (a)	15,001,280
100,000	Mid-America Apartment Communities Inc.	5,248,000
140,000	UDR Inc.	3,682,000
	<b>Total Apartments</b>	<b>26,886,780</b>
<b>Diversified 5.9%</b>		
300,000	iStar Financial Inc.	13,299,000
190,000	Lexington Corporate Properties Trust	3,952,000
155,000	Spirit Finance Corp.	2,256,800
	<b>Total Diversified</b>	<b>19,507,800</b>
<b>Health Care 11.5%</b>		
174,000	Health Care Property Investors Inc.	5,033,820
305,000	Healthcare Realty Trust Inc.	8,472,900
130,000	Nationwide Health Properties Inc.	3,536,000
340,000	OMEGA Healthcare Investors Inc.	5,382,200
511,700	Senior Housing Properties Trust	10,413,095
150,000	Ventas Inc.	5,437,500
	<b>Total Health Care</b>	<b>38,275,515</b>
<b>Home Financing 0.8%</b>		
108,500	Municipal Mortgage & Equity LLC	2,645,230
<b>Industrial 2.8%</b>		
118,700	EastGroup Properties Inc.	5,201,434
185,000	First Potomac Realty Trust	4,308,650
	<b>Total Industrial</b>	<b>9,510,084</b>
<b>Industrial/Office - Mixed 3.1%</b>		
235,000	Liberty Property Trust	10,323,550
<b>Lodging/Resorts 3.4%</b>		
445,000	Ashford Hospitality Trust	5,233,200
146,000	Hospitality Properties Trust	6,057,540
	<b>Total Lodging/Resorts</b>	<b>11,290,740</b>

See Notes to Financial Statements.

## Schedule of Investments (June 30, 2007) (unaudited) (continued)

	Shares	Security	Value
<b>Office</b>	<b>14.7%</b>		
	290,000	Brandywine Realty Trust	\$ 8,288,200
	224,700	Highwoods Properties Inc.	8,426,250
	873,700	HRPT Properties Trust	9,086,480
	135,000	Kilroy Realty Corp.	9,563,400
	165,400	Mack-Cali Realty Corp.	7,193,246
	134,500	Parkway Properties Inc.	6,460,035
		<b>Total Office</b>	<b>49,017,611</b>
<b>Regional Malls</b>	<b>5.1%</b>		
	196,000	Glimcher Realty Trust	4,900,000
	145,000	Macerich Co.	11,950,900
		<b>Total Regional Malls</b>	<b>16,850,900</b>
<b>Retail Free Standing</b>	<b>3.5%</b>		
	225,000	National Retail Properties Inc.	4,918,500
	265,000	Realty Income Corp.	6,675,350
		<b>Total Retail Free Standing</b>	<b>11,593,850</b>
<b>Self Storage</b>	<b>1.2%</b>		
	250,000	Extra Space Storage Inc.	4,125,000
<b>Shopping Centers</b>	<b>7.6%</b>		
	410,000	Cedar Shopping Centers Inc.	5,883,500
	22,000	Developers Diversified Realty Corp.	1,159,620
	198,000	Equity One Inc.	5,058,900
	250,000	Primaris Retail Real Estate Investment Trust	4,581,355
	135,000	Ramco-Gershenson Properties Trust	4,850,550
	104,000	Tanger Factory Outlet Centers Inc.	3,894,800
		<b>Total Shopping Centers</b>	<b>25,428,725</b>
<b>Specialty</b>	<b>3.0%</b>		
	185,000	Entertainment Properties Trust	9,949,300
		<b>TOTAL COMMON STOCKS</b>	
		(Cost \$153,019,694)	<b>235,405,085</b>

See Notes to Financial Statements.

## Schedule of Investments (June 30, 2007) (unaudited) (continued)

Shares	Security	Value
<b>PREFERRED STOCKS 29.1%</b>		
<b>Apartments 4.6%</b>		
75,000	Apartment Investment & Management Co.:	
113,000	Cumulative, Series G, 9.375%	\$ 1,916,250
120,000	Cumulative, Series U, 7.750%	2,892,800
195,000	Cumulative, Series Y, 7.875%	3,043,200
105,000	BRE Properties Inc., Series C, 6.750%	4,709,250
	UDR Inc., 6.750%	2,586,150
	<b>Total Apartments</b>	<b>15,147,650</b>
<b>Diversified 8.3%</b>		
109,400	Crescent Real Estate Equities Co., Cumulative Redeemable, Series B, 9.500%	2,773,290
175,000	Duke Realty Corp., 6.950%	4,418,750
90,000	LBA Realty Fund LP (b)	4,185,000
	PS Business Parks Inc.:	
115,000	Cumulative Redeemable, Series O, 7.375%	2,921,000
108,400	Series M, 7.200%	2,734,932
150,000	Public Storage Inc., Cumulative Redeemable, Series L, 6.750%	3,669,000
	Vornado Realty Trust,	
150,000	Cumulative Redeemable, Series G, 6.625%	3,552,000
142,400	Series H, 6.750%	3,457,472
	<b>Total Diversified</b>	<b>27,711,444</b>
<b>Health Care 2.1%</b>		
150,000	Health Care Property Investors Inc., Cumulative Redeemable, Series F, 7.100%	3,750,000
120,400	OMEGA Healthcare Investors Inc., Cumulative Redeemable, Series D, 8.375%	3,107,524
	<b>Total Health Care</b>	<b>6,857,524</b>
<b>Lodging/Resorts 2.8%</b>		
71,100	Hospitality Properties Trust, Cumulative Redeemable, Series B, 8.875%	1,785,321
48,000	LaSalle Hotel Properties, Cumulative Redeemable, Series G, 7.250%	1,147,502
160,000	Strategic Hotels Capital Inc., 8.250%	4,015,008
	Sunstone Hotel Investors Inc., Cumulative Redeemable, Series A, 8.000%	2,518,146
100,100		9,465,977
	<b>Total Lodging/Resorts</b>	<b>9,465,977</b>
<b>Office 3.7%</b>		
196,000	BioMed Realty Trust Inc., Series A, 7.375%	4,900,000
50,000	Brandywine Realty Trust, Series D, 7.375%	1,287,500
	Corporate Office Properties Trust, Cumulative Redeemable, Series J, 7.625%	2,773,100
110,000		3,313,322
130,600	HRPT Properties Trust, Cumulative Redeemable, Series B, 8.750%	12,273,922
	<b>Total Office</b>	<b>12,273,922</b>

See Notes to Financial Statements.

Schedule of Investments (June 30, 2007) (unaudited) (continued)

Shares	Security	Value
<b>Regional Malls 2.5%</b>		
85,000	Glimcher Realty Trust, Cumulative Redeemable, Series F, 8.750%	\$ 2,159,000
6,000	Pennsylvania Real Estate Investment Trust, Cumulative, 11.000%	316,320
32,700	Simon Property Group Inc., Cumulative, Series C, 7.890%	1,650,330
169,600	Taubman Centers Inc., Cumulative Redeemable, Series H, 7.625%	4,266,508
	<b>Total Regional Malls</b>	<b>8,392,158</b>
<b>Retail Free Standing 1.5%</b>		
96,000	National Retail Properties Inc., Cumulative Redeemable, Series C, 7.375%	2,403,005
25,200	Realty Income Corp.: Cumulative Redeemable, Series D, 7.375%	641,340
80,000	Cumulative Redeemable, Series E, 6.750%	1,990,400
	<b>Total Retail Free Standing</b>	<b>5,034,745</b>
<b>Shopping Centers 3.6%</b>		
73,000	Cedar Shopping Centers Inc., Cumulative Redeemable, Series A, 8.875%	1,908,220
21,200	Developers Diversified Realty Corp., Cumulative Redeemable, Class G, 8.000%	536,148
34,800	Ramco-Gershenson Properties Trust, Cumulative Redeemable, Series B, 9.500%	879,048
80,000	Urstadt Biddle Properties Inc., Cumulative, Series C, 8.500%	8,800,000
	<b>Total Shopping Centers</b>	<b>12,123,416</b>
	<b>TOTAL PREFERRED STOCKS</b>	
	(Cost \$96,581,760)	<b>97,006,836</b>
	<b>TOTAL INVESTMENTS BEFORE SHORT-TERM INVESTMENT</b>	
	(Cost \$249,601,454)	<b>332,411,921</b>
<b>Face Amount</b>		
<b>SHORT-TERM INVESTMENT 0.2%</b>		
<b>Repurchase Agreement 0.2%</b>		
\$ 639,000	Interest in \$500,144,000 joint tri-party repurchase agreement dated 6/29/07 with Greenwich Capital Markets Inc., 5.340% due 7/2/07; Proceeds at maturity \$639,284; (Fully collateralized by various U.S. government agency obligations, 4.500% to 7.500% due 3/1/17 to 7/1/47; Market value \$651,783) (Cost \$639,000) (a)	<b>639,000</b>
	<b>TOTAL INVESTMENTS 100.0%</b> (Cost \$250,240,454#) \$	<b>333,050,921</b>

(a) All or a portion of this security is segregated for swap contracts.

(b) 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 substantially the same.

See Notes to Financial Statements.





**Statement of Assets and Liabilities (June 30, 2007) (unaudited)****ASSETS:**

Investments, at value (Cost \$250,240,454)	\$	333,050,921
Cash		452
Unrealized appreciation on swaps		1,860,597
Dividends and interest receivable		1,545,118
Interest receivable for open swap contracts		80,243
Prepaid expenses		10,706
<b>Total Assets</b>		<b>336,548,037</b>

**LIABILITIES:**

Distributions payable		411,782
Investment management fee payable		165,406
Distributions payable to auction rate preferred stockholders		66,665
Interest payable for open swap contracts		62,425
Directors' fees payable		1,510
Accrued expenses		101,988
<b>Total Liabilities</b>		<b>809,776</b>

**Series M Taxable Auction Rate Cumulative Preferred Stock**

<b>(3,800 shares authorized and issued at \$25,000 per share) (Note 4)</b>		<b>95,000,000</b>
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<b>Total Net Assets</b>	\$	<b>240,738,261</b>
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**NET ASSETS:**

Par value (\$0.001 par value; 11,121,241 common stock shares issued and outstanding; 100,000,000 common stock shares authorized)	\$	11,121
Paid-in capital in excess of par value		152,477,479
Overdistributed net investment income		(5,564,638)
Accumulated net realized gain on investments, swap contracts and foreign currency transactions		9,143,086
Net unrealized appreciation on investments, swap contracts and foreign currencies		84,671,213
<b>Total Net Assets</b>	\$	<b>240,738,261</b>
<b>Shares Outstanding</b>		<b>11,121,241</b>
<b>Net Asset Value</b>		<b>\$21.65</b>

See Notes to Financial Statements.

**Statement of Operations (For the six months ended June 30, 2007) (unaudited)**

<b>INVESTMENT INCOME:</b>		
Dividends	\$	8,395,042
Interest		54,778
Less: Foreign taxes withheld		(22,823)
<b>Total Investment Income</b>		<b>8,426,997</b>
<b>EXPENSES:</b>		
Investment management fee (Note 2)		1,627,804
Auction participation fees (Note 4)		117,909
Audit and tax		44,018
Shareholder reports		40,473
Directors' fees		35,457
Legal fees		19,209
Stock exchange listing fees		11,243
Transfer agent fees		8,782
Rating agency fees		5,653
Custody fees		4,592
Insurance		4,083
Miscellaneous expenses		8,042
<b>Total Expenses</b>		<b>1,927,265</b>
Less: Fee waivers and/or expense reimbursements (Note 2)		(578,775)
<b>Net Expenses</b>		<b>1,348,490</b>
<b>Net Investment Income</b>		<b>7,078,507</b>
<b>REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS, SWAP CONTRACTS AND FOREIGN CURRENCY TRANSACTIONS (NOTES 1 AND 3):</b>		
Net Realized Gain From:		
Investment transactions		5,077,239
REIT Distributions		1,874,262
Swap contracts		469,935
Foreign currency transactions		679
<b>Net Realized Gain</b>		<b>7,422,115</b>
Change in Net Unrealized Appreciation/Depreciation From:		
Investments		(33,515,730)
Swap contracts		274,722
Foreign currencies		149
<b>Change in Net Unrealized Appreciation/Depreciation</b>		<b>(33,240,859)</b>
<b>Net Loss on Investments, Swap Contracts and Foreign Currency Transactions</b>		<b>(25,818,744)</b>
<b>Distributions Paid to Auction Rate Preferred Stockholders From Net Investment Income</b>		<b>(2,438,519)</b>
<b>Decrease in Net Assets From Operations</b>		<b>\$(21,178,756)</b>

See Notes to Financial Statements.

**Statements of Changes in Net Assets**

**For the six months ended June 30, 2007 (unaudited)  
and the year ended December 31, 2006**

	<b>2007</b>		<b>2006</b>
<b>OPERATIONS:</b>			
Net investment income	\$ 7,078,507	\$	10,987,855
Net realized gain	7,422,115		22,421,164
Change in net unrealized appreciation/depreciation	(33,240,859)		43,074,147
Distributions paid to auction rate preferred stockholders from net investment income	(2,438,519)		(4,702,386)
<b>Increase (Decrease) in Net Assets From Operations</b>	<b>(21,178,756)</b>		<b>71,780,780</b>
<b>DISTRIBUTIONS PAID TO COMMON STOCK SHAREHOLDERS FROM (NOTE 1):</b>			
Net investment income	(10,844,863)		(10,187,457)
Net realized gains			(17,887,463)
<b>Decrease in Net Assets From Distributions to Common Stock Shareholders</b>	<b>(10,844,863)</b>		<b>(28,074,920)</b>
<b>FUND SHARE TRANSACTIONS:</b>			
Proceeds from shares issued on reinvestment of distributions (51,999 shares issued)	1,219,240		
<b>Increase in Net Assets From Fund Share Transactions</b>	<b>1,219,240</b>		
<b>Increase (Decrease) in Net Assets</b>	<b>(30,804,379)</b>		<b>43,705,860</b>
<b>NET ASSETS:</b>			
Beginning of period	271,542,640		227,836,780
<b>End of period*</b>	<b>\$ 240,738,261</b>	<b>\$</b>	<b>271,542,640</b>
*Includes undistributed (overdistributed) net investment income of:	\$(5,564,638)		\$640,237

**See Notes to Financial Statements.**

**Financial Highlights**

*For a share of capital stock outstanding throughout each year ended December 31, unless otherwise noted:*

	<b>2007<sup>(1)(2)</sup></b>	<b>2006<sup>(2)</sup></b>	<b>2005<sup>(2)</sup></b>	<b>2004<sup>(2)</sup></b>	<b>2003</b>	<b>2002<sup>(3)</sup></b>
<b>Net Asset Value, Beginning of Period</b>	\$24.53	\$20.58	\$21.05	\$18.21	\$13.95	\$14.30
<b>Income (Loss) From Operations:</b>						
Net investment income	0.64	0.99	0.89	0.94	1.04	0.38
Net realized and unrealized gain (loss)	(2.32)	5.92	0.63	3.30	4.96	(0.18)
Distributions paid to auction rate preferred stockholders from net investment income	(0.22)	(0.42)	(0.24)	(0.09)	(0.08)	(0.03)
<b>Total Income (Loss) From Operations</b>	<b>(1.90)</b>	<b>6.49</b>	<b>1.28</b>	<b>4.15</b>	<b>5.92</b>	<b>0.17</b>
<b>Underwriting Commissions and Offering Expenses for the Issuance of Taxable Auction Rate Cumulative Preferred Stock</b>						
<b>Less Distributions Paid to Common Stock Shareholders From:</b>						
Net investment income	(0.98)	(0.92)	(0.77)	(0.75)	(0.80)	(0.31)
Net realized gains		(1.62)	(0.94)	(0.32)	(0.62)	(0.07)
Return of capital				(0.24)	(0.24)	(0.05)
<b>Total Distributions</b>	<b>(0.98)</b>	<b>(2.54)</b>	<b>(1.71)</b>	<b>(1.31)</b>	<b>(1.66)</b>	<b>(0.43)</b>
<b>Net Asset Value, End of Period</b>	<b>\$21.65</b>	<b>\$24.53</b>	<b>\$20.58</b>	<b>\$21.05</b>	<b>\$18.21</b>	<b>\$13.95</b>
<b>Market Price, End of Period</b>	<b>\$21.56</b>	<b>\$21.64</b>	<b>\$18.62</b>	<b>\$18.47</b>	<b>\$17.57</b>	<b>\$14.01</b>
<b>Total Return, Based on Net Asset Value<sup>(5)(6)</sup></b>	<b>(7.93)%</b>	<b>34.39%</b>	<b>7.35%</b>	<b>24.75%</b>	<b>45.12%</b>	<b>0.69%</b>
<b>Total Return, Based on Market Price<sup>(6)</sup></b>	<b>3.93%</b>	<b>31.04%</b>	<b>10.69%</b>	<b>13.45%</b>	<b>39.42%</b>	<b>(3.59)%</b>
<b>Net Assets, End of Period (millions)</b>	<b>\$241</b>	<b>\$272</b>	<b>\$228</b>	<b>\$233</b>	<b>\$202</b>	<b>\$150</b>
<b>Ratios to Average Net Assets:<sup>(7)</sup></b>						
Gross expenses	1.44%(8)	1.57%(9)	1.49%	1.44%	1.55%	1.55%(8)
Net expenses <sup>(10)</sup>	1.01(8)	1.09(9)	1.06	1.02	1.11	1.11(8)
Net investment income	5.29(8)	4.31	4.27	5.00	6.60	6.66(8)
<b>Portfolio Turnover Rate</b>	<b>5%</b>	<b>18%</b>	<b>12%</b>	<b>6%</b>	<b>27%</b>	<b>13%</b>
<b>Auction Rate Preferred Stock:<sup>(11)</sup></b>						
Total Amount Outstanding (000s)	\$95,000	\$95,000	\$95,000	\$65,000	\$65,000	\$65,000
Asset Coverage Per Share	88,352	96,459	84,957	114,636	102,509	82,841
Involuntary Liquidating Preference Per Share <sup>(12)</sup>	25,000	25,000	25,000	25,000	25,000	25,000
Average Market Value Per Share <sup>(12)</sup>	25,000	25,000	25,000	25,000	25,000	25,000

**See Notes to Financial Statements.**

**Financial Highlights (continued)**

- (1) For the six months ended June 30, 2007 (unaudited).
- (2) Per share amounts have been calculated using the average shares method.
- (3) For the period July 31, 2002 (commencement of operations) to December 31, 2002.
- (4) Amount represents less than \$0.01 per share.
- (5) Performance figures may reflect fee waivers and/or expense reimbursements. In the absence of fee waivers and/or expense reimbursements, the total return would have been lower. Past performance is no guarantee of future results. Total returns for periods of less than one year are not annualized.
- (6) The total return calculation assumes that all distributions, are reinvested in accordance with the Fund's dividend reinvestment plan. Past performance is no guarantee of future results. Total returns for periods of less than one year are not annualized.
- (7) Calculated on the basis of average net assets of common stock shareholders. Ratios do not reflect the effect of dividend payments to preferred stockholders.
- (8) Annualized.
- (9) Included in the expense ratios are certain non-recurring restructuring (and reorganization, if applicable) fees that were incurred by the Fund during the period. Without these fees, the gross and net expense ratios would have been 1.49% and 1.05%, respectively.
- (10) Reflects fee waivers and/or expense reimbursements.
- (11) On September 30, 2002 and July 18, 2005, the Fund issued 2,600 and 1,200 shares, respectively, of Taxable Auction Rate Cumulative Preferred Stock at \$25,000 per share.
- (12) Excludes accrued interest or accumulated undeclared distributions.

**See Notes to Financial Statements.**

**Notes to Financial Statements (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 ). Estimates and assumptions are required to be made regarding assets, liabilities and changes in net assets resulting from operations when financial statements are prepared. Changes in the economic environment, financial markets and any other parameters used in determining these estimates could cause actual results to differ.

**(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. Debt securities are valued at the mean between the last quoted bid and asked prices provided by an independent pricing service that are based on transactions in debt obligations, quotations from bond dealers, market transactions in comparable securities and various other relationships between securities. When prices are not readily available,