

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**

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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
<b>COMMON STOCK 70.1%</b>		
<b>Apartments 8.9%</b>		
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
<b>Diversified 4.6%</b>		
210,000	iStar Financial Inc.	8,647,800
190,000	Lexington Corporate Properties Trust	4,168,600
		12,816,400
<b>Healthcare 10.1%</b>		
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
<b>Home Financing 1.0%</b>		
108,500	Municipal Mortgage & Equity, L.L.C.	2,640,890
<b>Industrial 3.9%</b>		
185,000	EastGroup Properties, Inc. (a)	6,974,500
161,700	First Potomac Realty Trust	3,694,845
		10,669,345
<b>Industrial/Office Mixed 5.6%</b>		
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
<b>Lodging/Resorts 2.3%</b>		
66,100	Eagle Hospitality Properties Trust, Inc.	592,917
146,000	Hospitality Properties Trust	5,895,480
		6,488,397
<b>Office 16.0%</b>		
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
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		44,027,757
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**See Notes to Schedule of Investments.**

## Schedule of Investments (unaudited) (continued)

March 31, 2005

SHARES	SECURITY	VALUE
<b>Regional Malls 4.5%</b>		
196,000	Glimcher Realty Trust	\$ 4,645,200
148,100	The Macerich Co.	7,890,768
		12,535,968
<b>Retail Free Standing 1.6%</b>		
171,900	Commercial Net Lease Realty	3,171,555
50,000	Realty Income Corp.	1,144,000
		4,315,555
<b>Shopping Centers 9.6%</b>		
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
<b>Specialty 2.0%</b>		
6,100	Correctional Properties Trust	154,025
127,000	Entertainment Properties Trust	5,261,610
		5,415,635
<b>TOTAL COMMON STOCK</b> (Cost \$137,517,908)		<b>193,476,534</b>
<b>PREFERRED STOCK 29.7%</b>		
<b>Apartments 3.9%</b>		
	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
<b>Diversified 1.1%</b>		
109,400	Crescent Real Estate Equities Co., 9.500% Cumulative Redeemable, Series B	2,915,510
<b>Healthcare 2.5%</b>		
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
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		6,887,900
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<b>Industrial/Office</b>	<b>Mixed 1.6%</b>	
90,000	Bedford Property Investors, Inc., 8.750% Cumulative	
	Redeemable, Series A	4,421,250
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**See Notes to Schedule of Investments.**

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Schedule of Investments (unaudited) (continued)

March 31, 2005

SHARES	SECURITY	VALUE
<b>Lodging/Resorts 4.0%</b>		
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
<b>Office 5.5%</b>		
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
<b>Regional Malls 2.8%</b>		
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
<b>Retail Free Standing 1.1%</b>		
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
<b>Self Storage 0.3%</b>		
35,000	Public Storage, Inc., 8.000% Cumulative, Series R	903,350
<b>Shopping Centers 6.9%</b>		
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

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

**81,877,549**

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See Notes to Schedule of Investments.

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FACE AMOUNT	SECURITY	VALUE
<b>REPURCHASE AGREEMENT 0.2%</b>		
\$ 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
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	<b>TOTAL INVESTMENTS 100.0%</b>	
	(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

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