

LMP REAL ESTATE INCOME FUND INC.
Form N-CSRS
August 31, 2010

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)

55 Water Street, New York, NY
(Address of principal executive offices)

10041
(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, 2010

ITEM 1. REPORT TO STOCKHOLDERS.

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

June 30, 2010

Semi-Annual Report

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

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

LMP Real Estate Income Fund Inc.

II

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

Letter from the chairman	II
Investment commentary	III
Fund at a glance	1
Schedule of investments	2
Statement of assets and liabilities	5
Statement of operations	6
Statements of changes in net assets	7
Statement of cash flows	8
Financial highlights	9
Notes to financial statements	10
Additional shareholder information	17
Dividend reinvestment plan	18

Letter from the chairman

Dear Shareholder,

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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, 2010.

Please read on for Fund performance information and a detailed look at prevailing economic and market conditions during the Fund's reporting period. 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.

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.leggmason.com/cef. 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

July 30, 2010

Investment commentary

Economic review

While the overall U.S. economy continued to expand over the six months ended June 30, 2010, several economic data points weakened toward the end of the reporting period. This, in combination with sovereign debt woes in Europe, caused investor sentiment to turn negative and had significant implications for the financial markets.

Looking back, the U.S. Department of Commerce reported that U.S. gross domestic product (GDP) contracted four consecutive quarters, beginning in the third quarter of 2008 through the second quarter of 2009. Economic conditions then began to improve in the third quarter of 2009, as GDP growth was 1.6%. A variety of factors helped the economy to regain its footing, including the government's \$787 billion stimulus program. Economic growth then accelerated during the fourth quarter of 2009, as GDP growth was 5.0%. A slower drawdown in business inventories and renewed consumer spending were contributing factors spurring the economy's higher growth rate. While the recovery continued during the first half of 2010, it did so at a more modest pace, as GDP growth was 3.7% during the first quarter of 2010 and an estimated 2.4% during the second quarter. The slower pace of growth in the second quarter was due, in part, to slower consumer spending, which rose an annualized 1.6% during the quarter, versus a 1.9% gain over the first three months of the year.

Even before GDP growth turned positive, there were signs that the economy was on the mend. The manufacturing sector, as measured by the Institute for Supply Management's PMI, rose to 52.8 in August 2009, the first time it surpassed 50 since January 2008 (a reading below 50 indicates a contraction, whereas a reading above 50 indicates an expansion). While June 2010's PMI reading of 56.2 was lower than May's reading of 59.7, manufacturing has now expanded eleven consecutive months according to PMI data. The manufacturing sector's growth remained fairly broad-based with thirteen of the eighteen industries tracked by the Institute for Supply Management expanding during June.

After experiencing sharp job losses in 2009, the U.S. Department of Labor reported that over one million new positions were added during the first five months of 2010. Included in that total, however, were 700,000 temporary government jobs tied to the 2010 Census. In June, 225,000 of these temporary positions were eliminated, offsetting private sector growth and resulting in a net loss of 125,000 jobs for the month. However, the unemployment rate fell to 9.5% in June, versus 9.7% and 9.9% in May and April, respectively.

There was mixed news in the housing market during the period. According to the National Association of Realtors, existing home sales increased 7.0% and 8.0% in March and April, respectively, after sales had fallen for the period from December 2009 through February 2010. The rebound was largely attributed to people rushing to take advantage of the government's \$8,000 tax credit for first-time home buyers that expired at the end of April. However, with the end of the tax credit, existing home sales then declined 2.2% and 5.1% in May and June, respectively. In addition, the inventory of unsold homes increased 2.5% to 3.99 million in June. Looking at home prices, the S&P/Case-Shiller Home Price Index indicated that month-to-month U.S. home prices rose 1.3% in May. This marked the second straight monthly increase following six consecutive months of declining prices.

Financial market overview

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During the first half of the reporting period, the financial markets were largely characterized by healthy investor risk appetite and solid results by the stock market. However, the market experienced a sharp sell-off during the second half of the reporting period, during which risk aversion returned and investors flocked to the relative safety of U.S. Treasury securities.

Given certain pockets of weakness in the economy, including elevated unemployment in the U.S., the Federal Reserve Board (Fed)iv remained cautious. At its meeting in June 2010, the Fed said it will maintain the target range for the federal funds rate at 0 to 1/4 percent and continues to anticipate that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels of the federal funds rate for an extended period.

However, the Fed took several steps in reversing its accommodative monetary stance. On February 18, 2010, the Fed raised the discount rate, the interest rate it charges banks for

LMP Real Estate Income Fund Inc.

IV

Investment commentary (cont d)

temporary loans, from 1/2 to 3/4 percent. The Fed also concluded its \$1.25 trillion mortgage securities purchase program at the end of the first quarter of 2010. However, the Fed left the door open for future stimulus measures if needed. In the minutes of its June meeting that were released on July 14th (after the reporting period ended), the Fed said, "In addition to continuing to develop and test instruments to exit from the period of unusually accommodative monetary policy, the Committee would need to consider whether further policy stimulus might become appropriate if the outlook were to worsen appreciably."

Equity market review

After a solid start, the equity market, as measured by the S&P 500 Index^{vi} (the Index), fell sharply in May and June. This sell-off dragged the Index down into negative territory for the six months ended June 30, 2010. Looking back, after a brief setback in January 2010, the Index rose during the next three months of 2010, advancing a total of 11.05%. There were a number of factors contributing to the stock market's ascent, including improving economic conditions, strong investor demand and the accommodative monetary policy by the Fed.

However, robust investor appetite was replaced with heightened risk aversion in May and June. This was due to the escalating sovereign debt crisis in Europe, uncertainties regarding new financial reforms in the U.S. and some worse-than-expected economic data. After reaching a nineteen-month high on April 23, 2010, the market fell into correction territory in May, as it plunged more than 10%. This marked the first correction since November 2007. All told, the Index returned -6.65% over the six months ended June 30, 2010. While the Index on June 30, 2010 was more than 50% higher than its twelve-year low on March 9, 2009, it declined approximately 15% from its high on April 23, 2010.

The market's weakness was broad-based, as virtually every major index fell into negative territory for the reporting period. Looking at the U.S. stock market more closely, small-cap stocks generated the best relative returns, with the Russell 2000 Index^{vii} returning -1.95% for the six-month reporting period. In contrast, the Russell Midcap Index^{viii} and the large-cap Russell 1000 Index^{ix} returned -2.06% and -6.40%, respectively. From an investment style perspective, growth and value stocks, as measured by the Russell 3000 Growth^x and Russell 3000 Value^{xi} Indices, returned -7.25% and -4.83%, respectively.

Performance review

For the six months ended June 30, 2010, LMP Real Estate Income Fund Inc. returned 8.09% based on its net asset value (NAV)^{xii} and 6.72% based on its New York Stock Exchange (NYSE) market price per share. The Fund's unmanaged benchmark, the MSCI U.S. REIT Index^{xiii}, returned 5.70% for the same period. The Lipper Real Estate Closed-End Funds Category Average^{xiv} returned 2.34% over the same time frame. Please note that Lipper performance returns are based on each fund's NAV.

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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, 2010. **Past performance is no guarantee of future results.**

Performance Snapshot as of June 30, 2010 (unaudited)

Price Per Share	6-Month Total Return*
\$9.31 (NAV)	8.09%
\$8.24 (Market Price)	6.72%

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 in accordance with the Fund's Dividend Reinvestment Plan. Performance figures for periods shorter than one year represent cumulative figures and are not annualized.

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/cef.

LMP Real Estate Income Fund Inc. V

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 30, 2010

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. 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.

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.

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- iii The S&P/Case-Shiller Home Price Index measures the residential housing market, tracking changes in the value of the residential real estate market in twenty metropolitan regions across the United States.
- iv 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.
- v 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.
- vi 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.
- 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. 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.
- viii 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.
- ix 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.
- x 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.)
- xi 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.
- xii 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.
- xiii 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.
- xiv 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, 2010, including the reinvestment of all distributions, including returns of capital, if any, calculated among the 16 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, 2010 and December 31, 2009 and does not include derivatives. The Fund is actively managed. As a result, the composition of the Fund's investments is subject to change at any time.

LMP Real Estate Income Fund Inc. 2010 Semi-Annual Report

2

Schedule of investments (unaudited)

June 30, 2010

LMP Real Estate Income Fund Inc.

	Shares		Value
Security			
Common Stocks 59.3%			
Apartments 7.6%			
American Campus Communities Inc.	80,000	\$	2,183,200
Camden Property Trust	117,300		4,791,705
Equity Residential	51,000		2,123,640
UDR Inc.	107,000		2,046,910
Total Apartments			11,145,455
Diversified 0.9%			
Dundee Real Estate Investment Trust	59,700		1,371,157
Health Care 10.2%			
HCP Inc.	160,000		5,160,000
Nationwide Health Properties Inc.	90,300		3,230,031
OMEGA Healthcare Investors Inc.	235,000		4,683,550
Senior Housing Properties Trust	90,000		1,809,900
Total Health Care			14,883,481
Industrial 5.0%			
DCT Industrial Trust Inc.	375,000		1,695,000
First Potomac Realty Trust	390,000		5,604,300
Total Industrial			7,299,300
Industrial/Office - Mixed 2.4%			
Liberty Property Trust	120,000		3,462,000
Lodging/Resorts 1.0%			
Hospitality Properties Trust	70,000		1,477,000
Office 10.4%			
BioMed Realty Trust Inc.	111,500		1,794,035
Highwoods Properties Inc.	60,400		1,676,704
HRPT Properties Trust	450,000		2,794,500
Kilroy Realty Corp.	163,400		4,857,882
Mack-Cali Realty Corp.	138,400		4,114,632
Total Office			15,237,753
Regional Malls 4.4%			
Macerich Co.	170,000		6,344,400
Retail - Free Standing 7.7%			
Getty Realty Corp.	175,000		3,921,750
National Retail Properties Inc.	220,000		4,716,800
Realty Income Corp.	83,000		2,517,390
Total Retail - Free Standing			11,155,940
Shopping Centers 6.3%			
Kimco Realty Corp.	90,000		1,209,600
Kite Realty Group Trust	397,900		1,663,222
Primaris Retail Real Estate Investment Trust	225,000		3,690,292

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Regency Centers Corp.	75,000	2,580,000
Total Shopping Centers		9,143,114
<i>Specialty 3.4%</i>		
Entertainment Properties Trust	130,800	4,979,556
Total Common Stocks (Cost \$79,531,917)		86,499,156

See Notes to Financial Statements

LMP Real Estate Income Fund Inc.

Security	Rate	Shares	Value
Preferred Stocks 40.5%			
Apartments 3.2%			
Apartment Investment & Management Co., Cumulative, Series U	7.750%	\$ 70,000	\$ 1,612,800
Apartment Investment & Management Co., Cumulative, Series Y	7.875%	70,000	1,650,600
BRE Properties Inc., Cumulative Redeemable, Series C	6.750%	60,000	1,383,000
Total Apartments			4,646,400
Diversified 7.8%			
Duke Realty Corp., Cumulative Redeemable, Series M	6.950%	175,000	3,785,250
LBA Realty Fund LP, Cumulative Redeemable	8.750%	90,000	2,565,000(a)
PS Business Parks Inc., Cumulative Redeemable, Series M	7.200%	75,000	1,767,000
PS Business Parks Inc., Cumulative Redeemable, Series O	7.375%	45,000	1,093,950
Vornado Realty Trust, Cumulative Redeemable, Series G	6.625%	100,000	2,132,000
Total Diversified			11,343,200
Health Care 2.5%			
HCP Inc., Cumulative Redeemable, Series F	7.100%	100,000	2,298,000
OMEGA Healthcare Investors Inc., Cumulative Redeemable, Series D	8.375%	55,000	1,417,900
Total Health Care			3,715,900
Lodging/Resorts 4.9%			
Hospitality Properties Trust, Cumulative Redeemable, Series B	8.875%	71,100	1,779,633
LaSalle Hotel Properties, Cumulative Redeemable, Series G	7.250%	52,900	1,159,171
Strategic Hotels Capital Inc., Cumulative Redeemable, Series B	8.250%	94,300	1,821,169
Sunstone Hotel Investors Inc., Cumulative Redeemable, Series A	8.000%	100,100	2,363,611
Total Lodging/Resorts			7,123,584
Office 4.5%			
BioMed Realty Trust Inc., Cumulative Redeemable, Series A	7.375%	130,000	3,172,000
Brandywine Realty Trust, Cumulative Redeemable, Series D	7.375%	46,400	1,081,120
Commonwealth REIT, Cumulative Redeemable, Series B	8.750%	51,183	1,290,323
Corporate Office Properties Trust, Cumulative Redeemable, Series J	7.625%	40,000	968,000
Total Office			6,511,443
Regional Malls 2.4%			
Glimcher Realty Trust, Cumulative Redeemable, Series F	8.750%	85,000	1,913,350
Taubman Centers Inc., Cumulative Redeemable, Series H	7.625%	70,000	1,669,675
Total Regional Malls			3,583,025
Retail - Free Standing 2.5%			
National Retail Properties Inc., Cumulative Redeemable, Series C	7.375%	85,000	2,027,463
Realty Income Corp., Cumulative Redeemable, Series E	6.750%	70,000	1,680,700
Total Retail - Free Standing			3,708,163
Shopping Centers 9.3%			
Cedar Shopping Centers Inc., Cumulative Redeemable, Series A	8.875%	50,000	1,235,500
Developers Diversified Realty Corp., Cumulative Redeemable, Class G	8.000%	13,300	302,974
Kimco Realty Corp., Cumulative Redeemable, Series G	7.750%	209,100	5,317,413
Urstadt Biddle Properties Inc., Cumulative, Series C	8.500%	63,800	6,665,505
Total Shopping Centers			13,521,392

See Notes to Financial Statements

LMP Real Estate Income Fund Inc. 2010 Semi-Annual Report

4

Schedule of investments (unaudited) (cont d)

June 30, 2010

LMP Real Estate Income Fund Inc.

Security	Rate	Shares	Value
<i>Storage</i> 3.4%			