

REAL ESTATE INCOME FUND INC
Form N-Q
May 31, 2005

**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**

Real Estate Income Fund Inc.

(Exact name of registrant as specified in charter)

125 Broad Street, New York, NY 10004
(Address of principal executive offices) (Zip code)

Robert I. Frenkel, Esq.
Smith Barney Fund Management LLC
300 First Stamford Place
Stamford, CT 06902
(Name and address of agent for service)

Registrant's telephone number, including area code: 1-800-451-2010

Date of fiscal year end: **December 31**
Date of reporting period: **March 31, 2005**

ITEM 1. SCHEDULE OF INVESTMENTS

REAL ESTATE INCOME FUND INC.

**FORM N-Q
MARCH 31, 2005**



Schedule of Investments (unaudited)

March 31, 2005

| SHARES | SECURITY | VALUE |
|-------------------------------------|--|--------------|
| COMMON STOCK 70.1% | | |
| Apartments 8.9% | | |
| 36,500 | Archstone-Smith Trust | \$ 1,245,015 |
| 290,000 | Camden Property Trust | 13,638,700 |
| 185,000 | Gables Residential Trust | 6,160,500 |
| 100,000 | Mid-America Apartment Communities, Inc. | 3,650,000 |
| | | 24,694,215 |
| Diversified 4.6% | | |
| 210,000 | iStar Financial Inc. | 8,647,800 |
| 190,000 | Lexington Corporate Properties Trust | 4,168,600 |
| | | 12,816,400 |
| Healthcare 10.1% | | |
| 174,000 | Health Care Property Investors, Inc. | 4,083,780 |
| 280,000 | Healthcare Realty Trust Inc. | 10,203,200 |
| 22,600 | Omega Healthcare Investors, Inc. | 248,148 |
| 300,000 | Provident Senior Living Trust | 4,845,000 |
| 511,700 | Senior Housing Properties Trust | 8,535,156 |
| | | 27,915,284 |
| Home Financing 1.0% | | |
| 108,500 | Municipal Mortgage & Equity, L.L.C. | 2,640,890 |
| Industrial 3.9% | | |
| 185,000 | EastGroup Properties, Inc. (a) | 6,974,500 |
| 161,700 | First Potomac Realty Trust | 3,694,845 |
| | | 10,669,345 |
| Industrial/Office Mixed 5.6% | | |
| 88,000 | Brandywine Realty Trust | 2,499,200 |
| 135,000 | Kilroy Realty Corp. | 5,522,850 |
| 190,000 | Liberty Property Trust | 7,419,500 |
| | | 15,441,550 |
| Lodging/Resorts 2.3% | | |
| 66,100 | Eagle Hospitality Properties Trust, Inc. | 592,917 |
| 146,000 | Hospitality Properties Trust | 5,895,480 |
| | | 6,488,397 |
| Office 16.0% | | |
| 203,000 | Arden Realty, Inc. | 6,871,550 |
| 160,000 | CarrAmerica Realty Corp. | 5,048,000 |
| 72,000 | Glenborough Realty Trust Inc. | 1,376,640 |

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| | | |
|---------|----------------------------|------------|
| 260,000 | Highwoods Properties, Inc. | 6,973,200 |
| 848,700 | HRPT Properties Trust | 10,108,017 |
| 161,000 | Mack-Cali Realty Corp. | 6,818,350 |
| 200,000 | Prentiss Properties Trust | 6,832,000 |
| <hr/> | | |
| | | 44,027,757 |
| <hr/> | | |

See Notes to Schedule of Investments.

Schedule of Investments (unaudited) (continued)

March 31, 2005

| SHARES | SECURITY | VALUE |
|---|---|--------------------|
| Regional Malls 4.5% | | |
| 196,000 | Glimcher Realty Trust | \$ 4,645,200 |
| 148,100 | The Macerich Co. | 7,890,768 |
| | | 12,535,968 |
| Retail Free Standing 1.6% | | |
| 171,900 | Commercial Net Lease Realty | 3,171,555 |
| 50,000 | Realty Income Corp. | 1,144,000 |
| | | 4,315,555 |
| Shopping Centers 9.6% | | |
| 250,000 | Borealis Retail Real Estate Investment Trust | 2,769,396 |
| 330,000 | Cedar Shopping Centers Inc. | 4,699,200 |
| 105,000 | Equity One, Inc. | 2,161,950 |
| 252,000 | Heritage Property Investment Trust | 7,479,360 |
| 104,400 | Inland Real Estate Corp. | 1,569,132 |
| 75,000 | New Plan Excel Realty Trust, Inc. | 1,883,250 |
| 135,000 | Ramco-Gershenson Properties Trust | 3,665,250 |
| 104,000 | Tanger Factory Outlet Centers, Inc. | 2,288,000 |
| | | 26,515,538 |
| Specialty 2.0% | | |
| 6,100 | Correctional Properties Trust | 154,025 |
| 127,000 | Entertainment Properties Trust | 5,261,610 |
| | | 5,415,635 |
| TOTAL COMMON STOCK (Cost \$137,517,908) | | 193,476,534 |
| PREFERRED STOCK 29.7% | | |
| Apartments 3.9% | | |
| | Apartment Investment and Management Co.: | |
| 113,000 | 7.750% Cumulative, Series U | 2,770,760 |
| 120,000 | 7.875% Cumulative, Series Y | 2,970,000 |
| 75,000 | 9.375% Cumulative, Series G | 1,995,000 |
| 115,000 | 10.000% Cumulative, Series R | 3,024,500 |
| | | 10,760,260 |
| Diversified 1.1% | | |
| 109,400 | Crescent Real Estate Equities Co., 9.500% Cumulative Redeemable, Series B | 2,915,510 |
| Healthcare 2.5% | | |
| 150,000 | Health Care Property Investors, Inc., 7.100% Cumulative | 3,757,500 |

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| | | |
|--------------------------|--|-----------|
| 120,400 | Redeemable, Series F Omega Healthcare Investors, Inc., 8.375% Cumulative | |
| | Redeemable, Series D | 3,130,400 |
| <hr/> | | |
| | | 6,887,900 |
| <hr/> | | |
| Industrial/Office | Mixed 1.6% | |
| 90,000 | Bedford Property Investors, Inc., 8.750% Cumulative | |
| | Redeemable, Series A | 4,421,250 |
| <hr/> | | |

See Notes to Schedule of Investments.

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Schedule of Investments (unaudited) (continued)

March 31, 2005

| SHARES | SECURITY | VALUE |
|----------------------------------|--|--------------|
| Lodging/Resorts 4.0% | | |
| 220,000 | Boykin Lodging Co., 10.500% Cumulative, Class A | \$ 6,160,000 |
| 71,100 | Hospitality Properties Trust, 8.875% Cumulative Redeemable, Series B | 1,900,503 |
| 26,000 | LaSalle Hotel Properties, 10.250% Cumulative Redeemable, Series A | 694,200 |
| 90,000 | Sunstone Hotel Investors, Inc., 8.000% Cumulative Redeemable, Series A | 2,280,942 |
| | | 11,035,645 |
| Office 5.5% | | |
| 275,000 | CarrAmerica Realty Corp., 7.500% Cumulative Redeemable, Series E HRPT Properties Trust: | 7,084,000 |
| 255,600 | 8.750% Cumulative Redeemable, Series B | 6,832,188 |
| 50,000 | 9.875% Cumulative Redeemable, Series A | 1,309,500 |
| | | 15,225,688 |
| Regional Malls 2.8% | | |
| 85,000 | Glimcher Realty Trust, 8.750% Cumulative Redeemable, Series F The Mills Corp.: | 2,225,937 |
| 35,000 | 8.750% Cumulative Redeemable, Series E | 914,200 |
| 91,700 | 9.000% Cumulative Redeemable, Series B | 2,420,880 |
| 6,000 | Pennsylvania Real Estate Investment Trust, 11.000% Sr. Cumulative Simon Property Group, Inc., 7.890% Cumulative Step-Up | 350,700 |
| 32,700 | Premium Rate, Series C | 1,756,605 |
| | | 7,668,322 |
| Retail Free Standing 1.1% | | |
| 85,000 | Commercial Net Lease Realty, Inc., 9.000% Sr. Cumulative, Series A | 2,269,500 |
| 25,200 | Realty Income Corp., 7.375% Cumulative Redeemable, Series D | 656,208 |
| | | 2,925,708 |
| Self Storage 0.3% | | |
| 35,000 | Public Storage, Inc., 8.000% Cumulative, Series R | 903,350 |
| Shopping Centers 6.9% | | |
| 73,000 | Cedar Shopping Centers Inc., 8.875% Cumulative Redeemable, Series A Developers Diversified Realty Corp.: | 1,916,250 |
| 21,200 | 8.000% Cumulative Redeemable, Class G | 547,596 |
| 130,000 | 8.600% Cumulative Redeemable, Class F | 3,417,700 |
| 131,000 | Federal Realty Investment Trust, 8.500% Cumulative Redeemable, Series B | 3,471,500 |
| 75,000 | New Plan Excel Realty Trust, Inc., 7.625% Cumulative Redeemable, Series E | 1,960,500 |
| 34,800 | Ramco-Gershenson Properties Trust, 9.500% Cumulative Redeemable, Series B | 936,990 |
| 63,000 | Urstadt Biddle Properties Inc., 8.500% Sr. Cumulative, Series C | 6,883,380 |
| | | 19,133,916 |

TOTAL PREFERRED STOCK
(Cost \$78,505,636)

81,877,549

See Notes to Schedule of Investments.

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| FACE AMOUNT | SECURITY | VALUE |
|----------------------------------|---|----------------|
| REPURCHASE AGREEMENT 0.2% | | |
| \$ 561,000 | Interest in \$441,237,000 joint tri-party repurchase agreement dated 3/31/05 with Morgan Stanley, 2.850% due 4/1/05; Proceeds at maturity \$561,044; (Fully collateralized by Fannie Mae Discount Notes, 0.000% due 4/19/05 to 11/15/30; Market value \$572,225) (Cost \$561,000) | \$ 561,000 |
| TOTAL INVESTMENTS 100.0% | | |
| | (Cost \$216,584,544*) | \$ 275,915,083 |

(a) All or a portion of this security has been segregated for open interest rate swap agreements.

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 established by the Board of Directors.

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

See Notes to Schedule of Investments.

Notes to Schedule of Investments (unaudited)

1. Organization and Significant Accounting Policies

The Real Estate Income Fund Inc. (Fund), a Maryland corporation, is registered under the Investment Company Act of 1940, as amended, as a non-diversified, closed end management investment company.

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. Securities traded on national securities markets are valued at the closing price on such markets or, if there were no sales during the day, at the mean between the quoted bid and asked prices; securities listed on the NASDAQ National Market System for which market quotations are available are valued at the official closing price or, if there is no official closing price on that day, at the last sale price; securities traded in the over-the-counter market are valued at prices based on market quotations for securities of similar type; U.S. government agencies and obligations are valued at the mean between the last reported bid and asked prices. When market quotations or official closing prices are not readily available, or are determined not to reflect accurately fair value, 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 may value these investments at fair value as determined in accordance with the procedures approved by the Fund's Board of Directors. Short term obligations maturing within 60 days are valued at cost plus accreted discount or minus amortized premium, which approximates value.

(b) Repurchase Agreements. When entering into repurchase agreements, it is the Fund's policy that a custodian takes possession of the underlying collateral securities, the value of which at least equals the principal amount of the repurchase transaction, including accrued interest. To the extent that any repurchase transaction exceeds one business day, the value of the collateral is marked-to-market to ensure the adequacy of the collateral. If the seller defaults and the value of the collateral declines or if bankruptcy proceedings are commenced with respect to the seller of the security, realization of the collateral by the Fund may be delayed or limited.

(c) Swap Contracts. The Fund enters into interest rate swap agreements, which 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, if any, is recorded as an unrealized gain or loss in the Statements of Operations. Net payments of interest are recorded as realized gains. Entering into these agreements involves, to varying degrees, elements of credit and market 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 counter-party to the agreement may default on its obligation to perform and there may be unfavorable changes in the fluctuation of interest and/or exchange rates.

(d) Investment Transactions. Security transactions are accounted for on a trade date basis.

Notes to Schedule of Investments (unaudited) (continued)

2. Investments

At March 31, 2005, the aggregate gross unrealized appreciation and depreciation of investments for Federal income tax purposes were substantially as follows:

| | |
|-------------------------------|---------------|
| Gross unrealized appreciation | \$ 59,650,346 |
| Gross unrealized depreciation | (319,807) |
| Net unrealized appreciation | \$ 59,330,539 |

As of March 31, 2005, the Fund had 2,600 outstanding shares of Taxable Auction Rate Preferred Stock (TARPS). The TARPS dividends are cumulative at a rate determined at an auction and the dividend period is typically seven days. The dividend rates ranged from 2.300% to 3.160% for the three months ended March 31, 2005. At March 31, 2005, the current dividend rate was 3.160%.

As of March 31, 2005, the Fund entered into the following interest rate swap agreements:

| | |
|---------------------------------------|--------------------------------------|
| Swap Counterparty: | Merrill Lynch Capital Services, Inc. |
| Effective Date: | 11/25/02 |
| Notional Amount: | \$6,500,000 |
| Payments Made by Fund: | Fixed Rate, 2.9325% |
| Payments Received by Fund: | Floating Rate (One-Month LIBOR) |
| Termination Date: | 11/25/05 |
| Unrealized Appreciation as of 3/31/05 | \$20,840 |

| | |
|---------------------------------------|--------------------------------------|
| Swap Counterparty: | Merrill Lynch Capital Services, Inc. |
| Effective Date: | 11/25/02 |
| Notional Amount: | \$26,000,000 |
| Payments Made by Fund: | Fixed Rate, 3.6335% |
| Payments Received by Fund: | Floating Rate (One-Month LIBOR) |
| Termination Date: | 11/25/07 |
| Unrealized Appreciation as of 3/31/05 | \$364,429 |

| | |
|---------------------------------------|--------------------------------------|
| Swap Counterparty: | Merrill Lynch Capital Services, Inc. |
| Effective Date: | 11/25/02 |
| Notional Amount: | \$19,500,000 |
| Payments Made by Fund: | Fixed Rate, 4.1170% |
| Payments Received by Fund: | Floating Rate (One-Month LIBOR) |
| Termination Date: | 11/25/09 |
| Unrealized Appreciation as of 3/31/05 | \$270,582 |

At March 31, 2005, the Fund had total unrealized appreciation of \$655,851 from swap contracts.

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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.

Real Estate Income Fund Inc.

By _____
R. Jay Gerken
Chief Executive Officer

Date: May 31, 2005

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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 _____
R. Jay Gerken
Chief Executive Officer

Date: May 31, 2005

By _____
Kaprel Ozsolak
Chief Financial Officer

Date: May 31, 2005
