

REAL ESTATE INCOME FUND INC
Form N-Q
November 26, 2004

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

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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: September 30, 2004

ITEM 1. SCHEDULE OF INVESTMENTS

REAL ESTATE INCOME FUND INC.

FORM N-Q

SEPTEMBER 30, 2004

REAL ESTATE INCOME FUND INC.**Schedule of Investments (unaudited)****September 30, 2004**

| <u>SHARES</u> | <u>SECURITY</u> | <u>VALUE</u> |
|---|---|-------------------|
| COMMON STOCK -91.2% | | |
| Apartments - 11.5% | | |
| 36,500 | Archstone-Smith Trust | \$ 1,154,860 |
| 190,000 | Camden Property Trust | 8,778,000 |
| 185,000 | Gables Residential Trust | 6,317,750 |
| 100,000 | Mid-America Apartment Communities, Inc. | 3,895,000 |
| 156,000 | Summit Properties Inc. | 4,219,800 |
| | | <u>24,365,410</u> |
| Diversified - 6.0% | | |
| 210,000 | iStar Financial Inc. | 8,658,300 |
| 190,000 | Lexington Corporate Properties Trust | 4,124,900 |
| | | <u>12,783,200</u> |
| Healthcare - 13.8% | | |
| 174,000 | Health Care Property Investors, Inc. | 4,524,000 |
| 280,000 | Healthcare Realty Trust Inc. | 10,931,200 |
| 22,600 | Omega Healthcare Investors, Inc. | 243,176 |
| 300,000 | Provident Senior Living Trust | 4,500,000 |
| 511,700 | Senior Housing Properties Trust | 9,118,494 |
| | | <u>29,316,870</u> |
| Home Financing - 1.3% | | |
| 108,500 | Municipal Mortgage & Equity, LLC | 2,736,370 |
| Industrial - 4.5% | | |
| 185,000 | EastGroup Properties, Inc. | 6,142,000 |
| 161,700 | First Potomac Realty Trust | 3,340,722 |
| | | <u>9,482,722</u> |
| Industrial/Office - Mixed - 8.0% | | |
| 50,000 | Bedford Property Investors, Inc. | 1,517,000 |
| 207,000 | Kilroy Realty Corp. | 7,872,210 |
| 190,000 | Liberty Property Trust | 7,569,600 |
| | | <u>16,958,810</u> |
| Lodging/Resorts - 2.9% | | |
| 146,000 | Hospitality Properties Trust | 6,203,540 |
| Office - 20.7% | | |
| 203,000 | Arden Realty, Inc. | 6,613,740 |

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| | | |
|--------------------------------------|-------------------------------|------------|
| 177,000 | CarrAmerica Realty Corp. | 5,787,900 |
| 72,000 | Glenborough Realty Trust Inc. | 1,495,440 |
| 260,000 | Highwoods Properties, Inc. | 6,398,600 |
| 848,700 | HRPT Properties Trust | 9,327,213 |
| 161,000 | Mack-Cali Realty Corp. | 7,132,300 |
| 200,000 | Prentiss Properties Trust | 7,200,000 |
| | | <hr/> |
| | | 43,955,193 |
| | | <hr/> |
| Regional Malls - 6.0% | | |
| 196,000 | Glimcher Realty Trust | 4,762,800 |
| 148,100 | The Macerich Co. | 7,892,249 |
| | | <hr/> |
| | | 12,655,049 |
| | | <hr/> |
| Retail - Free Standing - 1.7% | | |
| 171,900 | Commercial Net Lease Realty | 3,132,018 |
| 12,200 | Realty Income Corp. | 549,366 |
| | | <hr/> |
| | | 3,681,384 |
| | | <hr/> |

See Notes to Schedule of Investments.

REAL ESTATE INCOME FUND INC.**Schedule of Investments (unaudited) (continued)****September 30, 2004**

| SHARES | SECURITY | VALUE |
|---|--|--------------------|
| Shopping Centers - 12.2% | | |
| 250,000 | Borealis Retail Real Estate Investment Trust | \$ 2,495,554 |
| 330,000 | Cedar Shopping Centers Inc. | 4,603,500 |
| 105,000 | Equity One, Inc. | 2,060,100 |
| 252,000 | Heritage Property Investment Trust | 7,350,840 |
| 104,400 | Inland Real Estate Corp. | 1,529,460 |
| 75,000 | New Plan Excel Realty Trust, Inc. | 1,875,000 |
| 135,000 | Ramco-Gershenson Properties Trust | 3,655,800 |
| 52,000 | Tanger Factory Outlet Centers, Inc. | 2,328,560 |
| | | 25,898,814 |
| Specialty - 2.6% | | |
| 24,500 | Correctional Properties Trust | 668,850 |
| 127,000 | Entertainment Properties Trust | 4,800,600 |
| | | 5,469,450 |
| TOTAL COMMON STOCK | | |
| (Cost \$141,102,937) | | 193,506,812 |
| PREFERRED STOCK - 38.8% | | |
| Apartments - 4.4% | | |
| | Apartment Investment and Management Co.: | |
| 113,000 | 7.750% Cumulative, Class U | 2,735,730 |
| 75,000 | 9.375% Cumulative, Class G | 1,999,500 |
| 115,000 | 10.000% Cumulative, Class R | 3,067,050 |
| 60,000 | United Dominion Realty Trust, Inc., 8.600% Cumulative Redeemable, Series B | 1,622,400 |
| | | 9,424,680 |
| Diversified - 1.4% | | |
| 109,400 | Crescent Real Estate Equities Co., 9.500% Cumulative Redeemable, Series B | 2,975,680 |
| Healthcare - 3.2% | | |
| 150,000 | Health Care Property Investors, Inc., 7.100% Cumulative Redeemable, Series F | 3,774,000 |
| 120,400 | Omega Healthcare Investors, Inc., 8.375% Cumulative Redeemable, Series D | 3,136,420 |
| | | 6,910,420 |
| Industrial/Office - Mixed - 2.2% | | |
| 90,000 | Bedford Property Investors, Inc., 8.750% Cumulative Redeemable, Series A | 4,612,500 |
| Lodging/Resorts - 5.2% | | |
| 220,000 | Boykin Lodging Co., 10.500% Cumulative, Class A | 6,182,000 |
| 90,000 | FelCor Lodging Trust Inc., 9.000% Cumulative Redeemable, Series B | 2,304,000 |
| 71,100 | Hospitality Properties Trust, 8.875% Cumulative Redeemable, Series B | 1,941,030 |

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| | | |
|----------------------|---|------------|
| 26,000 | LaSalle Hotel Properties, 10.250% Cumulative Redeemable, Series A | 725,400 |
| | | <hr/> |
| | | 11,152,430 |
| | | <hr/> |
| Office - 7.4% | | |
| 275,000 | CarrAmerica Realty Corp., 7.500% Cumulative Redeemable, Series E | 7,304,000 |
| | HRPT Properties Trust: | |
| 255,600 | 8.750% Cumulative Redeemable, Series B | 6,970,212 |
| 50,000 | 9.875% Cumulative Redeemable, Series A | 1,364,000 |
| | | <hr/> |
| | | 15,638,212 |
| | | <hr/> |

See Notes to Schedule of Investments.

REAL ESTATE INCOME FUND INC.**Schedule of Investments (unaudited) (continued)****September 30, 2004**

| <u>SHARES</u> | <u>SECURITY</u> | <u>VALUE</u> |
|---|--|------------------------------------|
| Regional Malls - 3.7% | | |
| 85,000 | Glimcher Realty Trust, 8.750% Cumulative Redeemable, Series F The Mills Corp.: | \$ 2,260,473 |
| 35,000 | 8.750% Cumulative Redeemable, Series E | 945,000 |
| 91,700 | 9.000% Cumulative Redeemable, Series B | 2,492,406 |
| 6,000 | Pennsylvania Real Estate Investment Trust, 11.000% Sr. Cumulative | 357,000 |
| 32,700 | Simon Property Group, Inc., 7.890%, Cumulative Step-Up Premium Rate, Series C | 1,741,275 |
| | | <u>7,796,154</u> |
| Retail - Free Standing - 1.4% | | |
| 85,000 | Commercial Net Lease Realty, Inc., 9.000% Sr. Cumulative, Series A | 2,316,250 |
| 25,200 | Realty Income Corp., 7.375% Cumulative Redeemable, Class D | 658,980 |
| | | <u>2,975,230</u> |
| Self Storage - 0.4% | | |
| 35,000 | Public Storage, Inc., 8.000% Cumulative, Series R | 924,700 |
| Shopping Centers - 9.5% | | |
| 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 | 559,468 |
| 130,000 | 8.600% Cumulative Redeemable, Class F | 3,484,000 |
| 131,000 | Federal Realty Investment Trust, 8.500% Cumulative Redeemable, Series B | 3,544,860 |
| 75,000 | New Plan Excel Realty Trust, Inc., 7.625% Cumulative Redeemable, Series E | 1,948,500 |
| 65,000 | Ramco-Gershenson Properties Trust, 9.500% Cumulative Redeemable, Series B | 1,753,375 |
| 63,000 | Urstadt Biddle Properties Inc., 8.500% Sr. Cumulative, Series C | 6,849,285 |
| | | <u>20,055,738</u> |
| TOTAL PREFERRED STOCK (Cost - \$77,760,838) | | 82,465,744 |
| FACE | | |
| AMOUNT | | |
| REPURCHASE AGREEMENT - 0.4% | | |
| \$ 792,000 | Goldman, Sachs & Co. dated 9/30/04, 1.860% due 10/1/04; Proceeds at maturity - \$792,041; (Fully collateralized by U.S. Treasury Bonds, 3.375% to 3.875% due 4/15/28 to 4/15/32; Market value - \$807,841) (Cost - \$792,000) | 792,000 |
| TOTAL INVESTMENTS - 130.4% (Cost - \$219,655,775*) Liabilities in Excess of Other Assets (30.4)% | | 276,764,556 (64,559,792) |

TOTAL NET ASSETS - 100.0%

\$ 212,204,764

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 diversified, 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 closing 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 (for example, a foreign exchange or market), 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. Fair valuing of securities may be determined with the assistance of a pricing service using calculations based on indices of domestic securities and other appropriate indicators, such as prices of relevant ADRs and futures contracts. Securities maturing within 60 days are valued at cost plus accreted discount or minus amortized premium, which approximates value. Securities, other than U.S. government agencies, that have a maturity of 60 days or more are valued at prices based on market quotations for securities of similar type, yield and maturity.

(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 has entered into interest rate swap agreements with Merrill Lynch Capital Services, Inc. The Fund will record the difference between a predetermined fixed interest rate and the closing value on the One-Month LIBOR. These differences are netted out in a cash settlement made monthly, with the Fund receiving or paying, as the case may be, only the net amount of the two differences. The Fund is exposed to credit loss in the event of nonperformance by the swap counterparty.

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

Notes to Schedule of Investments (unaudited) (continued)

2. Investments

At September 30, 2004, the aggregate gross unrealized appreciation and depreciation of investments for Federal income tax purposes were substantially as follows:

| | |
|-------------------------------|---------------|
| Gross unrealized appreciation | \$ 57,185,283 |
| Gross unrealized depreciation | (76,502) |
| | <hr/> |
| Net unrealized appreciation | \$ 57,108,781 |
| | <hr/> |

As of September 30, 2004, 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 1.029% to 1.930% for the nine months ended September 30, 2004. At September 30, 2004, the current dividend rate was 1.850%.

As of September 30, 2004, 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 Depreciation as of 9/30/04 | (\$34,359) |

| | |
|---------------------------------------|--------------------------------------|
| 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 Depreciation as of 9/30/04 | (\$323,259) |

| | |
|---------------------------------------|--------------------------------------|
| 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 Depreciation as of 9/30/04 | (\$376,323) |

At September 30, 2004, the Fund had total unrealized depreciation of \$733,941 from swap contracts.

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 /s/ R. Jay Gerken

R. Jay Gerken
Chief Executive Officer

Date November 26, 2004

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/ R. Jay Gerken

R. Jay Gerken
Chief Executive Officer

Date November 26, 2004

By /s/ Kaprel Ozsolak

Kaprel Ozsolak
Chief Financial Officer

Date November 26, 2004